

COMPANY REGISTRATION NUMBER: 06038090

P&O FERRIES DIVISION HOLDINGS LIMITED
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019



P&O FERRIES DIVISION HOLDINGS LIMITED

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P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their strategic report for the year ended 31 December 2019.

BUSINESS REVIEW

Principal activities

The Group's principal activity during the year continued to be transportation via land and sea 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 principally of 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) / profit for the year, after taxation, amounted to £(1.9)m (2018: £2.7m). The directors have not recommended a final dividend (2018: £nil). No interim dividends were paid in the year (2018: £nil).

Key Performance Indicators and Performance Review

2019 was a year uncertainty over the impact of Brexit, this led to a decrease in revenue across the Short Routes, Freight Routes and Overnight routes. Costs outside of exceptional items, have stayed consistent with 2018, leading to an overall loss after tax.

In Ferrymasters there was some growth but matched by an increase in sales office and admin costs, delivering a profit after tax slightly above 2018.

	2019	2018
FERRIES:		
Freight units carried (thousands)	2,106	2,188
Tourist vehicles carried (thousands)	1,430	1,541
Total passengers carried (thousands)	7,795	8,413
Tourist Net Promoter Score	43	34
FERRYMASTERS:		
Total units transported (thousands)	553	578

Ferries' tourist and freight business were the main drivers in the Group's revenue decline in 2019. Tourist car and passenger volumes deteriorated as customers temporarily lost confidence to travel due to the uncertainty over Brexit and the impact this was expected to have on port delays and currency. Freight yield remained competitive.

Ferrymasters' shows a decreased number of units transported, despite attracting slightly more revenue.

P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

BUSINESS REVIEW (CONTINUED)

Key Performance Indicators and Performance Review (continued)

The Group's key financial performance indicators during the year were as follows:

	2019	2018
Revenue (£m)	1,071.0	1,110.0
Gross Profit (£m)	106.4	139.5
Gross Profit Margin (%)	9.9	12.6
Operating Profit (£m)	12.8	17.5
Profit / (Loss) After Tax (£m)	(1.9)	2.7
EBITDA (£m)	84.4	99.9
Capital Expenditure (£m)	53.8	26.1
Net Assets (£m)	449.0	455.0
Net Debt (£m)	61.7	66.2

The Group's operating profit for 2019 includes £4.1m of net exceptional expenses (2018: £30.6m net exceptional expenses), which are restructuring costs. In the previous year these costs included a £12.3m impairment loss, and a £9.7m pension past service cost recognised due to the effect of accounting for the new Guaranteed Minimum Pension (GMP) regulation decision.

Profit before tax for 2019 was £1m (2018:£4m). The taxation for the year is disclosed in note 8 to the financial statements.

The Group's total retirement benefit obligations decreased to £170.1m (2018: £184.4m) in the year, principally due to the actuarial gains and asset ceiling adjustments in the year. Further details in respect of pension schemes and risks are set out in note 17 of the financial statements and in the Principal Risks and Uncertainties section of the Strategic Report.

Financial instruments

Details of the Group's financial instruments are presented in note 23.

FUTURE DEVELOPMENTS

During the course of 2020 the Group will move further towards exploring synergies between Ferries, Ferrymasters, with the objective of moving towards one back office. As well as exploring synergies with our new shareholder, DP World.

Ferries have adopted the Ferrymasters reporting calendar from the start of the new year, moving away from monthly period ends.

The near-term outlook remains a cause for concern with global trade disputes and the Covid-19 outbreak causing disruption to trade. However, the Group is well positioned to respond in the short term by focusing on disciplined cash management and managing the cost base as well as having supportive creditors. Overall, we remain positive on the medium to long term outlook of the industry.

P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 172 OF THE COMPANIES ACT 2006

The directors have committed to act in the way they consider, in good faith, is most likely to promote the success of the company for the benefit of its stakeholders as a whole and in doing so have regard, amongst other matters, to:

- the likely consequences of any decision in the long term,
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between stakeholders of the company.

Consistent delivery on this commitment demands effective processes of engagement with the full range of stakeholders who influence, and are impacted by, our business operations.

Our approach is based on regular interactions with essential stakeholder groups to understand and respond to legitimate concerns and inputs. Importantly, as a business operating around the United Kingdom and Europe, we do not adopt a one-size-fits-all approach. We strive to be sensitive to the varying needs, interests and engagement styles of our stakeholder groups, taking into account local custom, practice and culture. This approach ensures that we adapt our engagement style and method to the particular audience.

The directors practise a culture of regular engagement with employees, reaching out to all staff during annual road shows, regular webinars, information blogs, newsletters, employee engagement survey and employee awards event. The effect of these measures is an open dialogue across the organisation.

P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

PRINCIPAL RISKS AND UNCERTAINTIES

UNITED KINGDOM LEAVING THE EUROPEAN UNION

The UK enacted Article 50 in March 2017 which led to the withdrawal from the EU on 31 January 2020. The terms of the new trade arrangements have not yet been finalised by the UK government with the European Union as at the date of approval of this Annual Report and financial statements. The Group has devoted a significant amount of resources into mitigating the worst impacts of exiting the EU. However, the uncertainty over the future relationship with the EU has impacted consumer confidence.

The Group continues to ensure that we are ready and able to adapt to whatever Brexit outcome materialises and, where possible, mitigate as many risks as possible.

COVID 19

During the month of December 2019 the Covid-19 virus began to spread across the globe with cases in the UK and the EU reaching the thousands by March 2020. This unprecedented situation has caused a worldwide economic and public health crisis. As at the date of approval of this Annual Report and financial statements the extent of this crisis is uncertain but is expected to be material.

FUEL PRICE RISK

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

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 into the design of the Group's new ships.

MACRO ECONOMIC RISK

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

PENSIONS

The Group may be exposed to additional liabilities with respect to its participation in various defined benefit pension schemes.

As a result of the Group's exposure to the industry wide Merchant Navy Officers Pension Fund and Merchant Navy Ratings Pension Fund, the Group has a relatively high proportion of deferred pensioners. Both industry schemes have joint and several liabilities which potentially increases the exposure of the Group to additional liabilities.

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

In addition to regular reporting under IAS19, the Group regularly monitors the performance of the principal schemes.

FINANCIAL RISK MANAGEMENT

The Group is also exposed to financial risks such as Credit risk, Liquidity risk, Market risk, Interest rate risk, Foreign exchange risk, and Capital Management. Further detail of these risks is presented in the Group's financial risk management policy at note 1 to the financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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 position, liquidity position, covenant compliance and pension obligations. The main sources of debt funding are external bank loans, an asset backed credit facility and overdraft facilities.

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 significantly worse economic conditions, 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.

In deciding that the accounts should be prepared on going concern basis, the Board identified that a material uncertainty exists in relation to the volatile and ambiguous trading impact on our customers and business resulting from Covid 19. The travel restrictions and loss of customer confidence has led to the hibernation of our tourist business. The extent and pace at which different elements of our customer base return to using our services are subject to a higher degree of uncertainty than normal. In order to respond to this change in operations, the Board have taken several measures to protect and preserve the business, including a full review of our business operations culminating in a redundancy programme being announced seeking a reduction of some 1,100 employees.

All of the Group's external bank loan counterparties were approached at the end of March 2020 and we asked for a twenty four month payment holiday on principal repayments and waivers of covenants for the same twenty four month period. Furthermore, we have obtained from banks June 2020 covenant test waivers and formal forbearance until the end of July 2020 from all counterparties. The base case and severe but plausible downside scenario forecast indicate that at the next date of covenant testing in December 2020, the group will require further covenant waivers.

In addition, each Board of Pension Trustees has been approached and asked to grant a twelve month deficit contribution holiday. These ongoing discussions are proceeding positively but at the date of signing these accounts, we have not yet obtained formal agreements to these requests. However the Board are confident that these measures will be approved in the near future.

The Board is also in extensive discussions with our shareholder, DP World, to obtain financial support. To date, DP World have demonstrated intent to provide £30m of funding. We are evaluating the extent to which further funding is required under a number of plausible scenarios.

Following an extensive review, financial modelling and the engagement of a specialist firm in corporate restructure to facilitate the 'right sizing' of the P&O Ferries Group, it is determined that the measures mentioned above will be sufficient to allow the continuation of trade as a going concern.

P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

CORPORATE GOVERNANCE AND BOARD

We continue to deliver strong corporate governance practices, adding value to our performance, improving our strategic thinking and allowing us to more effectively monitor the risks we face. We adopt the highest standards of professionalism and ethical behaviour throughout the Group. Our Board remains at the centre of our business and the mix of skills and experience is contributing to our future direction. The Board ensures that we deliver sustained long-term value for our shareholders and achieve our goals.

During 2019 P&O Ferries was acquired by DP World. When the interest was first registered the board members were amended immediately to ensure that independence was maintained. Following the acquisition the board was again reorganised with several new directors appointed to represent each part of the organisation. The Board is organised to include one non-executive director and one shareholder representative, with Board meetings occurring at least monthly.

Effective Board leadership requires a clear division between the Board's responsibilities and those responsibilities which the Board has delegated to management.

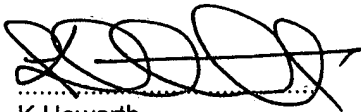
The matters reserved for Board decision include:

- setting the strategic objectives of the Group;
- approving major transactions;
- setting the annual budget for the Group;
- approving safety and environment policies; and
- insurance, risk management and internal controls.

The Board has delegated the following responsibilities to management:

- the development and recommendation of strategic plans for consideration by the Board that reflect the long term objectives and priorities established by the Board;
- implementation of the Group's strategies and policies as determined by the Board;
- monitoring the operating and financial results against plans and budgets;
- monitoring the quality of the investment process against objectives, prioritising the allocation of capital and technical resources; and
- developing and implementing risk management systems, subject to the continued oversight of the Shareholder Board and the Audit and Risk Committee.

Approved by the Board on 28 July 2020 and signed on its behalf by:



K Howarth
Director

P&O FERRIES DIVISION HOLDINGS LIMITED

DIRECTORS REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019.

