COMPANY REGISTRATION NUMBER 6038090

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2013

BUSINESS REVIEW

Principal Activities
The Group's principal 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).

Results and Dividends
The loss for the year, after taxation, amounted to £12,717,000 (2012: profit £2,897,000). The directors have not recommended a final dividend (2012: £nil). No interim dividends were paid in the year (2012: £nil).

Key Performance Indicators and Performance Review
We have seen mixed signs of recovery in our key markets through 2013 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 vessel utilisation, 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.

Carryings of vehicles and passengers are lower than 2012 as, on the Short Sea route, there was reduced capacity in 2012 following the demise of Sea France. The introduction of the MyFerryLink service increased capacity throughout 2013 leading to over capacity on the Short Sea route and a reduction in volumes.

	2013	2012
FERRIES:		
Freight units carried (thousands)	**1,886**	2,128
Tourist vehicles carried (thousands)	**1,668**	1,821
Total passengers carried (thousands)	**9,546**	10,194
FERRYMASTERS:		
Total units transported (thousands)	**515**	516

The Group's operating profit for the year was £2.6m (2012: £17.4m). Operating loss before exceptional items was £0.7m (2012: profit £8.9m).

Exceptional expenses recognised in operating profit for the year included a charge of £3.6m (2012: £2.3m) principally in respect of restructuring, following further rationalisation of our freight offering and back office functions and a £1.5m provision against a finance lease receivable from Trans Europa Ferries who went into administration in 2013.

Exceptional operating income of £8.4m (2012: £10.7m) principally relates to £5.3m of provision releases, following settlement of prior year claims and a ship charter reinstatement obligation (note 24), and a £3.0m pension scheme curtailment gain (note 26).

Higher finance charges year on year include pension finance charges of £5.5m (2012: £2.0m).

Losses on disposal of fixed assets for the year are nil compared to £2.3m in 2012.

Loss before taxation was £10.2m (2012: profit of £4.3m). The taxation for the year is disclosed in note 12 to the financial statements.

Key Performance Indicators and Performance Review (continued)
Capital expenditure in the year amounted to £14.2m (2012: £40.0m), principally relating to the construction of a new link span for the Port of Cairnryan. Net debt at 31 December 2013 was £129.4m (2012: £163.0m).

The Group's defined benefit pension liability increased to £253.8m (2012: £248.6m) in the year, principally as a result of recognition in the year of an additional £9.3m 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 26 and within the Principal Risks and Uncertainties section of the Directors' Report.

Financial instruments
Details of the Group's financial instruments are presented in notes 22, 23 and 25.

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 June 2013 the UK competition authorities ordered Eurotunnel shipping subsidiary MyFerrylink to cease operating from the Port of Dover by December 2013. However Eurotunnel appealed this decision arguing that the Competition Commission did not have jurisdiction. The Competition and Markets Authority has confirmed it does have jurisdiction in the case and has provisionally confirmed an earlier decision by the Competition Commission that Eurotunnel should be barred from operating a ferry service from Dover. It is believed this decision will result in improved alignment between demand and capacity on the Dover – Calais route from 2015. The case has not yet been concluded and in the meantime the operation of the vessels has ensured the routes from Dover have over capacity. This has led to strong price decreases from competitors resulting in greater losses being reported by them in this sector. Such a scenario cannot be sustained for a long period. Our comprehensive service offering however, 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, by year end, 2014 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 complementary services and products to improve the customer experience.

Low Sulphur
With effect from 1 January 2015 vessels operating on the North Sea and Short Sea routes will be subject to more stringent limits for sulphur emissions.

There are two paths that can be considered as routes to meet the new requirements by 2015. One is to use low sulphur fuel, Marine Gas Oil (MGO), and the other is to continue to use higher sulphur fuel (HFO) but to install equipment to clean pollutants from exhaust gasses – commonly called sulphur scrubbing. MGO is significantly more expensive than HFO, in fact, more than 50% higher based on current prices. It is generally accepted that low sulphur fuels, such as liquefied natural gas (LNG), are not viable solutions for our present fleet given the machinery, plant, and equipment we would have to retrofit to use them. Additionally, there would be a significant length of time out of service and there is as yet no sustainable supply chain in place for the supply of LNG fuel.

When it comes to sulphur scrubbing, we have invested in assessing the technical suitability of all our ships, including working with our chartered ship owners. Considerable technical challenges remain with scrubbing, particularly so with multi-purpose ferries which are more complex and not designed to have such installations and therefore have very limited space. We have concerns about the effectiveness of such systems, and installing expensive scrubbing systems on older ships that are nearing the end of their working lives is not technically feasible or financially viable. Even this close to the implementation of the new regulations, there are outstanding questions about which types of sulphur scrubbing systems, known as Open Loop or Closed Loop, will be acceptable to the various authorities including the ports from which we operate.

