

P&O Ferrymasters Limited

Annual report and
financial statements
Registered number NI4115
31 December 2014

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Proposed dividend and transfer from reserves

The directors do not recommend the payment of a dividend in the year (2013: *£nil*). Movements on reserves are shown in note 18.

Significant changes in fixed assets

Details of fixed asset movements during the year are shown in note 10 of the financial statements.

Branches

P&O Ferrymasters Limited has branches in the Netherlands and the Republic of Ireland.

Directors and directors' interests

The directors who held office during the year and up to the date of signing the financial statements were as follows:

H Deeble	
B Belder	Managing Director / Company Secretary
W Blomme	
HH Braam	
CN Cassidy	
SK Walters	(resigned 1 st January 2014)
ME Mulder	(appointed 1 st January 2014)

Employees

The company recognises the need to keep employees informed and encourages identification with their employer. Employees are kept informed by regular updates on the company intranet.

Internal training courses have been developed and induction training allows new employees to become familiar with the structure of the company and its procedures shortly after taking up employment with the company.

Briefings and notices are issued on a regular basis to employees enabling them to understand their role in the organisation more clearly. The organisation encourages employees' personal development through a regular appraisal process. Where training needs are highlighted the organisation endeavours to address these needs and readily encourages promotional prospects.

Contacts are maintained with Disablement Resettlement Offices with a view to ensuring full and fair consideration of any disabled applicant for employment. The company endeavours to retain any existing employee who may become disabled, providing specialised training where appropriate. If modified or additional facilities are needed for a disabled employee, all reasonable steps are taken to provide them.

Environment

P&O Ferrymasters is fully committed to working with our customers on a reliable, efficient, secure supply chain and achieving low-carbon economic sustainability by using innovative, sustainable and integrated supply solutions. This not only recognises the importance of the environment to our customers' long term development, but also further progresses and enhances our own commitment. This is in the best interests of our customers, our people and our stakeholders.

Directors' report *(continued)*

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amount to £6,175 (2013: £873).

Credit payment policy

The company's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed. Where payment terms have not been specifically agreed, then invoices dated in one calendar month are paid close to the end of the following month. This policy is clearly communicated and understood by suppliers. The company has procedures for dealing promptly with complaints and disputes. This policy is a combination of the CBI Best Code of Practice and terms agreed with suppliers. The company had 53 days' purchases outstanding at 31 December 2014 (2013: 52 days).

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Appointment of Auditor

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

By order of the board



CN Cassidy
Director

18 June 2015

2a Redlands Crescent
Port of Larne Business Park
Redlands Crescent
Larne
Co Antrim
BT40 1FF

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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

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

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

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

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

Strategic report

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Principal activities

The company is involved in international road and rail transport and freight management solutions within Europe.

Review of the business and future developments

P&O Ferrymasters experienced another challenging year for trading. Although there were some indications of economic recovery, the European market remained difficult during the year.

The company remained price competitive in order to retain and grow existing business despite excess market supply and underlying seafreight and fuel costs increases. Total volumes increased by 0.7% in comparison to the previous year but despite this increase in volumes, the weakening of the Euro and further pressure on rates caused the year on year revenue to fall by 5.8%. This resulted in a reduction in gross profit from £28.1m to £25.7m with a fall in the gross margin from 6.9% to 6.7%.

The business continued to adopt the necessary steps to streamline processes by investing in IT based systems, which will ultimately improve the quality of the service as well as lead to an optimised overhead cost base.

In the current year the trading operating loss was £0.6 million (2013: *operating profit of £0.2 million*); this was before an exceptional cost of £0.8million (2013: *exceptional credit of £0.3 million*). Accordingly the overall operating loss was £1.4million (2013: *operating profit of £0.5 million*).

Future objectives include: further expansion and development of the freight management concept within existing and new sectors; expansion of the intermodal activity encompassing the European rail network; overall geographical expansion, particularly to Eastern Europe and further capital investment.

Principal risks and uncertainties

The directors consider that the principal risks and uncertainties faced by the company as a trading entity were in the following categories:

Economic risk

- The risk of interest rates and/or inflation having an adverse impact on served markets.
- The risk of increased unrealistic increases in wages or infrastructural cost impacting adversely on competitiveness of the group and its principal customers.
- The risk of adverse exchange movements.
- The risk of bad debts as a result of the current adverse economic climate.
- The risk of political unrest leading to economic downturn.
- The risk of cashflow pressure due to extended customer payment terms.
- The risk of unrecoverable cost increases due to changing legislation.

These risks are managed by innovative product sourcing and strict control costs.