DIRECTORS

The directors who held office during the year were as follows:

J Bell

K Howarth

R B Woods (appointed 14 August 2019)

J Rahimullah (resigned 30 June 2019)

R S Ntuli (resigned 30 June 2019)

S A R H Al Rais (resigned 30 June 2019)

A O Al Dehail (resigned 16 January 2019)

C Bailey (appointed 2 August 2019)

B Belder (appointed 2 August 2019)

L Cotton (appointed 2 August 2019)

P Hebblethwaite (appointed 2 August 2019)

D Stretch (appointed 2 August 2019)

J Woollacott (appointed 14 August 2019)

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.

POLITICAL DONATIONS

The Company made no political donations and incurred no political expenditure during the year (2018: £nil).

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 uncompromised 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.

P&O FERRIES DIVISION HOLDINGS LIMITED

DIRECTORS REPORT FOR THE YEAR ENDED 31 DECEMBER 2019


DISCLOSURE OF INFORMATION TO THE AUDITOR

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

REAPPOINTMENT OF AUDITORS

The auditors KPMG LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 28 May '20 and signed on its behalf by:



K Howarth
Director

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

P&O FERRIES DIVISION HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 judgements and accounting estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

P&O FERRIES DIVISION HOLDINGS LIMITED

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

OPINION

We have audited the financial statements of P&O Ferries Division Holdings Limited ("the Company") for the year ended 31 December 2019, which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, the consolidated statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1 of the financial statements which indicates that the group and parent company's ability to continue as a going concern is dependent on the agreement of the banks to a payment holiday and covenant waivers, the agreement of the Pension Trustees to a contribution holiday, the substantial achievement of forecasts and the availability of such additional funding as is needed from shareholders.

These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the group's and the parent company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

STRATEGIC REPORT AND DIRECTORS' REPORT

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

P&O FERRIES DIVISION HOLDINGS LIMITED

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required 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

We have nothing to report in these respects.

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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.



.....
Tom Eve (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

29 July 2020

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £ 000	2018 £ 000
Revenue	2	1,070,983	1,110,049
Cost of sales		<u>(964,587)</u>	<u>(970,575)</u>
Gross profit		106,396	139,474
Administrative expenses		<u>(93,565)</u>	<u>(121,994)</u>
Operating profit before separately disclosed items		16,920	48,117
Separately disclosed items	3	<u>(4,089)</u>	<u>(30,637)</u>
Operating profit		12,831	17,480
Finance income		3,420	937
Finance costs		<u>(15,392)</u>	<u>(14,193)</u>
Net finance cost	4	(11,972)	(13,256)
Share of profit/(loss) of equity accounted investees	11	<u>12</u>	<u>(13)</u>
Profit before tax		871	4,211
Income tax expense	8	<u>(2,743)</u>	<u>(1,550)</u>
(Loss)/profit for the year		<u><u>(1,872)</u></u>	<u><u>2,661</u></u>
Profit attributable to:			
Owners of the company		<u><u>(1,872)</u></u>	<u><u>2,661</u></u>

The above results were derived from continuing operations.

P&O FERRIES DIVISION HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31 DECEMBER 2019**

	Note	2019 £ 000	2018 £ 000
(Loss)/profit for the year		<u>(1,872)</u>	<u>2,661</u>
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations		1,875	(23,643)
Tax on remeasurement of post employment benefit obligations	8	<u>(24)</u>	<u>(141)</u>
		<u>1,851</u>	<u>(23,784)</u>
Items that may be reclassified subsequently to profit or loss			
Gain on cash flow hedges (net)		(5,454)	1,360
Foreign currency translation gains		<u>(553)</u>	<u>108</u>
		<u>(6,007)</u>	<u>1,468</u>
Total comprehensive (loss)/income for the year		<u>(6,028)</u>	<u>(19,655)</u>
Total comprehensive (loss)/profit attributable to:			
Owners of the company		<u>(6,028)</u>	<u>(19,655)</u>

The notes on pages 20 to 73 form an integral part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(REGISTRATION NUMBER: 06038090)

	Note	31 December 2019 £ 000	31 December 2018 £ 000
Assets			
Non-current assets			
Property, plant and equipment	9	485,870	502,092
Intangible assets	10	284,279	282,756
Equity accounted investments	11	515	500
Deferred tax assets	8	<u>747</u>	<u>481</u>
		<u>771,411</u>	<u>785,829</u>
Current assets			
Inventories	12	8,818	14,367
Trade and other receivables	13	140,426	170,986
Cash and cash equivalents	14	<u>69,981</u>	<u>97,235</u>
		<u>219,225</u>	<u>282,588</u>
Total assets		<u>990,636</u>	<u>1,068,417</u>
Liabilities and equity			
Current liabilities			
Trade and other payables	16	(160,394)	(180,168)
Loans and borrowings	15	(63,567)	(57,275)
Income tax liability		(2,163)	(1,534)
Retirement benefit obligations	17	(20,820)	(26,945)
Provisions	18	<u>(19,554)</u>	<u>(20,284)</u>
		<u>(266,498)</u>	<u>(286,206)</u>
Non-current liabilities			
Loans and borrowings	15	(125,129)	(169,225)
Retirement benefit obligations	17	(149,322)	(157,469)
Deferred tax liabilities	8	<u>(727)</u>	<u>(529)</u>
		<u>(275,178)</u>	<u>(327,223)</u>
Total liabilities		<u>(541,676)</u>	<u>(613,429)</u>

The notes on pages 20 to 73 form an integral part of these financial statements.

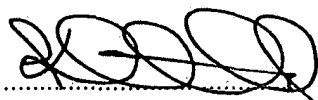
P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(REGISTRATION NUMBER: 06038090)

	Note	31 December 2019 £ 000	31 December 2018 £ 000
Equity			
Share capital	19	(428,542)	(428,542)
Share premium		(107,135)	(107,135)
Foreign currency translation reserve		153	(400)
Cash flow hedging reserve		6,695	1,241
Other reserves		249,372	251,223
Retained earnings		<u>(169,503)</u>	<u>(171,375)</u>
Equity attributable to owners of the company		<u>(448,960)</u>	<u>(454,988)</u>
Total liabilities and equity		<u>(990,636)</u>	<u>(1,068,417)</u>

Approved by the Board on 28.07.20 and signed on its behalf by:



K Howarth
Director

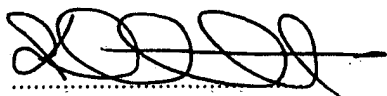
The notes on pages 20 to 73 form an integral part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

**COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019
(REGISTRATION NUMBER: 06038090)**

	Note	31 December 2019 £ 000	31 December 2018 £ 000
Assets			
Non-current assets			
Investments in subsidiaries, joint ventures and associates	11	396,849	396,849
Current assets			
Trade and other receivables	13	<u>116,179</u>	<u>117,124</u>
Total assets		<u><u>513,028</u></u>	<u><u>513,973</u></u>
Liabilities and equity			
Current liabilities			
Trade and other payables	16	(139,011)	(139,780)
Equity			
Share capital	19	(428,542)	(428,542)
Share premium		(107,135)	(107,135)
Retained earnings		<u>161,660</u>	<u>161,484</u>
Total equity		<u>(374,017)</u>	<u>(374,193)</u>
Total liabilities and equity		<u><u>(513,028)</u></u>	<u><u>(513,973)</u></u>

Approved by the Board on 28.07.20 and signed on its behalf by:



K Howarth
Director

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £ 000	Share premium £ 000	Foreign currency translation £ 000	Cash flow hedging reserve £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2019	428,542	107,135	400	(1,241)	(251,223)	171,375	454,988
Loss for the year	-	-	-	-	-	(1,872)	(1,872)
Other comprehensive income/(loss)	-	-	(553)	(5,454)	1,851	-	(4,156)
Total comprehensive income/(loss)	-	-	(553)	(5,454)	1,851	(1,872)	(6,028)
At 31 December 2019	428,542	107,135	(153)	(6,695)	(249,372)	169,503	448,960

	Share capital £ 000	Share premium £ 000	Foreign currency translation £ 000	Cash flow hedging reserve £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2018	428,542	107,135	292	(2,601)	(227,439)	168,714	474,643
Profit for the year	-	-	-	-	-	2,661	2,661
Other comprehensive income/(loss)	-	-	108	1,360	(23,784)	-	(22,316)
Total comprehensive income/(loss)	-	-	108	1,360	(23,784)	2,661	(19,655)
At 31 December 2018	428,542	107,135	400	(1,241)	(251,223)	171,375	454,988

The notes on pages 20 to 73 form an integral part of these financial statements.
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P&O FERRIES DIVISION HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £ 000	Share premium £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	428,542	107,135	-	(161,484)	374,193
Loss for the year	-	-	-	(176)	(176)
Total comprehensive income	-	-	-	(176)	(176)
At 31 December 2019	428,542	107,135	-	(161,660)	374,017

	Share capital £ 000	Share premium £ 000	Cash flow hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	428,542	107,135	-	(160,598)	375,079
Loss for the year	-	-	-	(886)	(886)
Total comprehensive loss	-	-	-	(886)	(886)
At 31 December 2018	428,542	107,135	-	(161,484)	374,193

The notes on pages 20 to 73 form an integral part of these financial statements.
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P&O FERRIES DIVISION HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31
DECEMBER 2019**