However, we will continue to investigate sulphur scrubbing possibilities as technology progresses and have therefore applied for EU grant funding under the TEN-T programme, which could contribute to the cost of installation of scrubbers. We have spent time with several shipyards investigating the installation process. The cost of the equipment is greater than expected. The time out of service for installation on multi-purpose ships in particular is far greater than expected. Also, fundamental technical questions remain on some of the ships which we are still trying to resolve. As a result it is unlikely that we will have sulphur scrubbing solutions ready for the January 2015 deadline due to long lead times, current technical uncertainties and the outcome of grant applications, forcing us to budget for the extra cost of using low sulphur marine gas oil.

RISK AND UNCERTAINTIES

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 ('MNOPF') and Merchant Navy Ratings Pension Fund ('MNRPF), 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 monitors the performance of the principal schemes. Agreement has been reached with the trustees of the MNOPF and the P&O Pension Scheme for a revised medium term employer contribution plan.

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 funding obligations.

Signed on behalf of the directors

K Howarth
Director

Approved by the directors on 20.06.14

P&O FERRIES DIVISION HOLDINGS LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2013

The directors present their report and the consolidated financial statements of the P&O Ferries Division Holdings Limited group ('the Group') for the year ended 31 December 2013.

The directors note that, as a result of the Strategic Report and Directors Report regulations 2013 (which are amendments to the Companies Act 2006) some of the reporting which would previously have been contained within the Directors' report must now (along with certain other reporting) appear within the Strategic report. The Directors' report now refers to the remaining statutory information requiring disclosure.

DIRECTORS

The directors who served the company during the year and at the date of this report 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.

DONATIONS

The Company made no political donations and incurred no political expenditure during the year. The sum of £2,000 was donated to various small charities and the British Red Cross Typhoon Haiyan Appeal following the natural disaster in the Philippines.

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.

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.

DISCLOSURE OF INFORMATION TO THE AUDITOR

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 auditor is 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 Auditor is aware of that information.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Registered office:
Channel House
Channel View Road
Dover
CT17 9TJ

Signed on behalf of the directors

K Howarth

Director

Approved by the directors on 20.06.14

P&O FERRIES DIVISION HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

YEAR ENDED 31 DECEMBER 2013

The directors are responsible for preparing the Strategic Report, 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 the directors have elected to prepare the consolidated financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). 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 company and the group and of the profit or loss of the group for that year.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

YEAR ENDED 31 DECEMBER 2013

We have audited the financial statements of P&O Ferries Division Holdings Limited for the year ended 31 December 2013 set out on pages 10 to 42. The financial reporting framework that has been applied in their preparation is applicable law and U K Accounting Standards (U K 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE CONSOLIDATED 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 2013 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and 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.

David Derbyshire

David Derbyshire (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

20 JUNE 2014

P&O FERRIES DIVISION HOLDINGS LIMITED

GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000	2012 £000
GROUP REVENUE	**2**	**966,942**	971,875
Cost of sales		**(894,139)**	(887,038)
GROSS PROFIT		**72,803**	84,837
Administrative expenses		**(75,553)**	(78,202)
Other operating income	**3**	**5,351**	10,731
Operating profit before exceptional items		**(701)**	8,949
Exceptional items	**7**	**3,302**	8,417
OPERATING PROFIT	**4**	**2,601**	17,366
Loss on disposal of fixed assets	**8**	**-**	(2,328)
		2,601	15,038
Interest receivable	**9**	**428**	625
Interest payable and similar charges	**10**	**(7,774)**	(9,365)
Other finance costs	**11**	**(5,481)**	(2,015)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**(10,226)**	4,283
Tax on (loss)/profit on ordinary activities	**12**	**(2,491)**	(1,386)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	**13**	**(12,717)**	2,897

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 15 to 42 form part of these consolidated financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 DECEMBER 2013

	2013 £000	2012 £000
(Loss)/profit for the financial year attributable to the shareholder of the parent company	**(12,717)**	2,897
Actuarial loss in respect of defined benefit pension scheme	**(2,771)**	(142,330)
Deferred tax in respect of defined benefit pension scheme	**(901)**	420
Exchange translation on foreign subsidiary	**(317)**	–
Total gains and losses recognised since the last annual report	**(16,706)**	(139,013)

The notes on pages 15 to 42 form part of these consolidated financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

GROUP BALANCE SHEET

31 DECEMBER 2013

	Note	£000	2013 £000	2012 £000
FIXED ASSETS				
Intangible assets	14		**290,409**	289,804
Tangible assets	15		**497,388**	528,672
			787,797	818,476
CURRENT ASSETS				
Stocks	17	**12,191**		13,077
Debts factored without recourse:				
Gross debts		**96,165**		104,248
less: Non-returnable proceeds	22	**(46,102)**		(41,900)
		50,063		62,348
Other debtors	18	**27,615**		34,769
Cash at bank		**131,975**		121,823
TOTAL CURRENT ASSETS		**221,844**		232,017
CREDITORS: Amounts falling due within one year	20	**(174,455)**		(177,665)
NET CURRENT ASSETS			**47,389**	54,352
TOTAL ASSETS LESS CURRENT LIABILITIES			**835,186**	872,828
CREDITORS: Amounts falling due after more than one year	21		**(249,915)**	(272,249)
PROVISIONS FOR LIABILITIES				
Deferred taxation	19		**–**	(378)
Provisions for liabilities	24		**(11,951)**	(15,457)
NET ASSETS EXCLUDING PENSION LIABILITY			**573,320**	584,744
Defined benefit pension scheme liability	26		**(253,844)**	(248,562)
NET ASSETS INCLUDING PENSION LIABILITY			**319,476**	336,182
CAPITAL AND RESERVES				
Called-up equity share capital	31		**428,542**	428,542
Share premium account	32		**107,135**	107,135
Profit and loss account	32		**(216,201)**	(199,495)
SHAREHOLDER'S FUNDS	33		**319,476**	336,182