	Note	2019 £ 000	2018 £ 000
Cash flows from operating activities			
(Loss)/profit for the year		(1,872)	2,661
Adjustments to cash flows from non-cash items			
Depreciation and amortisation		71,530	70,199
Impairment loss		-	12,259
Profit on disposal of property plant and equipment		(5,003)	(19)
Finance income	4	(3,420)	(937)
Finance costs	4	15,392	14,193
Share of (profit) or loss of equity accounted investees	11	(12)	13
Income tax expense	8	2,743	1,550
Defined benefit pension non-cash charges		<u>5,358</u>	<u>15,719</u>
		84,716	115,638
Working capital adjustments			
Decrease/(increase) in inventories	12	5,549	(922)
Decrease/(increase) in trade and other receivables	13	28,829	(10,402)
(Decrease)/increase in trade and other payables	16	(25,228)	13,580
Increase in provisions		<u>(730)</u>	<u>7,904</u>
Cash generated from operations		93,136	125,798
Income taxes paid		(2,206)	(779)
Employee benefits paid		<u>(22,789)</u>	<u>(27,914)</u>
Net cash flow from operating activities		<u>68,141</u>	<u>97,105</u>
Cash flows from investing activities			
Interest received	4	261	632
Acquisitions of property plant and equipment		(51,714)	(24,591)
Proceeds from sale of property plant and equipment		23,337	370
Acquisition of intangible assets	10	<u>(2,039)</u>	<u>(1,541)</u>
Net cash flows from investing activities		<u>(30,155)</u>	<u>(25,130)</u>
Cash flows from financing activities			
Proceeds from bank borrowing draw downs		13,851	-
Repayment of bank borrowing		(32,873)	(31,146)
Repayments of lease creditors		(39,977)	(28,794)
Interest paid		<u>(5,372)</u>	<u>(6,202)</u>
Net cash flows from financing activities		<u>(64,371)</u>	<u>(66,142)</u>
Net (decrease)/increase in cash and cash equivalents		(26,385)	5,833
Cash and cash equivalents at 1 January		97,235	94,275
Effect of exchange rate fluctuations on cash held		<u>(869)</u>	<u>(2,873)</u>
Cash and cash equivalents at 31 December		<u><u>69,981</u></u>	<u><u>97,235</u></u>

The notes on pages 20 to 73 form an integral part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

P&O Ferries Division Holdings Limited (the "Company") is a company incorporated and domiciled in the UK.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The Company has adopted the reduced disclosure framework under FRS 101. Disclosure exemptions adopted include transactions with related parties which form part of the Company's group and certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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, overdraft facilities and ship finance leases (note 15). The Group also has in place working capital facilities for trade debtors factored on a non-recourse basis. Whilst consistent with the normal annual liquidity cycle, cash levels as at 30 June 2020 have approximately halved from the position at the end of December. Nonetheless, due to the active management of cash by the business, the group has conserved a greater amount of cash during the first half of 2020 than the original pre-COVID-19 budget had indicated.

The Group's external bank loans are 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.

In deciding that the accounts should be prepared on going concern basis, the Board has considered the volatile and ambiguous trading impact on our customers and business resulting from COVID 19. The travel restrictions and loss of customer confidence has led us to the hibernation of our tourist business. The extent and pace at which different elements of our customer base return to using our services are subject to a higher degree of uncertainty than normal.

In order to respond to this change in operations, the Board have taken several measures to protect and preserve the business, including a full review of our business operations culminating in a redundancy programme being announced seeking a reduction of some 1,100 employees.

The directors have prepared numerous forecasts including the base case and a severe but plausible downside scenario as discussed below, covering a period in excess of 18 months from the date of approval of these financial statements. The base case scenario expects trading for the freight business to gradually recover and projects a slower recovery of the tourist business. The severe but plausible downside scenario forecasts a return to more severe COVID-19 related restrictions ('a second wave') lasting for 6 months followed by a slower recovery to the freight business and a delayed recovery to the tourist business. In this scenario following a second wave the group recovers to positive EBIT generation in Q2 2021.

As a result of the projected cashflow forecasts the Board has identified that a material uncertainty exists which arises from the need to reschedule debt repayments, negotiate debt covenant waivers, negotiate funding deferrals with the Pension Trustees and obtain additional shareholder funding. The extent of additional funding that is required is dependent on the group's ability to achieve the base forecasts which include currently unidentified cost savings.

All of the Group's external bank loan counterparties were approached at the end of March 2020 and we asked for a twenty four month payment holiday on principal repayments and waivers of covenants for the same twenty four month period. Furthermore, we have obtained from banks June 2020 covenant test waivers and formal forbearance until the end of July 2020 from all counterparties. The base case and severe but plausible downside scenario forecast indicate that at the next date of covenant testing in December 2020, the group will require further covenant waivers.

In addition, each Board of Pension Trustees has been approached and asked to grant a twelve month deficit contribution holiday. These ongoing discussions are proceeding positively but at the date of signing these accounts, we have not yet obtained formal agreements to these requests. However the Board are confident that these measures will be approved in the near future.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Board is also in extensive discussions with our shareholder, DP World, to obtain financial support. To date, DP World have demonstrated intent to provide £30m of funding. We are evaluating the extent to which further funding is required under a number of plausible scenarios. The extent of additional funding that is required is dependent on the group's ability to achieve the base forecasts and successfully negotiate with the Banks and Pension Trustees. However in the base case and severe but plausible downside scenarios significant additional shareholder funding in excess of the £30m indicated to date would be required.

Following an extensive review, financial modelling and the engagement of a specialist firm in Corporate restructure to facilitate the 'right sizing' of the P&O Ferries Group, it is determined that the measures mentioned above will be sufficient to allow the continuation of trade as a going concern.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the agreement of the banks to a payment holiday and covenant waivers, the agreement of the Pension Trustees to a contribution holiday, the substantial achievement of forecasts and the availability of such additional funding as is needed from shareholders represent a material uncertainty that may cast significant doubt on the Company's and the Group's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2019.

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company's loss for the financial year was £0.2m (2018 - £0.9m).

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Joint Arrangements

A joint arrangement is an arrangement over which the Group and one or more third parties have joint control. These joint arrangements are in turn classified as:

- Joint ventures whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities; and
- Joint operations whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Application of the equity method to joint ventures

Joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

REVENUE RECOGNITION

Revenue 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.

Revenue 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 disembarkment of the relevant sailing. Road transport revenue is recognised at the point of delivery of the load.

During the year an agency agreement was entered into for the on-board retail sales. A commission is received on the sales made of World Duty Free Group products.

SEPARATELY DISCLOSED ITEMS

Separately disclosed items are those significant items which, in the Directors' judgement, are highlighted by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

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

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 date of the statement of financial position and the gains or losses on translation are included in the income statement.

Foreign subsidiary entities are consolidated into the Group and translated into sterling using the rate of exchange at the reporting date. Any gains or losses on consolidation are included in other comprehensive income.

TAX

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

IMPAIRMENT

Financial assets (including receivables)

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

Loss allowances for trade receivables are generally measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 January 2014, the date of transition to Adopted IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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).

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Depreciation

Depreciation on owned assets is charged to the income statement 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:

Asset class	Depreciation method and rate
Freehold buildings	10 to 25 years
Ships and ship components	2 to 30 years
Other equipment	3 to 10 years

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. General finance costs incurred during asset construction are not capitalised.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Right-of-use assets are depreciated over a useful economic life equal to the relative lease term.

INTANGIBLE ASSETS

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Asset class	Amortisation method and rate
Internally generated software	5 years

INVENTORIES

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost is based on the weighted average principle.

PROVISIONS

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

LEASES

At inception of a contract, the group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group's right to direct use of the asset is whether the group has the right to operate the asset, or the Group designed the asset in a way that predetermines how and for what purpose it will be used,

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

DEFINED CONTRIBUTION PENSION OBLIGATION

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

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.

DEFINED BENEFIT PENSION OBLIGATION

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The principal schemes include the P&O Ferries Division 2008 Pension Scheme ('P&O Ferries UK Scheme') operated by the Company and the Merchant Navy Officers Pension Fund ('MNOFP'), and Merchant Navy Ratings Pension Fund ('MNRPF'), industry wide schemes in which the Group's employees participate.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Group operates group wide defined benefit pension plans. The net defined benefit cost of the plan is charged to participating entities in proportion to their share of the overall deficit and in proportion to their participating members earnings as appropriate. The contributions payable by the participating entities are determined on a similar basis.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL ASSETS AND LIABILITIES

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at amortised cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

DERIVATIVES AND HEDGING

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied - see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

This policy represents information about the Group's exposure to each of the above risks, and the policies and processes for measuring and managing risk. Further disclosure of quantitative data is included in note 23.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, amounts due from related parties and investment securities.

Trade and other receivables

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, and a significant proportion of the Group's receivables are insured. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group recognises loss allowances for expected credit losses on financial assets. See the Group's impairment policy on page 26.

Other financial assets

Credit risk arising from other financial assets of the Group comprises cash and cash equivalents and certain derivative instruments. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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.

Financial guarantees

The Group's policy is to consider the provision of a financial guarantee to wholly-owned subsidiaries, where there is a commercial rationale to do so. The provision of guarantees always requires the approval of senior management.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has access to bank overdrafts and invoice financing facilities to meet short term obligations. The Group's terms of business require amounts to be paid within 30 days. Trade payables are normally settled within 30 days of the end of the month in which the Group is invoiced.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group forward buys a proportion of its fuel oil and US dollar requirements in accordance with the Group's Treasury Policy. Interest rate swaps are also employed to mitigate interest rate risk.

Foreign exchange risk

The Group is exposed to exchange rate risk principally against the dollar for purchases of fuel, 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.

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 through the use of interest rate swaps, to bring the fixed proportion of interest in line with the Group's Treasury Policy.

Capital management

Capital consists of share capital, share premium, retained earnings, hedging and other reserves, actuarial reserve and translation reserve.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

FORTHCOMING ADOPTED IFRSS

The following Adopted IFRSs have been issued and endorsed by the EU and are effective for accounting periods starting on or after 1 January 2019. They have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Annual Improvements to IFRSs - 2015-2017 Cycle.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2 REVENUE

The analysis of the Group's revenue for the year from continuing operations is as follows:

	2019 £ 000	2018 £ 000
Analysis by activity:		
Ferry service total	639,484	682,281
Ferry service inter-segment	<u>(30,460)</u>	<u>(30,443)</u>
Ferry service sales to third parties	609,024	651,838
Ferrymasters transport and freight management	<u>461,959</u>	<u>458,211</u>
	<u><u>1,070,983</u></u>	<u><u>1,110,049</u></u>

3 SEPARATELY DISCLOSED ITEMS

	2019 £ 000	2018 £ 000
Exceptional administrative expenses - Restructuring	(4,089)	(8,678)
Guaranteed minimum pension cost	-	(9,700)
Impairment loss	<u>-</u>	<u>(12,259)</u>
	<u><u>(4,089)</u></u>	<u><u>(30,637)</u></u>

The Group's operating profit for 2019 includes £4.1m of exceptional costs relating restructuring.

In 2018 separately disclosed items includes £9.7m in relation to a guaranteed minimum pension cost, £12.3m impairment loss, and £8.7m of restructuring costs. Guaranteed minimum pension costs relates to additional costs arising in respect of "guaranteed minimum pension" (GMP) based on a landmark High Court judgement in 2018 confirming that UK pension schemes are required to equalise male and female members' benefits for the effect of unequal GMPs. See note 10 for information regarding the impairment loss.

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

4 FINANCE INCOME AND COSTS

	2019	2018
	£ 000	£ 000
Finance income		
Interest income on bank deposits	261	560
Foreign exchange gains	3,159	305
Other loan interest receivable	-	72
Total finance income	<u>3,420</u>	<u>937</u>
Finance costs		
Interest on bank overdrafts and borrowings	(6,568)	(6,568)
IFRS 16 Lease interest paid	(1,729)	(2,113)
Foreign exchange losses	(2,056)	(883)
Other finance costs	(14)	(467)
Other net financing charges in respect of pension plans	<u>(5,025)</u>	<u>(4,162)</u>
Total finance costs	<u>(15,392)</u>	<u>(14,193)</u>
Net finance costs	<u><u>(11,972)</u></u>	<u><u>(13,256)</u></u>

5 STAFF COSTS

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019	2018
	£ 000	£ 000
Wages and salaries	143,438	148,031
Social security costs	11,631	11,558
Pension costs, defined contribution scheme	7,360	6,463
Pension costs, defined benefit scheme	<u>(363)</u>	<u>1,819</u>
	<u>162,066</u>	<u>167,871</u>

The average number of persons employed by the Group (including directors) during the year, analysed by category was as follows:

	2019	2018
	No.	No.
Seafaring	2,004	2,041
Shore-based (including directors)	<u>1,968</u>	<u>2,082</u>
	<u>3,972</u>	<u>4,123</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

6 DIRECTORS' REMUNERATION

The directors' remuneration for the year was as follows:

	2019	2018
	£ 000	£ 000
Emoluments	<u>2,639</u>	<u>1,169</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2019	2018
	No.	No.
Accruing benefits under defined benefit pension scheme	1	1
Accruing benefits under money purchase pension scheme	<u>1</u>	<u>1</u>

In respect of the highest paid director:

	2019	2018
	£ 000	£ 000
Remuneration	<u>696</u>	<u>485</u>
Defined benefit accrued pension entitlement at the end of the period	<u>1</u>	<u>1</u>

7 AUDITOR'S REMUNERATION

	2019	2018
	£ 000	£ 000
Audit of the consolidated financial statements and subsidiaries	372	316
Tax Compliance Services	114	16
Audit related Assurance Services	44	44
Tax advisory	-	8
Other Services	<u>-</u>	<u>10</u>
	<u>530</u>	<u>394</u>

In 2019 and 2018 the auditor's remuneration in respect of the Company was borne by a subsidiary undertaking. The audit fee relating to the Company was £140,000 (2018 - £146,000) and is included in the Group audit fees disclosure above.

8 INCOME TAX

Tax charged/(credited) in the income statement

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	1,561	848
Foreign tax	<u>1,274</u>	<u>427</u>
Total current income tax	2,835	1,275
Deferred taxation		
Arising from origination and reversal of temporary differences	<u>(92)</u>	<u>275</u>
Tax expense in the income statement	<u><u>2,743</u></u>	<u><u>1,550</u></u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19.00% (2018 - 19.00%).

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.

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	<u>871</u>	<u>4,211</u>
Corporation tax at standard rate	163	803
Increase from effect of capital allowances depreciation	198	231
Tonnage tax	<u>2,382</u>	<u>516</u>
Total tax charge	<u><u>2,743</u></u>	<u><u>1,550</u></u>

Income tax recognised in other comprehensive income

	2019 £ 000	2018 £ 000
Remeasurements of defined benefit liability	<u>(24)</u>	<u>(141)</u>
	<u><u>(24)</u></u>	<u><u>(141)</u></u>

DEFERRED TAX

GROUP

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2019			
Accelerated tax depreciation	-	(727)	(727)
Pension benefit obligations	446	-	446
Tax losses carry-forwards	<u>301</u>	<u>-</u>	<u>301</u>
	<u><u>747</u></u>	<u><u>(727)</u></u>	<u><u>20</u></u>

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

	Asset	Liability	Net deferred tax
2018	£ 000	£ 000	£ 000
Accelerated tax depreciation	-	(529)	(529)
Pension benefit obligations	405	-	405
Tax losses carry-forwards	76	-	76
	<u>481</u>	<u>(529)</u>	<u>(48)</u>

Deferred tax movement during the year:

	At 1 January 2019	Recognised in income	Recognised in equity	At 31 December 2019
	£ 000	£ 000	£ 000	£ 000
Accelerated tax depreciation	(529)	(198)	-	(727)
Pension benefit obligations	405	65	(24)	446
Tax losses carry-forwards	76	225	-	301
Net tax assets/(liabilities)	<u>(48)</u>	<u>92</u>	<u>(24)</u>	<u>20</u>

Deferred tax movement during the prior year:

	At 1 January 2018	Recognised in income	Recognised in equity	At 31 December 2018
	£ 000	£ 000	£ 000	£ 000
Accelerated tax depreciation	(298)	(231)	-	(529)
Pension benefit obligations	666	(120)	(141)	405
Tax losses carry-forwards	-	76	-	76
Net tax assets/(liabilities)	<u>368</u>	<u>(275)</u>	<u>(141)</u>	<u>(48)</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

9 PROPERTY, PLANT AND EQUIPMENT

GROUP

	Land and buildings £ 000	Other equipment £ 000	Ships £ 000	Total £ 000
Cost or valuation				
At 1 January 2018	41,162	182,331	912,072	1,135,565
Additions	1,440	15,100	11,261	27,801
Disposals	(8)	(3,625)	(51)	(3,684)
Foreign exchange movements	9	(1)	397	405
At 31 December 2018	<u>42,603</u>	<u>193,805</u>	<u>923,679</u>	<u>1,160,087</u>
At 1 January 2019	42,603	193,805	923,679	1,160,087
Additions	3,885	23,847	46,928	74,660
Disposals	-	(6,691)	(53,057)	(59,748)
Foreign exchange movements	(4)	(50)	(1,873)	(1,927)
At 31 December 2019	<u>46,484</u>	<u>210,911</u>	<u>915,677</u>	<u>1,173,072</u>
Depreciation				
At 1 January 2018	32,227	123,106	436,616	591,949
Charge for year	3,138	10,633	55,542	69,313
Eliminated on disposal	(8)	(3,299)	(26)	(3,333)
Foreign exchange movements	9	(1)	58	66
At 31 December 2018	<u>35,366</u>	<u>130,439</u>	<u>492,190</u>	<u>657,995</u>
At 1 January 2019	35,366	130,439	492,190	657,995
Charge for the year	1,331	13,342	56,342	71,015
Eliminated on disposal	-	(6,491)	(34,923)	(41,414)
Foreign exchange movements	(3)	(46)	(345)	(394)
At 31 December 2019	<u>36,694</u>	<u>137,244</u>	<u>513,264</u>	<u>687,202</u>
Carrying amount				
At 31 December 2019	<u>9,790</u>	<u>73,667</u>	<u>402,413</u>	<u>485,870</u>
At 31 December 2018	<u>7,237</u>	<u>63,366</u>	<u>431,489</u>	<u>502,092</u>

Included within property, plant and equipment are £58.7m (2018 - £62.4m) relating to right-of use assets. See note 15 for more information.

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2019	2018
	£ 000	£ 000
Ships	40,189	58,611
Other equipment	18,426	22,146
Land & buildings	35	358
	<u>58,650</u>	<u>81,115</u>

Pledged as security

Property, plant and equipment with a carrying amount of £320.4m (2018 - £362.4m) has been pledged as security for term loans, finance leases and pension obligations.

10 INTANGIBLE ASSETS

GROUP

	Goodwill	Internally generated software	Total
	£ 000	£ 000	£ 000
Cost or valuation			
At 1 January 2018	289,804	6,164	295,968
Additions	<u>-</u>	<u>1,541</u>	<u>1,541</u>
At 31 December 2018	<u>289,804</u>	<u>7,705</u>	<u>297,509</u>
At 1 January 2019	289,804	7,705	297,509
Additions	<u>-</u>	<u>2,039</u>	<u>2,039</u>
At 31 December 2019	<u>289,804</u>	<u>9,744</u>	<u>299,548</u>
Amortisation			
At 1 January 2018	-	1,608	1,608
Amortisation charge	-	886	886
Impairment	<u>12,259</u>	<u>-</u>	<u>12,259</u>
At 31 December 2018	<u>12,259</u>	<u>2,494</u>	<u>14,753</u>
At 1 January 2019	12,259	2,494	14,753
Amortisation charge	<u>-</u>	<u>516</u>	<u>516</u>
At 31 December 2019	<u>12,259</u>	<u>3,010</u>	<u>15,269</u>
Carrying amount			
At 31 December 2019	<u>277,545</u>	<u>6,734</u>	<u>284,279</u>
At 31 December 2018	<u>277,545</u>	<u>5,211</u>	<u>282,756</u>

The amortisation charge is recognised in 'administrative expenses' in the income statement.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Intangible assets with indefinite useful economic lives

Goodwill with a carrying amount of £277.5m (2018 - £277.5m) has an indefinite useful economic life.

Goodwill originated as 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 180 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.

The goodwill is not amortised, but is annually tested for impairment and has not resulted in an impairment charge for the year (2018 - £12.3) being applied against the goodwill.

As described in note 26 of the accounts, Covid 19 is determined to be a non-adjusting post balance sheet event in accordance with IAS 10 paragraph 10 as it was not plausible for the Directors to forecast the extent of Covid 19 at the balance sheet date. Presently EU and UK governmental policy is exceptionally fluid and as a consequence it currently remains unclear as to the precise extent that Covid 19 will have on the ongoing trade of the Group. However, if we were to scenario plan such adjustments, the Board wishes to point out that there are certain scenarios where the directors consider there is the possibility that an impairment to the carrying value of goodwill would need to be made. However, as a matter of course, the carrying value of goodwill will be reassessed as part of the 31 December 2020 financial statement process.

Goodwill is tested for one cash generating unit, being the UK ferries activity, on a value in use basis. Value in use is calculated based on the Group's latest five year plan, restricted to an EBITDA growth of 6.4% per annum.