These accounts were approved by the directors and authorised for issue on 20.06.14, and are signed on their behalf by:

K HOWARTH

The notes on pages 15 to 42 form part of these consolidated financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

BALANCE SHEET

31 DECEMBER 2013

	Note	£000	2013 £000	2012 £000
FIXED ASSETS				
Investments	**16**		**384,849**	192,649
CURRENT ASSETS				
Debtors	**18**	**155,372**		160,313
CREDITORS: Amounts falling due within one year	**20**	**(190,812)**		(3,631)
NET CURRENT (LIABILITIES)/ASSETS			**(35,440)**	156,682
TOTAL ASSETS LESS CURRENT LIABILITIES			**349,409**	349,331
CAPITAL AND RESERVES				
Called-up equity share capital	**31**		**428,542**	428,542
Share premium account	**32**		**107,135**	107,135
Profit and loss account	**32**		**(186,268)**	(186,346)
SHAREHOLDER'S FUNDS			**349,409**	349,331

These accounts were approved by the directors and authorised for issue on 20.06.14, and are signed on their behalf by:

K HOWARTH

Company Registration Number: 6038090

The notes on pages 15 to 42 form part of these consolidated financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

GROUP CASH FLOW

YEAR ENDED 31 DECEMBER 2013

	Note	£000	2013 £000	2012 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	**34**		**59,015**	65,837
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	**34**		**(8,344)**	(9,527)
TAXATION	**34**		**(3,667)**	(6,470)
CAPITAL EXPENDITURE	**34**		**(14,162)**	(36,048)
CASH INFLOW BEFORE FINANCING			**32,842**	13,792
FINANCING	**34**		**(22,690)**	4,506
INCREASE IN CASH			**10,152**	18,298

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	£000	2013 £000	2012 £000
Increase in cash in the year		**10,152**		18,298
Net cash outflow from/(inflow) from bank loans		**18,373**		(10,119)
Cash outflow in respect of finance leases		**4,317**		5,613
Change in net debt resulting from cash flows	**34**		**32,842**	13,792
Translation differences			**744**	787
Movement in net debt in the year			**33,586**	14,579
Net debt at 1 January 2013	**34**		**(162,982)**	(177,561)
Net debt at 31 December 2013	**34**		**(129,396)**	(162,982)

The notes on pages 15 to 42 form part of these consolidated financial statements.

1. ACCOUNTING POLICIES

Basis of accounting

The consolidated 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 22) and ship finance leases (note 23). 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 commitment and timing of the Group's future defined benefit obligations. Agreement has been reached with the trustees of the MNOPF and the P&O Pension Scheme for a revised medium term contribution plan.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2013.

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.

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.

Goodwill and Intangible assets

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 group 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 26.

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.

2. REVENUE

Turnover, profit on ordinary activities before taxation and net assets for each of the Group's industry segments are split out below. All activities are primarily derived from within Europe.

	2013 £000	2012 £000
Analysis by activity:		
TURNOVER		
Ferry service total	**582,484**	613,161
Ferry service inter-segment	**(28,878)**	(30,403)
Ferry service sales to third parties	**553,606**	582,758
Ferrymasters transport and freight management	**413,336**	389,117
	966,942	971,875
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		
Ferry service	**(10,946)**	3,768
Ferrymasters transport and freight management	**720**	515
	(10,226)	4,283

	2013 £000	2012 £000
NET ASSETS		
Ferry service	**339,300**	356,498
Ferrymasters transport and freight management	**(19,824)**	(20,316)
	319,476	336,182

3. OTHER OPERATING INCOME

	2013	2012
	£000	£000
Exceptional other operating income	8,359	10,731

Exceptional operating income of £8.4m (2012: £10.7m) principally relates to £5.3m of provision releases, following settlement of prior year claims and a ship charter reinstatement obligation (note 24), and a £3.0m pension scheme curtailment gain (note 26).