The pre-tax discount rate applied is 7.8% and long term growth rate of 1.62%.

The carrying amount per the calculation is sensitive to these variables:

	Implied (impairment)/increase in value in use at 31 December 2019 £m
EBITDA growth rate lower by 1% p.a. for each of the 5 years in the forecast period	(20.1)
EBITDA growth rate higher by 1% p.a. for each of the 5 years in the forecast period	87.7
Discount rate higher by 0.5%	(15.8)
Discount rate lower by 0.5%	94.9
Terminal growth rate lower by 0.5%	(1.2)
Terminal growth rate higher by 0.5%	77.3

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11 INVESTMENTS

GROUP SUBSIDIARIES

Details of the group subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the Group	
			2019	2018
P&O Ferries Holdings Limited	Holding company	Great Britain	100%	100%
P&O Ship Management Holdings (Jersey) Limited	Holding company	Jersey	100%	100%
P&O Ferrymasters Holdings Limited	Holding company	Great Britain	100%	100%
P&O Ferries Limited	Ferry services	Great Britain	100%	100%
P&O Short Sea Ferries Limited	Holding company	Great Britain	100%	100%
Larne Harbour Limited	Harbour operator	Northern Ireland	100%	100%
P&O Ferries Ship Management Limited	Ship management	Great Britain	100%	100%
P&O European Ferries (Portsmouth) Limited	Ferry services	Great Britain	100%	100%
P&O European Ferries (Vizcaya) SA	Terminal operator	Spain	100%	100%
P&O European Ferries (Irish Sea) Limited	Ferry services	Great Britain	100%	100%
P&O North Sea Ferries Limited	Ferry services	Great Britain	100%	100%
P&O North Sea Ferries BV	Ferry services	Netherlands	100%	100%
P&O Ferries Pride of Rotterdam BV	Ferry services	Netherlands	100%	100%
P&O Ferries Thames Limited	Ferry services	Great Britain	100%	100%
P&O Ferries Pride of Hull Limited	Ferry services	Great Britain	100%	100%
P&O Offshore Energy Limited	Dormant	Great Britain	100%	100%
P&O Ferrymasters Limited	International unit loads	Northern Ireland	100%	100%
Norbay (UK) Limited	Leasing	Great Britain	100%	100%
Port of Cairnryan Limited	Harbour operator	Great Britain	100%	100%
P&O Ferries France SAS	Ferry services	France	100%	100%
SNC Gris-Nez Bail	Leasing	France	100%	100%

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

SNC White Cliffs Bail	Leasing	France	100%	100%
P&O Ferries (Short Sea) Limited	Dormant	Great Britain	100%	100%
P&O Ferries Port Services Limited	Dormant	Great Britain	100%	100%
P&O Ship Management (Irish Sea) Limited	Dormant	Great Britain	100%	100%
P&O European Ferries (Bahamas) Limited	Dormant	Bahamas	100%	100%
North Sea Ferries (Belgium) NV	Dormant	Belgium	100%	100%
P&O Ferries Division Pension Trustees Limited	Dormant	Great Britain	100%	100%
P&O Ferrymasters NV	International unit loads	Belgium	100%	100%
P&O Ferrymasters SRL	International unit loads	Italy	100%	100%
P&O Ferrymasters SA	International unit loads	Spain	99.98%	99.98%
P&O Ferrymasters GMBH	International unit loads	Germany	100%	100%
P&O Ferrymasters KFT	International unit loads	Hungary	100%	100%
P&O Ferrymasters SRL	International unit loads	Romania	95%	95%
P&O Ferrymasters ZOO	International unit loads	Poland	100%	100%
P&O Ferrymasters LLC	International unit loads	Ukraine	100%	100%
P&O Ferrymasters LLC	Dormant	Russia	100%	100%
Pandoro Limited	Dormant	Great Britain	100%	100%
P&O Ferries (Jersey) Limited	Ferry services	Jersey	100%	100%
P&O (Jersey) Limited	Ferry services	Jersey	100%	100%
P&O Irish Sea (Jersey) Limited	Ferry services	Jersey	100%	100%
P&O North Sea (Jersey) Limited	Ferry services	Jersey	100%	100%
P&O European Ferries (Jersey) Limited	Ferry services	Jersey	100%	100%
P&O Ship Management (Jersey) Limited	Ferry services	Jersey	100%	100%
P&O Ferries Cyprus Limited	Ferry services	Cyprus	100%	0%
PO Ferrymasters Taşımacılık	International unit loads	Turkey	100%	0%

See note 27 for subsidiary undertaking registered office details.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

GROUP JOINT VENTURES

Details of the group joint ventures as at 31 December 2019 are as follows:

Name of Joint-ventures	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the group	
			2019	2018
S.C. Intermodal Vest S.R.L +	Rail Terminal Operator	Romania	50%	50%

+ indicates accounted for using the equity method

Aggregate financial information for the non-material joint ventures

Please find below aggregate financial information for each joint venture immaterial to the group:

	2019 £ 000	2018 £ 000
Group share of profit / (loss) from continuing operations	<u>12</u>	<u>(13)</u>

£ 000

Cost or valuation

At 1 January 2018	203
Additions	310
Revaluation	<u>(13)</u>
At 31 December 2018	<u>500</u>
At 1 January 2019	500
Share of profit / (loss)	12
Revaluation	<u>3</u>
At 31 December 2019	<u>515</u>

Carrying amount

At 31 December 2019	<u>515</u>
At 31 December 2018	<u>500</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY OF THE COMPANY INVESTMENTS

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2018	<u>396,849</u>
At 31 December 2018	<u>396,849</u>
At 1 January 2019	<u>396,849</u>
At 31 December 2019	<u>396,849</u>
Carrying amount	
At 31 December 2019	<u>396,849</u>
At 31 December 2018	<u>396,849</u>

12 INVENTORIES

	Group		Company
	31 December 2019	31 December 2018	31 December 2019
	£ 000	£ 000	£ 000
Raw materials and consumables	7,497	7,064	-
Finished goods and goods for resale	<u>1,321</u>	<u>7,303</u>	<u>-</u>
	<u>8,818</u>	<u>14,367</u>	<u>-</u>

Raw materials, consumables, and changes in finished goods recognised as cost of sales in the year amounted to £110.9m (2018 - £119.1m).

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	£ 000	£ 000	£ 000	£ 000
Trade receivables	123,802	152,907	-	-
Provision for impairment of trade receivables	(7,379)	(8,492)	-	-
Net trade receivables	116,423	144,415	-	-
Receivables from related parties	-	-	116,179	117,124
Prepayments	22,101	21,500	-	-
Other receivables	1,902	5,071	-	-
Total current trade and other receivables	<u>140,426</u>	<u>170,986</u>	<u>116,179</u>	<u>117,124</u>

Included within trade receivables is £Nil (2018 - £Nil) held as collateral in relation to the Group's invoice financing facility.

14 CASH AND CASH EQUIVALENTS

	Group		Company
	31 December 2019	31 December 2018	31 December 2019
	£ 000	£ 000	£ 000
Current			
Cash on hand	<u>69,981</u>	<u>97,235</u>	<u>-</u>

As at 31 December 2019 the Group had £25.3m placed on short term deposits, with interest rates ranging between 0.60% to 0.77%. The deposits are due to mature between 2 January 2020 and 6 January 2020.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 1.

	Group	
	31 December 2019 £ 000	31 December 2018 £ 000
Non-current loans and borrowings		
Bank borrowings	98,267	118,288
Leases	26,862	50,937
	<u>125,129</u>	<u>169,225</u>

	Group	
	31 December 2019 £ 000	31 December 2018 £ 000
Current loans and borrowings		
Bank borrowings	33,440	32,526
Leases	30,127	24,749
	<u>63,567</u>	<u>57,275</u>

Terms and debt repayment schedule

		Nominal interest rate	Year of Maturity	Face Value 2019 £ 000	Carrying Amount 2019 £ 000	Face Value 2018 £ 000	Carrying Amount 2018 £ 000
	Currency						
Term Loan 1	GBP	1.74-5.89%	2023	37,945	37,945	48,500	48,500
Term Loan 2	GBP	1.59-5.61%	2024	49,174	49,174	59,058	59,058
Term Loan 3	GBP	3.86%	2021	11,193	11,193	16,776	16,776
Term Loan 4	GBP	3.58%	2021	2,867	2,867	4,386	4,386
Term Loan 5	Euro	2.10%	2023	16,790	16,790	22,094	22,094
Term Loan 6	GBP	2.5%	2023	13,738	13,738	-	-
				<u>131,707</u>	<u>131,707</u>	<u>150,814</u>	<u>150,814</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

LEASES

Property, plant and equipment' comprise owned and leased assets that do not meet the definition of investment property.

	31 December 2019 £ 000	31 December 2018 £ 000
Property, plant and equipment owned	427,220	439,704
Right-of-use assets, except for investment property	58,650	62,388
	<u>485,870</u>	<u>502,092</u>

The Group leases many assets including land and buildings, vehicles, machinery and IT equipment. Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Movement in right-to-use assets in the period was as follows:

	Land and buildings £ 000	Other equipment £ 000	Ships £ 000	Total £ 000
Cost				
At 1 January 2018	4,863	23,563	54,964	83,390
Additions	1,159	2,051	-	3,210
At 31 December 2018	6,022	25,614	54,964	86,600
At 1 January 2019	6,022	25,614	54,964	86,600
Additions	1,523	13,491	7,932	22,946
Disposals	-	(2,954)	(45)	(2,999)
At 31 December 2019	7,545	36,151	62,851	106,547
Depreciation				
Charge for year	2,248	7,189	14,775	24,212
At 31 December 2018	2,248	7,189	14,775	24,212
At 1 January 2019	2,248	7,189	14,775	24,212
Charge for the year	445	8,665	17,477	26,587
Eliminated on disposal	-	(2,857)	(45)	(2,902)
At 31 December 2019	2,693	12,997	32,207	47,897
Carrying amount				
At 31 December 2019	4,852	23,154	30,644	58,650
At 31 December 2018	3,774	18,425	40,189	62,388

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

Lease liabilities

	31 December 2019 £ 000
Maturity analysis - contractual undiscounted cash flows	
Less than one year	30,591
One to five years	23,287
More than five years	<u>4,739</u>
Total undiscounted lease liabilities	<u>58,617</u>
Lease liabilities included in the statement of financial position	<u>56,989</u>
Current	30,127
Non-current	26,862

Amounts recognised in profit and loss

	31 December 2019 £ 000
Interest on lease liabilities	(1,729)
Foreign exchange revaluation losses - lease liabilities	2,812
Expenses relating to short-term leases	<u>(5,870)</u>

Amounts recognised in statement of cashflows

	31 December 2019 £ 000
Total cash outflow for leases	<u>(24,818)</u>

Other leases

The Group charts vessels with a lease terms of less than one year. In addition, the Group leases plant and equipment and buildings on rolling monthly terms or with lease terms less than one year. These are short-term leases and therefore the Group has elected not to recognise right-of-use assets and lease liabilities for these assets.

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

16 TRADE AND OTHER PAYABLES

	Group		Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	£ 000	£ 000	£ 000	£ 000
Trade payables	78,887	96,458	-	-
Amounts due to related parties	-	-	138,773	138,773
Social security and other taxes	8,378	10,372	-	-
Derivative financial instruments	6,695	1,241	-	-
Other payables	16,770	15,191	238	62
Accrued expenses	49,664	56,906	-	945
	<u>160,394</u>	<u>180,168</u>	<u>139,011</u>	<u>139,780</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

17 PENSION AND OTHER SCHEMES

DEFINED CONTRIBUTION PENSION SCHEME

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £7.4m (2018 - £6.5m).

DEFINED BENEFIT 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"), a Career Average Related Earnings (CARE) scheme, is closed to future accrual. 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, a final salary scheme, which is closed to new members, and the P&O North Sea Ferries (Netherlands) Scheme, a collective defined contribution scheme, which remains open.

The Group also participates in the Merchant Navy Officers' Pension Fund (the "MNOF Scheme") and the Merchant Navy Ratings' Pension Fund (the "MNRPF Scheme") industry wide schemes. Both of these Schemes are CARE schemes and are closed to future accrual. The MNRPF Scheme closed to future accrual in 2001 and the MNOF Scheme closed to defined benefit accrual on 31 March 2016. All participating employers, including the Group, are jointly and severally liable for the outstanding scheme deficits.

The Trustees of the MNOF and MNRPF Schemes have provided sufficient information regarding the share of the obligations to be borne by the Group's UK subsidiaries and other employers, for the directors to estimate the Group's share of the Schemes' deficit. In recognising its share of these deficits, 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 Schemes is also relevant.

The Group expects to make a total of approximately £20.8m cash contributions to its defined benefit plans in the next financial year. Agreements were reached in 2015, 2017 and 2019 with the Trustees of the MNOF, P&O Ferries UK Scheme and the MNRPF respectively regarding deficit contributions. The amount disclosed as a minimum funding liability for the MNRPF and MNOF Schemes is based on Deficit Share Notices issued by the Trustees and payments set out in the respective contribution agreements. No refunds or reductions in future contributions have been assumed in the calculation of these amounts.

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 Company is the Principal Employer of the P&O Ferries UK Scheme, but has not directly employed any members of the scheme. It has not participated in any other pension scheme during the current or prior years.

	2019	2018
	£ 000	£ 000
All schemes		
Fair value of scheme assets	1,123,111	1,113,406
Present value of scheme liabilities	<u>(1,180,231)</u>	<u>(1,179,598)</u>
	(57,120)	(66,192)
Effect of asset ceiling	<u>(112,500)</u>	<u>(117,700)</u>
Defined benefit pension scheme deficit	(169,620)	(183,892)
Dutch Jubilee provision	<u>(522)</u>	<u>(522)</u>
Total retirement benefit obligations	<u><u>(170,142)</u></u>	<u><u>(184,414)</u></u>

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

Movement in fair value of plan assets

	P&O Ferries UK Scheme £ 000	MNRPF Scheme £ 000	MNOPF Scheme £ 000	Other Schemes £ 000	Total £ 000
At 1 January 2018	195,400	404,700	522,700	56,673	1,179,473
Interest income	4,860	9,800	12,800	912	28,372
Return on plan assets, excluding amounts included in interest income/(expense)	(12,630)	(18,000)	(26,800)	(753)	(58,183)
Foreign exchange differences	-	-	-	606	606
Employer contributions	4,880	11,300	10,900	834	27,914
Contributions by scheme participants	230	-	-	75	305
Benefits paid	(7,700)	(22,900)	(28,600)	(1,295)	(60,495)
Administrative expenses paid	(380)	(3,300)	(900)	(6)	(4,586)
At 31 December 2018	<u>184,660</u>	<u>381,600</u>	<u>490,100</u>	<u>57,046</u>	<u>1,113,406</u>
At 1 January 2019	184,660	381,600	490,100	57,046	1,113,406
Interest income	5,230	10,600	13,800	977	30,607
Return on plan assets, excluding amounts included in interest income/(expense)	27,300	37,700	(56,500)	7,215	15,715
Foreign exchange differences	-	-	-	(3,135)	(3,135)
Employer contributions	1,580	9,600	10,900	709	22,789
Contributions by scheme participants	-	-	-	76	76
Benefits paid	(4,790)	(22,100)	(23,400)	(1,320)	(51,610)
Administrative expenses paid	(230)	(3,700)	(800)	(7)	(4,737)
At 31 December 2019	<u>213,750</u>	<u>413,700</u>	<u>434,100</u>	<u>61,561</u>	<u>1,123,111</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

Movement in present value of defined benefit obligation

	P&O Ferries UK Scheme £ 000	MNRPF Scheme £ 000	MNOPF Scheme £ 000	Other Schemes £ 000	Total £ 000
At 1 January 2018	218,250	457,900	516,200	57,408	1,249,758
Current service cost	730	-	-	703	1,433
Past service cost	900	6,400	2,400	-	9,700
Actuarial gains and losses arising from changes in demographic assumptions	(1,720)	(22,200)	-	(461)	(24,381)
Actuarial gains and losses arising from changes in financial assumptions	(13,590)	3,800	(21,500)	(986)	(32,276)
Actuarial gains and losses arising from experience adjustments	1,400	(300)	4,000	(183)	4,917
Foreign exchange differences	-	-	-	603	603
Interest cost	5,370	11,200	12,500	964	30,034
Benefits paid	(7,700)	(22,900)	(28,600)	(1,295)	(60,495)
Contributions by scheme participants	230	-	-	75	305
At 31 December 2018	<u>203,870</u>	<u>433,900</u>	<u>485,000</u>	<u>56,828</u>	<u>1,179,598</u>
At 1 January 2019	203,870	433,900	485,000	56,828	1,179,598
Current service cost	-	-	-	621	621
Actuarial gains and losses arising from changes in demographic assumptions	(4,240)	-	(19,400)	-	(23,640)
Actuarial gains and losses arising from changes in financial assumptions	30,750	49,900	(39,600)	7,720	48,770
Actuarial gains and losses arising from experience adjustments	290	1,200	(3,700)	(587)	(2,797)
Foreign exchange differences	-	-	-	(3,119)	(3,119)
Interest cost	5,740	12,100	13,500	992	32,332
Benefits paid	(4,790)	(22,100)	(23,400)	(1,320)	(51,610)
Contributions by scheme participants	-	-	-	76	76
At 31 December 2019	<u>231,620</u>	<u>475,000</u>	<u>412,400</u>	<u>61,211</u>	<u>1,180,231</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

P&O Ferries UK Scheme

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2019 £ 000	2018 £ 000
Fair value of scheme assets	213,750	184,660
Present value of scheme liabilities	(231,620)	(203,870)
Defined benefit pension scheme deficit	<u>(17,870)</u>	<u>(19,210)</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2019 £ 000	2018 £ 000
Equity instruments	61,902	52,443
Bonds	50,338	45,353
Other	<u>101,510</u>	<u>86,864</u>
	<u>213,750</u>	<u>184,660</u>

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

Actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2019 %	2018 %
Discount rate	1.95	2.85
Revaluation of benefits in service	-	3.00
Future pension increases - deferment	2.90	3.10
Future pension increases - payment	2.80	3.00
Inflation	<u>3.25</u>	<u>3.55</u>

The assumptions relating to longevity underlying the pension liabilities at the statement of financial position date are based on SAPS tables with a -1 age rating and future improvements in line with CMI 2017 projections with a long term improvement rate of 1.5%.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions:

	2019	2018
	- 0.1%	- 0.1%
Adjustment to discount rate	£ 000	£ 000
Present value of total obligation	4,700	4,100
	2019	2018
	+ 0.1%	+ 0.1%
Adjustment to rate of inflation	£ 000	£ 000
Present value of total obligation	3,200	2,800
	2019	2018
	+ 0.25%	+ 0.25%
Adjustment to mortality age rating assumption	£ 000	£ 000
Present value of total obligation	2,300	2,000

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 1 April 2017 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Contributions payable to the pension scheme at the end of the year are £Nil (2018 - £Nil).

The expected contributions to the plan for the next reporting period are £1.2m.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 15 years (2018: 16 years).

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

MNRPF Scheme

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2019 £ 000	2018 £ 000
Fair value of scheme assets	413,700	381,600
Present value of scheme liabilities	(475,000)	(433,900)
	(61,300)	(52,300)
Effect of asset ceiling	(78,700)	(90,200)
Defined benefit pension scheme deficit	(140,000)	(142,500)

Analysis of assets

The major categories of scheme assets are as follows:

	2019 £ 000	2018 £ 000
Equity instruments	47,100	48,700
Bonds	366,600	332,900
	413,700	381,600

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

Effect of asset ceiling

A reconciliation of the effect of the asset ceiling is as follows:

	2019 £ 000	2018 £ 000
Opening balance	(90,200)	(58,800)
Interest cost	(2,500)	(1,500)
Changes in asset ceiling, excluding amounts included in interest	14,000	(29,900)
Closing balance	(78,700)	(90,200)

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2019 %	2018 %
Discount rate	1.95	2.85
Revaluation of benefits in service	-	4.55
Future pension increases - deferment	2.25	2.55
Future pension increases - payment	3.15	3.45
Inflation	3.25	3.55

The assumptions relating to longevity underlying the pension liabilities at the statement of financial position date are based on 99% of SAPS tables with adjustments to reflect historical scheme experience. The future improvements are in line with CMI 2017 projections with a long term improvement rate of 1.50% p.a.