4. OPERATING PROFIT

Operating profit is stated after charging:

	2013	2012
	£000	£000
Depreciation of owned fixed assets	41,111	42,765
Depreciation of assets held under finance lease agreements of tangible fixed assets	3,730	3,850
Operating lease costs:		
- Plant and equipment	41,624	43,401
- Land and buildings	5,740	5,583

In 2012 and 2013 the auditor's remuneration in respect of the company was borne by a subsidiary undertaking. The audit fee relating to the company was £10,000 in both years and is included in the consolidated audit fee analysis below:

	2013	2012
	£000	£000
Auditor's remuneration - audit of the consolidated financial statements	356	469
Auditor's remuneration - other fees:		
- Other services - including taxation and pensions	–	25

5. PARTICULARS OF EMPLOYEES

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

	2013	2012
	No	No
Seafaring	**2,131**	2,143
Shore-based	**1,865**	1,978
	3,996	4,121

The aggregate payroll costs of the above were:

	2013	2012
	£000	£000
Wages and salaries	**127,271**	130,621
Social security costs	**12,700**	12,455
Other pension costs	**4,806**	7,661
	144,777	150,737

Other pension costs are amounts charged to operating profit and do not include amounts credited to finance income and charged to finance costs (see note 11), and amounts recognised in the group statement of total recognised gains and losses.

6. DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were:

	2013	2012
	£000	£000
Remuneration receivable	**696**	859
Company pension contributions to money purchase schemes	**72**	98
	768	957

Remuneration of highest paid director:

	2013	2012
	£000	£000
Total remuneration (excluding pension contributions)	**470**	621

Benefits are accruing under a defined benefits pension scheme and, at the year end the accrued pension amounted to £47,000 (2012: £74,000).

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

	2013	2012
	No	No
Money purchase schemes	**1**	1
Defined benefit schemes	**1**	1

7. EXCEPTIONAL ITEMS

	2013	2012
	£000	£000
Recognised in arriving at operating profit:		
Exceptional administrative expenses - Restructuring	(5,057)	(2,314)
Exceptional other operating income (note 3)	8,359	10,731
	3,302	8,417

Exceptional expenses recognised in operating profit for the year included a charge of £3.6m (2012: £2.3m) principally in respect of restructuring, which included further rationalisation of our freight offering and back office functions and a £1.5m provision against a finance lease receivable from Trans Europa Ferries who went into administration in 2013.

8. LOSS ON DISPOSAL OF FIXED ASSETS

	2013	2012
	£000	£000
Loss on disposal of fixed assets	–	(2,328)

The 2012 loss on disposal principally relates to the disposal of two ships, the European Trader and the Pride of Dover. No losses on disposal of assets were made in 2013.

9. INTEREST RECEIVABLE

	2013	2012
	£000	£000
Bank interest receivable	278	403
Other loan interest receivable	150	222
	428	625

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2013	2012
	£000	£000
Interest payable on bank borrowing	5,521	6,842
Foreign exchange loss	433	617
Finance lease interest payable	1,443	1,641
Interest on other loans	377	265
	7,774	9,365

11. OTHER FINANCE COSTS

	2013	2012
	£000	£000
Net finance costs of defined benefit pension schemes (note 26)	5,481	2,015

12. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2013 £000	2012 £000
Current tax:		
UK Taxation		
In respect of the year:		
UK Corporation tax based on the results for the year at 23.25% (2012: 24.50%)	**1,942**	1,276
Under provision in respect of the prior year	**722**	1,069
	2,664	2,345
Foreign tax		
Current tax on income for the year	**233**	217
Total current tax	**2,897**	2,562
Deferred tax:		
Origination and reversal of timing differences	**(406)**	(1,176)
Tax on (loss)/profit on ordinary activities	**2,491**	1,386

(b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 23.25% (2012: 24.50%).

The ferry service business 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.

	2013 £000	2012 £000
(Loss)/profit on ordinary activities before taxation	**(10,226)**	4,283
(Loss)/profit on ordinary activities by rate of tax	**(2,378)**	1,049
Expenses not deductible for tax purposes	**-**	(133)
Capital allowances for period in excess of depreciation	**663**	533
Tonnage tax	**3,657**	(173)
Overseas tax	**233**	217
Adjustments to tax charge in respect of prior years	**722**	1,069
Total current tax (note 12(a))	**2,897**	2,562

12. TAXATION ON ORDINARY ACTIVITIES *(continued)*

(c) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 24% to 23% was effective from 1 April 2013. These changes resulted in a statutory tax rate of 23.25% for the year ended 31 December 2013 (2012: 24.5%). Further reductions in the future UK corporation tax rates from 23% to 21% from 1 April 2014 and from 21% to 20% from the 1 April 2015 where substantively enacted on 2 July 2013.

Deferred tax balances have been measured at 20% at 31 December 2013 (2012: 23%) being the corporation tax rate substantively enacted for the period when the balances are expected to be realised.

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.

13. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the financial statements of the parent company was £78,000 (2012 – loss of £144,888,000).

14. INTANGIBLE FIXED ASSETS

Group	**Goodwill £000**	**Other intangible assets £000**	**Total £000**
COST			
At 1 January 2013	**289,804**	**–**	**289,804**
Additions	**–**	**605**	**605**
At 31 December 2013	**289,804**	**605**	**290,409**
NET BOOK VALUE			
At 31 December 2013	**289,804**	**605**	**290,409**
At 31 December 2012	289,804	–	289,804

Intangible fixed assets include 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 (2012: £nil) being applied against the goodwill.