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions:

	2019 - 0.1% £ 000	2018 - 0.1% £ 000
Adjustment to discount rate		
Present value of total obligation	6,600	6,300
	2019 + 0.1% £ 000	2018 + 0.1% £ 000
Adjustment to rate of inflation		
Present value of total obligation	2,200	2,100
	2019 + 1 Year £ 000	2018 + 0.25% £ 000
Adjustment to mortality age rating assumption		
Present value of total obligation	4,400	3,600

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 1 April 2017 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Contributions payable to the pension scheme at the end of the year are £Nil (2018 - £Nil).

The expected contributions to the plan for the next reporting period are £8m.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 15 years (2018: 16 years).

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

MNOPF Scheme

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2019 £ 000	2018 £ 000
Fair value of scheme assets	434,100	490,100
Present value of scheme liabilities	(412,400)	(485,000)
	21,700	5,100
Effect of asset ceiling	(33,800)	(27,500)
Defined benefit pension scheme deficit	(12,100)	(22,400)

Analysis of assets

The major categories of scheme assets are as follows:

	2019 £ 000	2018 £ 000
Equity instruments	129,800	173,300
Bonds	304,300	244,600
Other	-	72,200
	434,100	490,100

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

Effect of asset ceiling

A reconciliation of the effect of the asset ceiling is as follows:

	2019 £ 000	2018 £ 000
Opening balance	(27,500)	(39,200)
Interest cost	(800)	(1,000)
Changes in asset ceiling, excluding amounts included in interest	(5,500)	12,700
Closing balance	(33,800)	(27,500)

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2019 %	2018 %
Discount rate	1.95	2.85
Revaluation of benefits in service	-	4.05
Future pension increases - deferment	2.25	2.55
Future pension increases - payment	3.15	3.45
Inflation	<u>3.25</u>	<u>3.55</u>

The assumptions relating to longevity underlying the pension liabilities at the statement of financial position date are based on 112.5% of SAPS tables with adjustments to reflect historical scheme experience. The future improvements are in line with CMI 2017 projections with a long term improvement rate of 1.80% p.a.

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions:

	2019 - 0.1%	2018 - 0.1%
Adjustment to discount rate	£ 000	£ 000
Present value of total obligation	<u>5,400</u>	<u>5,700</u>
	2019 + 0.1%	2018 + 0.1%
Adjustment to rate of inflation	£ 000	£ 000
Present value of total obligation	<u>1,400</u>	<u>2,300</u>
	2019 + 1 Year	2018 + 0.25%
Adjustment to mortality age rating assumption	£ 000	£ 000
Present value of total obligation	<u>2,900</u>	<u>2,500</u>

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 March 2015 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Contributions payable to the pension scheme at the end of the year are £Nil (2018 - £Nil).

The expected contributions to the plan for the next reporting period are £11m.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 15 years (2018: 16 years).

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Other Schemes

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2019 £ 000	2018 £ 000
Fair value of scheme assets	61,561	57,046
Present value of scheme liabilities	(61,211)	(56,828)
Defined benefit pension scheme surplus	350	218

Analysis of assets

The major categories of scheme assets are as follows:

	2019 £ 000	2018 £ 000
Equity instruments	5,336	4,883
Bonds	53,108	49,311
Other	3,117	2,852
	61,561	57,046

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

Actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2019 %	2018 %
Discount rate	.97	1.80
Future salary increases	-	2.24
Future pension increases - deferment	0.47	0.52
Future pension increases - payment	0.23	0.26
Inflation	1.92	1.97

The assumptions relating to longevity underlying the pension liabilities at the statement of financial position date are based on standard actual mortality tables and include an allowance for future improvements in longevity.

Contributions payable to the other pension schemes at the end of the year are £Nil (2018 - £Nil).

The expected contributions to the other plans for the next reporting period are £0.4m.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 15 years (2018: 16 years).

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18 OTHER PROVISIONS

GROUP

	Reorganisation & Restructuring £ 000	Other provisions £ 000	Total £ 000
At 1 January 2019	802	19,482	20,284
Additional provisions	521	-	521
Increase in existing provisions	200	1,023	1,223
Provisions used	(506)	(1,716)	(2,222)
Unused provision reversed	(252)	-	(252)
At 31 December 2019	<u>765</u>	<u>18,789</u>	<u>19,554</u>
Current liabilities	<u>765</u>	<u>18,789</u>	<u>19,554</u>

Reorganisation and Restructuring provisions at 31 December 2019 of £0.8m includes provisions for legal and other costs of expected restructuring programmes.

Other provisions at 31 December 2019 of £18.8m includes £12m in relation to a longstanding dispute with a port authority, and £6.2m in relation to an ongoing employment tribunal claim. The remainder of other provisions are in relation to immaterial one off provisions.

19 SHARE CAPITAL

ALLOTTED, CALLED UP AND FULLY PAID SHARES

	No. 000	2019 £ 000	No. 000	2018 £ 000
Ordinary of £1 each	<u>428,542</u>	<u>428,542</u>	<u>428,542</u>	<u>428,542</u>

100% of share capital is owned and controlled by the Group's ultimate controlling party, Port and Free Zone World FZE.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

20 RESERVES

GROUP

Foreign currency translation reserve

The translation reserve comprises all foreign exchange impacts on consolidation of foreign denominated subsidiaries. In addition, this reserve comprises all foreign exchange differences arising on pension obligations since 1 January 2014, the transition date to Adopted IFRSs.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Actuarial reserve

The actuarial reserve comprises all actuarial movements regarding the Group's pension obligations.

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

	Foreign currency translation £ 000	Cash flow hedging reserve £ 000	Other reserves £ 000	Total £ 000
(Loss)/gain on cash flow hedges (net)	-	(5,454)	-	(5,454)
Foreign currency translation (losses)/gains	(553)	-	-	(553)
Remeasurements of post employment benefit obligations	-	-	1,851	1,851
	<u>(553)</u>	<u>(5,454)</u>	<u>1,851</u>	<u>(4,156)</u>

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

	Foreign currency translation £ 000	Cash flow hedging reserve £ 000	Other reserves £ 000	Total £ 000
(Loss)/gain on cash flow hedges (net)	-	1,360	-	1,360
Foreign currency translation (losses)/gains	108	-	-	108
Remeasurements of post employment benefit obligations	-	-	(23,784)	(23,784)
	<u>108</u>	<u>1,360</u>	<u>(23,784)</u>	<u>(22,316)</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

COMPANY

Share capital

Ordinary share capital issued by the Company.

Share premium

Share premium comprises the excess paid for share capital above the nominal value.

There were no changes in equity resulting from items of other comprehensive income for the current year.

21 COMMITMENTS

CAPITAL COMMITMENTS

On 23 September 2019 the Group signed a contract to purchase two new build vessels for a consideration of €261m. One installment for each vessel was paid in the year.

The total amount contracted for but not provided in the financial statements was £217m (2018 - £Nil).

OTHER FINANCIAL COMMITMENTS

The total amount of other financial commitments not provided in the financial statements was £136m (2018 - £153m).

22 FAIR VALUE MEASUREMENT

The following table presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 31 December 2019 and 31 December 2018:

	2019		2018	
	Book Value £ 000	Fair Value £ 000	Book Value £ 000	Fair Value £ 000
Trade and other receivables	140,426	140,426	170,986	170,986
Trade and other payables	(153,699)	(153,699)	(178,927)	(178,927)
Secured bank loans	(131,707)	(131,707)	(150,814)	(150,814)
Leases	(56,989)	(56,989)	(75,686)	(75,686)
Cash and cash equivalents	69,981	69,981	97,235	97,235
Derivative financial instruments				
Interest rate swaps	(6,695)	(6,695)	(1,241)	(1,241)
	<u>(138,683)</u>	<u>(138,683)</u>	<u>(138,447)</u>	<u>(138,447)</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Valuation methods

The fair value of trade and other receivables, trade and other payables, and cash and cash equivalents approximates to the book value due to the short term maturity of these instruments.

Secured bank loans and finance lease liabilities are largely at variable interest rates and therefore the book value materially equates to fair value.

The fair value of derivative instruments is based on cashflows discounted to the net present value using prevailing market rates and foreign currency at the reporting date.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Fair value hierarchy

The table below analyses financial instruments carried at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value. The difference techniques are defined below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
2019				
Derivative financial liabilities	-	(6,695)	-	(6,695)
	<u>-</u>	<u>(6,695)</u>	<u>-</u>	<u>(6,695)</u>
2018				
Derivative financial liabilities	-	(1,241)	-	(1,241)
	<u>-</u>	<u>(1,241)</u>	<u>-</u>	<u>(1,241)</u>

23 FINANCIAL INSTRUMENTS

GROUP

Credit Risk

Exposure to credit risk

The maximum exposure to credit risk at the reporting date by class of financial instrument was:

	2019 £ 000	2018 £ 000
Trade receivables	116,423	144,415
Other receivables	24,003	26,571
Cash and cash equivalents	69,981	97,235
	<u>210,407</u>	<u>268,221</u>

The concentration of credit risk for trade receivables at the reporting date by geographic region was:

	2019 £ 000	2018 £ 000
Continental Europe and United Kingdom	<u>116,423</u>	<u>144,415</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Credit quality of financial assets and impairment losses

The aging of trade receivables at the statement of financial position date was:

	Gross 2019 £ 000	Impairment 2019 £ 000	Gross 2018 £ 000	Impairment 2018 £ 000
Not past due	109,141	(4,576)	129,901	(5,551)
7 to 30 days	12,300	(1,231)	20,647	(1,262)
31 to 60 days	1,492	(69)	1,379	(66)
61 to 90 days	223	(12)	442	(26)
91 to 120 days	87	(74)	66	(65)
3 to 6 months	559	(1,417)	472	(1,522)
	<u>123,802</u>	<u>(7,379)</u>	<u>152,907</u>	<u>(8,492)</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2019 £ 000	2018 £ 000
At start of period	(8,492)	(8,969)
Additional impairment for credit losses	(2,132)	(504)
Reversal of impairment for credit losses	2,965	696
Other movement	280	285
At end of year	<u>(7,379)</u>	<u>(8,492)</u>