Other intangible assets comprise computer software under development.

15. TANGIBLE FIXED ASSETS

Group	Land and buildings £000	Ships £000	Other equipment £000	Total £000
COST				
At 1 January 2013	11,571	608,799	39,995	660,365
Additions	–	6,160	7,478	13,638
Disposals	(304)	(227)	(3,210)	(3,741)
At 31 December 2013	11,267	614,732	44,263	670,262
DEPRECIATION				
At 1 January 2013	4,143	108,041	19,509	131,693
Charge for the year	779	40,040	4,022	44,841
On disposals	(268)	(227)	(3,165)	(3,660)
At 31 December 2013	4,654	147,854	20,366	172,874
NET BOOK VALUE				
At 31 December 2013	6,613	466,878	23,897	497,388
At 31 December 2012	7,428	500,758	20,486	528,672

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.

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

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

	2013 £000	2012 £000
Freehold	6,223	6,942
Short leasehold	390	486
	6,613	7,428

Finance lease agreements of tangible fixed assets

Included within the net book value of £497,388,000 is £52,116,000 (2012: £54,966,000) relating to assets held under finance lease agreements of tangible fixed assets. The depreciation charged to the consolidated financial statements in the year in respect of such assets amounted to £3,730,000 (2012: £3,850,000).

16. INVESTMENTS

Company	Group companies £000
COST	
At 1 January 2013	**35,123**
Additions	**192,200**
At 31 December 2013	**227,323**
LOANS	
At 1 January 2013 and 31 December 2013	**157,526**
NET BOOK VALUE	
At 31 December 2013	**384,849**
At 31 December 2012	192,649

The addition to the investments of the company during the year was the subscription to new share capital in an existing subsidiary P&O Ferries Holdings Limited funded by way of a capitalised intercompany loan.

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

17. STOCKS

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Raw materials	**6,568**	7,045	–	–
Finished goods	**5,623**	6,032	–	–
	12,191	13,077	–	–

18. OTHER DEBTORS

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Amounts owed by group undertakings	**995**	844	**155,372**	160,313
Other debtors	**1,131**	9,907	**–**	–
Deferred taxation (Note 19)	**28**	–	**–**	–
Prepayments and accrued income	**25,461**	24,018	**–**	–
	27,615	34,769	**155,372**	160,313

Total debtors, net of non-returnable proceeds are £77,678,000 (2012: £97,117,000), comprising trade receivables of £50,063,000 (2012: £62,348,000), presented on the face of the balance sheet, and other debtors (presented above) of £27,615,000 (2012: £34,769,000).

19. DEFERRED TAXATION

The movement in the deferred taxation asset during the year was:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Provision brought forward	**(378)**	(1,554)	**-**	-
Increase in asset (note 12)	**406**	1,176	**-**	-
Asset/(provision) carried forward	**28**	(378)	**-**	-

The group's asset/(provision) for deferred taxation consists of the tax effect of timing differences in respect of:

Group	**2013**		2012	
	Provided	**Unprovided**	Provided	Unprovided
	£000	**£000**	£000	£000
Excess of depreciation over taxation allowances/(excess of taxation allowances over depreciation on fixed assets)	**28**	**-**	(378)	-

A further deferred tax asset is held in respect of pension liabilities (see note 26).

20. CREDITORS: Amounts falling due within one year

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Bank loans	**19,151**	18,365	**–**	–
Finance lease creditor	**4,758**	4,651	**–**	–
Trade creditors	**84,785**	81,345	**–**	–
Amounts owed to group undertakings	**–**	–	**190,812**	3,023
Other creditors including taxation:				
- Corporation tax	**1,041**	1,811	**–**	608
- Other taxation	**14,364**	19,386	**–**	–
- Other creditors	**4,954**	4,494	**–**	–
Accruals and deferred income	**45,402**	47,613	**–**	–
	174,455	177,665	**190,812**	3,631

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Bank loans	**198,481**	217,640	**–**	–
Finance lease creditor	**38,981**	44,149	**–**	–
Other creditors	**12,453**	10,460	**–**	–
	249,915	272,249	**–**	–

22. BANK LOANS

The Group has three bank loans which mature as follows:

Repayment basis of loans	**2013**	**2013**	2012	2012
	£000	**£000**	£000	£000
	Due in less than 1 year	**Due in more than 1 year**	Due in less than 1 year	Due in more than 1 year
Amounts payable:				
Quarterly until 2023	**8,802**	**89,848**	8,416	98,658
Half yearly until 2024	**8,559**	**98,760**	8,233	107,295
Quarterly until 2015	**1,790**	**9,873**	1,716	11,687
	19,151	**198,481**	18,365	217,640

The company has two loan facilities that will not be fully repaid within 5 years and are subject to interest rates ranging from 1.08% - 5.89%.