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

Liquidity Risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount £ 000	Contractual cashflows £ 000	Within 1 year £ 000	1 to 2 years £ 000	2 to 5 years £ 000
2019					
Trade and other payables	(153,699)	(153,699)	(153,699)	-	-
Secured bank loans	(131,707)	(142,665)	(37,548)	(51,351)	(53,766)
Finance lease liabilities	(56,989)	(58,617)	(30,591)	(23,287)	(4,739)
Derivative financial instruments	<u>(6,695)</u>	<u>(6,695)</u>	<u>(6,695)</u>	<u>-</u>	<u>-</u>
	<u>(349,090)</u>	<u>(361,676)</u>	<u>(228,533)</u>	<u>(74,638)</u>	<u>(58,505)</u>

	Carrying amount £ 000	Contractual cashflows £ 000	Within 1 year £ 000	1 to 2 years £ 000	2 to 5 years £ 000	More than 5 years £ 000
2018						
Trade and other payables	(178,927)	(178,927)	(178,927)	-	-	-
Secured bank loans	(150,814)	(162,133)	(36,672)	(36,623)	(83,000)	(5,838)
Finance lease liabilities	(75,686)	(80,061)	(27,947)	(24,399)	(26,364)	(1,351)
Derivative financial instruments	<u>(1,241)</u>	<u>(1,241)</u>	<u>(1,241)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(406,668)</u>	<u>(422,362)</u>	<u>(244,787)</u>	<u>(61,022)</u>	<u>(109,364)</u>	<u>(7,189)</u>

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Market Risk

Market risk - Foreign currency risk

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts:

	Sterling	Euro	US Dollar	Others	Total
2019	£ 000	£ 000	£ 000	£ 000	£ 000
Cash and cash equivalents	39,998	29,414	569	-	69,981
Trade receivables	68,790	47,416	15	202	116,423
Other receivables	9,004	13,415	900	684	24,003
Secured bank loans	(114,917)	(16,790)	-	-	(131,707)
Leases	(655)	(56,334)	-	-	(56,989)
Trade payables	(17,041)	(61,176)	(362)	(308)	(78,887)
Other payables	(60,669)	(12,228)	(991)	(924)	(74,812)
	<u>(75,490)</u>	<u>(56,283)</u>	<u>131</u>	<u>(346)</u>	<u>(131,988)</u>
2018	£ 000	£ 000	£ 000	£ 000	£ 000
Cash and cash equivalents	70,494	26,700	41	-	97,235
Trade receivables	56,764	86,080	1,560	11	144,415
Other receivables	15,775	9,348	517	931	26,571
Secured bank loans	(128,721)	(22,093)	-	-	(150,814)
Leases	(4,918)	(70,768)	-	-	(75,686)
Trade payables	(2,171)	(93,805)	(354)	(128)	(96,458)
Other payables	(72,295)	(7,489)	(1,978)	(707)	(82,469)
	<u>(65,072)</u>	<u>(72,027)</u>	<u>(214)</u>	<u>107</u>	<u>(137,206)</u>

Sensitivity analysis

A 10 percent weakening of the following currencies against the pound sterling at 31 December 2019 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant and there is no change in customers behaviour following the currency movement. The analysis is performed on the same basis for 31 December 2018.

	2019	Equity	2019	Profit or loss
	£ 000	2018	£ 000	2018
		£ 000		£ 000
Euro	(6,017)	7,314	(6,017)	7,314
US Dollar	16	25	16	25

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

A ten percent strengthening of the above currencies against the pound sterling at 31 December 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Market risk – Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2019 £ 000	2018 £ 000
Fixed Rate instruments		
Financial assets	-	-
Financial liabilities	(85,078)	(118,706)
	<u>(85,078)</u>	<u>(118,706)</u>
Variable Rate instruments		
Financial assets	69,981	97,235
Financial liabilities	(46,629)	(44,682)
	<u>23,352</u>	<u>52,553</u>

The Group has hedged its exposure to variable interest rates by entering into fixed interest rate swaps for a notional amount equivalent to £130m (2018: £130m).

Sensitivity analysis

A change of 100 basis points in interest rates at the statement of financial position date would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for the year ended 31 December 2018.

	2019 £ 000	2018 £ 000
Equity		
Increase	506	225
Decrease	463	(16)
Profit or loss		
Increase	506	225
Decrease	463	(16)

During 2019, the group entered into fuel commodity swaps for over 203 thousand metric tonnes of fuel as part of the hedging strategy.

Currency forward contracts to the value of over \$109m were taken out for the related fuel payments.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

24 RELATED PARTY TRANSACTIONS

Transactions with key management personnel

Key management personnel of the Group are considered to be the Directors and the executive management team of the Group. Key management personnel remuneration including social security was £3.4m (2018 - £2.5m) and contributions to post-employment benefits £0.1m (2018 - £0.1m).

Summary of transactions with other related parties

Melior BVBA - Directorship services
Unifeeder A/S - Charter hire

INCOME AND RECEIVABLES FROM RELATED PARTIES

	Other related parties £ 000
2019	
Leases	78

EXPENDITURE WITH AND PAYABLES TO RELATED PARTIES

	Other related parties £ 000
2019	
Rendering of services	258
Leases	257
Amounts payable to related party	21

25 PARENT AND ULTIMATE PARENT UNDERTAKING

The Company's immediate parent is Dubai Ferries Holdings FZE, a company incorporated in Dubai.

The ultimate controlling party is Port and Free Zone World FZE, a company incorporated in Dubai.

The ultimate parent undertaking is Dubai World Corporation, a company incorporated in Dubai. This is the largest group of companies for which consolidated financial statements are prepared in which P&O Ferries Division Holdings Limited is consolidated. These financial statements are not publicly filed.

26 NON ADJUSTING EVENTS AFTER THE FINANCIAL PERIOD

During the month of December 2019 the Covid 19 virus began to spread across the globe with cases in the UK and EU reaching the thousands by March 2020. This unprecedented situation has caused a worldwide economic and public health crisis.

Trading conditions were adversely affected from March 2020 when travel restrictions, Government enforced lockdowns, quarantines and the closure of schools and businesses occurred. The full extent that the crisis will have on trading is uncertain but is expected to be material.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

27 REGISTERED OFFICES OF SUBSIDIARY UNDERTAKINGS

The registered addresses of the Company's subsidiary undertakings are:

- Channel House, Channel View Road, Dover, Kent, CT17 9TJ
 - P&O Ferries Holdings Limited
 - P&O Ferries Limited
 - P&O Short Sea Ferries Limited
 - P&O Ferries Ship Management Limited
 - P&O European Ferries (Portsmouth) Limited
 - P&O European Ferries (Irish Sea) Limited
 - P&O North Sea Ferries Limited
 - P&O Ferries Thames Limited
 - P&O Ferries *Pride of Hull* Limited
 - P&O Offshore Energy Limited
 - Norbay (UK) Limited
 - Port of Cairnryan Limited
 - P&O Ferries (Short Sea) Limited
 - P&O Ferries Port Services Limited
 - P&O Ship Management (Irish Sea) Limited
 - P&O Ferries Division Pension Trustees Limited
- Wherstead Park, Wherstead, Ipswich, Suffolk, IP9 2WG
 - P&O Ferrymasters Holdings Limited
 - Pandoro Limited
- Panteli Katelari 16, Diagoras House 7th Floor, 1097 Nicosia, Cyprus
 - P&O Ferries Cyprus Limited
- 9 Olderfleet Road, Larne, BT40 1AS
 - Larne Harbour Limited
- 2a Redlands Crescent, Port of Larne Business Park, Redlands Crescent, Larne, Co Antrim, BT40 1FF
 - P&O Ferrymasters Limited
- PO Box 437, 1st Floor Kensington Chambers, 46/50 Kensington Place, St Helier, Jersey, JE4 0ZE
 - P&O Ship Management Holdings (Jersey) Limited
 - P&O Ferries (Jersey) Limited
 - P&O (Jersey) Limited
 - P&O Irish Sea (Jersey) Limited
 - P&O North Sea (Jersey) Limited
 - P&O European Ferries (Jersey) Limited
 - P&O Ship Management (Jersey) Limited

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

- Terminal Est, 62100 Calais, France
P&O Ferries France SAS
SNC Gris-Nez Bail
SNC White Cliffs Bail
- Luxemburgweg 2, Beneluxhaven, Havennummer 5805, Europoort, Rotterdam, 3198LG, Netherlands
P&O North Sea Ferries B.V.
P&O Ferries Pride of Rotterdam B.V.
- Leopold II Dam 13, Havendam, 8380 Zeebrugge, Belgium
North Sea Ferries (Belgium) NV
P&O Ferrymasters NV
- Cosme Echevarrieta 1, 48009 Bilbao, Spain
P&O European Ferries (Vizcaya) SA
- Higgs & Johnson, 83 Shirley Street, Sandringham House, Nassau, New Providence, The Bahamas, N-3247
P&O European Ferries (Bahamas) Limited
- Via Caviglia 11, 1-20139 Milan, Italy
P&O Ferrymasters SRL
- Avinguda dels Vents, 9-13, Esc. A, 4o 4a, Edificio Blurbis, 08917 Badalona (Barcelona), Spain
P&O Ferrymasters SA
- Jander Strasse 9, High Tech Park, 68199 Mannheim, Germany
P&O Ferrymasters GMBH
- Bocskai ut 134 - 146, Building C2, 1113 Budapest, Hungary
P&O Ferrymasters KFT
- Iuliu Maniu Avenue nr 7, 5th floor, room B, unit U, Sector 6, 061102 Bucharest, Romania
P&O Ferrymasters SRL
- ul. Lwowska 34, 41 - 500 Chorzow, Poland
P&O Ferrymasters ZOO
- 5 Dimitrova Street, Building 2, 03680 Kiev, Ukraine
P&O Ferrymasters LLC
- Smol'naya ulitsa 24A, 125445 Moscow, Russia
P&O Ferrymasters LLC

P&O FERRIES DIVISION HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2019**

- Barbaros mah. Çiğdem sok. No:1 Kat:8, Ataşehir - İstanbul, Turkey
PO Ferrymasters Taşımacılık Lojistik ve Ticaret Anonim Şirketi, Turkey