Bank loans include £11.7m (2012: £13.4m) of loans that will be fully repaid within 5 years, which is subject to an interest rate of 1.28% 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 2013 none of the overdrafts were being utilised and £46.1m (2012: £41.9m) of the invoice financing facilities were drawn. All invoice financing is undertaken on a non-recourse basis.

23. COMMITMENTS UNDER FINANCE LEASES AGREEMENTS

Future commitments under finance leases agreements are as follows:

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Amounts payable within 1 year	**(4,758)**	(4,651)	-	-
Amounts payable between 2 to 5 years	**(27,206)**	(28,964)	-	-
Amounts payable after more than 5 years	**(11,775)**	(15,185)	-	-
	(43,739)	(48,800)	-	-

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 €33.0m (2012: €37.3m) relating to a finance lease to purchase the European Endeavour. A change in the GBP/Euro exchange rate has resulted in the liability increasing by £1.0m (2012: reduction of £0.8m), which has been credited to the profit and loss account within foreign exchange gains/losses (Note 10).

Repayment basis of finance leases	**2013**	2012
	£000	£000
Quarterly until 2017	**16,241**	18,618
Annually until 2021	**27,498**	30,182
	43,739	48,800

24. PROVISIONS FOR LIABILITIES

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Back-dated rates:	**-**	409	-	-
Vessel reinstatements:	**300**	1,130	-	-
Re-organisation:	**3,764**	1,516	-	-
Legal costs:	**7,887**	12,402	-	-
	11,951	15,457	-	-

The vessel reinstatement provision was credited to the profit and loss account during the year following settlement with the ship owner. The remaining balance relates to an ongoing claim. Further re-organisation provisions were made in the year relating to back office functions and a rationalisation of freight operations. Legal provisions have been released to profit and loss following settlement of a number of individual prior year commercial claims. The balance carried forward relates to a provision for disputed port fee claims.

	2013	2012
	£000	£000
Provisions as at 1 January	**15,457**	22,061
Charged to the profit and loss account	**1,298**	-
Credited to the profit and loss account	**(5,303)**	(2,725)
Utilised during the year	**(601)**	(3,879)
Transfer from accruals	**1,100**	-
Provisions as at 31 December	**11,951**	15,457

25. 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 $32.7m and Gas Oil for $9.1m, in 2014 and Gas Oil for $6.2m in 2015;

USD - Purchase $42.5m in 2014 and $2.6m in 2015.

Comparative figures as at 31 December 2012 were as follows:

Fuel - Purchase Heavy Fuel Oil for $41.1m and Gas Oil for $12.7m, in 2013;

USD - Purchase $42.5m in 2013 and $2.6m in 2014.

As the Group has not yet adopted FRS 25 or 26 fair values of these derivatives have not been recognised in the balance sheet as at 31 December 2013.

26. 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.

Until 2012 the MNRPF was accounted for as a defined contribution pension scheme as the directors were unable to reliably estimate the Group's share of the scheme deficit. 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 was considered sufficient information to enable the directors to estimate the Group's UK share of the MNRPF deficit at the previous year end.

During 2013 the MNRPF trustees provided further information in respect of the apportionment of liabilities in respect of orphan employers within the scheme and the share allocated to the Group and other surviving participating employers. The additional liability recognised in 2013 in respect of orphans was £9.3m. 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 the prior year estimate in respect of the Group's pension scheme obligations.

In recognising its share of the MNRPF deficit, 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.

The Group expects to make a total of approximately £9.5m cash contributions to its defined benefit plans in the next financial year. During 2013, the Group put in place revised employer contribution arrangements for the P&O Ferries UK Scheme and the MNOPF Scheme.

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 2013 was £2.7m (2012: £2.6m).

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 obligation.

All schemes

	2013	2012
	£000	£000
Present value of funded defined benefit obligations	**(1,051,582)**	(1,023,501)
Fair value of plan assets	**797,026**	773,326
Deferred tax asset	**712**	1,613
Deficit	**(253,844)**	(248,562)

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 2012	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
Current service cost	2,330	1,600	–	649	4,579
Interest cost	5,830	19,000	15,000	1,449	41,279
Experience losses/(gains)	(314)	(15,410)	1,900	112	(13,712)
Changes in assumptions	6,640	5,694	28,600	(5,932)	35,002
Contributions by members	870	700	–	104	1,674
Benefits paid	(3,020)	(19,600)	(14,600)	(1,657)	(38,877)
Exchange adjustments	–	–	–	1,144	1,144
Curtailments	–	–	–	(3,008)	(3,008)
At 31 December 2013	152,896	458,984	398,700	41,002	1,051,582

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 2012	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
Expected return on plan assets	7,070	15,400	12,000	1,329	35,799
Actuarial gains	7,480	(4,800)	18,400	(2,541)	18,539
Contributions by employer	2,220	1,900	–	1,651	5,771
Contributions by members	870	700	–	104	1,674
Benefits paid	(3,020)	(19,600)	(14,600)	(1,657)	(38,877)
Management expense	–	–	–	(32)	(32)
Exchange adjustments	–	–	–	826	826
At 31 December 2013	138,700	333,000	287,000	38,326	797,026

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

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

	2013	2012
	£000	£000
Amounts charged / (credited) to operating profit:		
Current service cost	**4,579**	3,847
Management expense	**32**	122
Curtailment gain	**(3,008)**	-
Total operating charge	**1,603**	3,969
Amounts included in other finance cost:		
Expected return on scheme assets	**(35,799)**	(26,143)
Interest on scheme liabilities	**41,280**	28,158
Other finance cost	**5,481**	2,015
Total charge to the profit and loss account	**7,084**	5,984

The total operating charge is recognised in the following line items in the profit and loss account:

	2013	2012
	£000	£000
Cost of sales	**4,419**	2,869
Administrative expenses	**(2,816)**	1,100
Total operating charge	**1,603**	3,969

Other finance cost is included in a separate profit and loss account within financing costs (note 11).

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

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

	2013	2012
	£000	£000
Actuarial gains on assets	**18,539**	252,991
Actuarial gains/(losses) on liabilities	**13,712**	(11,984)
Actuarial losses on changes in assumptions	**(35,002)**	(390,651)
Release of surplus not recognised	**–**	7,314
At 31 December 2013	**(2,751)**	(142,330)

Actuarial losses recognised in the year include a net loss of £9.3m in relation to increased orphans in the MNRPF scheme. In 2012 there was an £84.7m actuarial loss 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:

	2013	2012
	£000	£000
At 1 January 2013	**1,613**	1,193
Deferred tax recognised in the year	**(901)**	420
At 31 December 2013	**712**	1,613

26. 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

	2013	2012	2011	2010	2009
Balance sheet	**£000**	£000	£000	£000	£000
Present value of scheme liabilities	**(152,896)**	(140,560)	(113,656)	(111,586)	(107,298)
Fair value of scheme assets	**138,700**	124,080	106,689	102,129	89,549
Deficit	**(14,196)**	(16,480)	(6,967)	(9,457)	(17,749)
Experience adjustments					
Experience (gains)/losses on scheme liabilities	**(314)**	504	1,500	(490)	(260)
Experience (losses)/gains on scheme assets	**7,480**	9,381	(3,740)	4,870	(11,070)

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

	2013	2012
	£000	£000
Equities	**64,590**	60,340
Bonds	**35,320**	51,820
Other	**38,790**	11,920
	138,700	124,080
Actual return on plan assets	**14,550**	15,721

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:

	2013	2012
Discount rate	**4.35%**	4.15%
Expected rate of return on plan assets	**5.88%**	5.67%
Expected rate of return on plan assets at the beginning of the period	**5.67%**	5.60%
Future salary increases	**n/a**	n/a
Future pension increases - deferment	**3.20%**	2.20%
Future pension increases - payment	**3.10%**	3.00%
Inflation	**2.60%**	2.20%

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.

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

MNOPF Scheme

	2013	2012	2011	2010	2009
Balance sheet	**£000**	£000	£000	£000	£000
Present value of scheme liabilities	**(458,984)**	(467,000)	(423,043)	(384,043)	(344,243)
Fair value of scheme assets	**333,000**	339,400	323,285	307,386	268,088
Deficit	**(125,984)**	(127,600)	(99,758)	(76,657)	(76,155)
Experience adjustments					
Experience losses/(gains) on scheme liabilities	**(15,410)**	10,157	(2,100)	(20,701)	(20,701)
Experience (losses)/gains on scheme assets	**(4,800)**	7,915	3,699	29,499	10,701

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

	2013	2012
	£000	£000
Equities	**111,100**	81,500
Bonds	**195,600**	188,400
Other	**26,300**	69,500
	333,000	339,400
Actual return on plan assets	**10,600**	24,415

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:

	2013	2012
Discount rate	**4.35%**	4.15%
Expected rate of return on plan assets	**4.89%**	4.65%
Expected rate of return on plan assets at the beginning of the period	**4.65%**	5.14%
Future salary increases	**4.60%**	4.05%
Future pension increases - deferment	**2.20%**	2.20%
Future pension increases - payment	**3.00%**	3.00%
Inflation	**2.60%**	2.20%

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.

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

MNRPF Scheme

	2013	2012	2011	2010	2009
Balance sheet	**£000**	£000	£000	£000	£000
Present value of scheme liabilities	**(398,700)**	(367,800)	(42,500)	(38,100)	–
Fair value of scheme assets	**287,000**	271,200	34,250	32,100	–
Deficit	**(111,700)**	(96,600)	(8,250)	(6,000)	–
Experience adjustments					
Experience losses/(gains) on scheme liabilities	**1,900**	1,100	1,200	(800)	–
Experience (losses)/gains on scheme assets	**18,400**	236,300	1,300	31,200	–

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

	2013	2012
	£000	£000
Equities	**56,300**	51,800
Bonds	**138,200**	161,400
Other	**92,500**	58,000
	287,000	271,200
Actual return on plan assets	**30,400**	237,900

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:

	2013	2012
Discount rate	**4.15%**	4.65%
Expected rate of return on plan assets	**5.18%**	4.54%
Expected rate of return on plan assets at the beginning of the period	**4.54%**	4.82%
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.

26. 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.

	2013	2012	2011	2010	2009
Balance sheet	**£000**	£000	£000	£000	£000
Present value of scheme liabilities	**(41,002)**	(48,141)	(33,854)	(33,518)	(36,057)
Fair value of scheme assets	**38,326**	38,646	38,400	37,776	36,625
Deficit	**(2,676)**	(9,495)	4,546	4,258	568
Experience adjustments					
Experience losses/(gains) on scheme liabilities	**112**	223	128	1,671	1,635
Experience (losses)/gains on scheme assets	**(2,541)**	(605)	498	549	1,088

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

	2013	2012
	£000	£000
Equities	**5,199**	10,680
Bonds	**32,938**	27,788
Other	**189**	178
	38,326	38,646
Actual return on plan assets	**(1,212)**	1,098

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:

	2013	2012
Discount rate	**3.36%**	3.07%
Expected rate of return on plan assets	**3.86%**	3.83%
Expected rate of return on plan assets at the beginning of the period	**3.83%**	5.03%
Future salary increases	**2.29%**	2.27%
Future pension increases - deferment	**0.58%**	0.54%
Future pension increases - payment	**1.15%**	0.54%
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.

27. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2013 the group had annual commitments under non-cancellable operating leases as set out below.

Group	**2013**		2012	
	Land and buildings £000	**Other items £000**	Land and buildings £000	Other items £000
Operating leases which expire:				
Within 1 year	**2,542**	**21,014**	2,220	16,181
Within 2 to 5 years	**1,217**	**10,594**	1,314	14,216
After more than 5 years	**15,236**	**667**	15,072	7,960
	18,995	**32,275**	18,606	38,357

28. CAPITAL COMMITMENTS

Following the completion and delivery of the new build ships, the group had no contracted capital commitments at the yearend (2012: Nil).

29. CONTINGENCIES

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

30. 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.

31. SHARE CAPITAL

Allotted, called up and fully paid:

	2013		2012	
	No	**£000**	No	£000
Ordinary shares of £1 each	**428,542,000**	**428,542**	428,542,000	428,542

32. RESERVES

Group	Share premium account £000	Profit and loss account £000
Balance brought forward	107,135	(199,495)
Loss for the year	–	(12,717)
Defined benefit pension scheme actuarial losses	–	(2,771)
Deferred tax arising on actuarial losses	–	(901)
Exchange loss in respect of defined benefit pension scheme	-	(317)
Balance carried forward	107,135	(216,201)

Company	Share premium account £000	Profit and loss account £000
Balance brought forward	107,135	(186,346)
Profit for the year	–	78
Balance carried forward	107,135	(186,268)

33. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2013 £000	2012 £000
(Loss)/profit for the financial year	(12,717)	2,897
Defined benefit pension scheme actuarial losses	(3,088)	(142,330)
Deferred tax arising on pension scheme	(901)	420
Net reduction to shareholder's funds	(16,706)	(139,013)
Opening shareholder's funds	336,182	475,195
Closing shareholder's funds	319,476	336,182

34. NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2013 £000	2012 £000
Operating profit	2,601	17,366
Depreciation	44,841	46,615
Decrease in stocks	886	347
Decrease in debtors	19,467	32,386
Decrease in creditors	(2,702)	(13,907)
Decrease in provisions	(1,890)	(5,057)
(Increase)/decrease in pension liability	(4,188)	(11,913)
Net cash inflow from operating activities	59,015	65,837

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

RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2013	2012
	£000	£000
Interest received	**428**	625
Interest paid	**(7,329)**	(8,511)
Interest element of finance leases	**(1,443)**	(1,641)
Net cash outflow from returns on investments and servicing of finance	**(8,344)**	(9,527)

TAXATION

	2013	2012
	£000	£000
Taxation paid	**(3,667)**	(6,470)

CAPITAL EXPENDITURE

	2013	2012
	£000	£000
Payments to acquire intangible fixed assets	**(605)**	–
Payments to acquire tangible fixed assets	**(13,638)**	(40,025)
Receipts from sale of fixed assets	**81**	3,977
Net cash outflow from capital expenditure	**(14,162)**	(36,048)

FINANCING

	2013	2012
	£000	£000
(Repayment of)/increase in bank loans	**(18,373)**	10,119
Capital element of finance leases	**(4,317)**	(5,613)
Net cash (outflow)/inflow from financing	**(22,690)**	4,506

ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2013	Cash flows	Exchange movement	**At 31 Dec 2013**
	£000	£000	£000	**£000**
Net cash:				
Cash in hand and at bank	121,823	10,152	-	**131,975**
Debt:				
Debt due within 1 year	(18,365)	(786)	-	**(19,151)**
Debt due after 1 year	(217,640)	19,159	-	**(198,481)**
Finance leases	(48,800)	4,317	744	**(43,739)**
	(284,805)	22,690	744	**(261,371)**
Net debt	(162,982)	32,842	744	**(129,396)**

35. 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.