Competition risk

The directors of the company and subsidiaries manage competition risk through close attention to customer service levels and product innovation.

Financial risk

The company has budgetary and financial reporting procedures, supported by appropriate key performance indicators, to manage credit, liquidity and other financial risk.

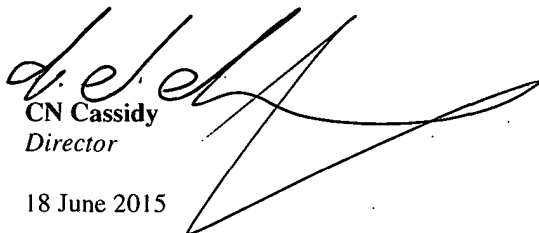
Strategic report *(continued)*

Key performance indicators

Key performance indicators used by management include divisional volume analysis. Total volumes increased by 3,802 loads in the year to 518,312 (2013: 514,510).

The organisation also monitors other factors such as Human resources, Service quality and Health and Safety.

By order of the board


CN Cassidy
Director
18 June 2015

2a Redlands Crescent
Port of Larne Business Park
Redlands Crescent
Larne
Co Antrim
BT40 1FF



KPMG LLP

6 Lower Brook Street
Ipswich
IP4 1AP
United Kingdom

Independent auditor's report to the members of P&O Ferrymasters Limited

We have audited the financial statements of P&O Ferrymasters Limited for the year ended 31 December 2014 set out on pages 9 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss for the year then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of P&O Ferrymasters Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

S Beavis

Stephanie Beavis (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
6 Lower Brook Street
Ipswich
IP4 1AP

18 June 2015

Profit and loss account
for the year ended 31 December 2014

	<i>Note</i>	2014 £000	2013 £000
Turnover	2	386,855	410,468
Cost of sales		(361,128)	(382,342)
Gross profit		25,727	28,126
Administrative expenses (including exceptional costs of £760,000 (2013: exceptional credit of £320,000))	3	(27,092)	(27,631)
Operating (loss)/profit		(1,365)	495
Other interest receivable and similar income	6	226	167
Interest payable and similar charges	7	(1,542)	(499)
(Loss)/profit on ordinary activities before taxation		(2,681)	163
Tax on (loss)/profit on ordinary activities	8	1,092	(31)
(Loss)/profit for the financial year	18	(1,589)	132

A statement of movements in shareholders' funds is given in note 18.

Turnover and operating profit entirely relate to continuing activities as defined by FRS 3.


The accounts are prepared on an unmodified historical basis, and therefore the profit reported is based on historical cost.

The notes on pages 12 to 31 form part of these financial statements.

Balance sheet
at 31 December 2014

	Note	2014 £000	2013 £000
Fixed assets			
Intangible assets	9	378	486
Tangible assets	10	2,832	3,271
Investments	11	814	8
		4,024	3,765
Current assets			
Stocks	12	126	252
Debtors	13	47,509	46,536
Cash at bank and in hand		35,880	41,132
		83,515	87,920
Creditors: amounts falling due within one year	14	(77,496)	(79,711)
Net current assets		6,019	8,209
Total assets less current liabilities		10,043	11,974
Creditors: amounts falling due after more than one year excluding pension liability	15	(5,252)	(5,245)
Net assets before pension liabilities		4,791	6,729
Pension liability	20	(4,087)	(2,846)
Net assets		704	3,883
Capital and reserves			
Called up share capital	17	46,830	46,830
Profit and loss account	18	(46,126)	(42,947)
Shareholders' funds		704	3,883

These financial statements were approved by the board of directors on 18 June 2015 and were signed on its behalf by:


CN Cassidy
Director

Company registered number: NI4115

The notes on pages 12 to 31 form part of these financial statements.

Statement of total recognised gains and losses
for the year ended 31 December 2014

	2014 £000	2013 £000
(Loss)/profit for financial year	(1,589)	132
Actuarial (loss)/gain on pension scheme (note 20)	(1,987)	1,473
Deferred tax arising on (loss)/gain on pension scheme	397	(295)
Effect of changes in rates of taxation	-	(175)
	<hr/>	<hr/>
Total recognised gains and losses relating to financial year	(3,179)	1,135
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 5. The company has access to funds provided by P&O Ferries Division Holdings Limited, a parent company. The directors, having assessed the responses of the directors of P&O Ferries Division Holdings Limited to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of P&O Ferrymasters Limited to continue as a going concern. On the basis of their assessment of the company's financial position and of the enquiries made of the directors of P&O Ferries Division Holdings Limited, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Cash flow statement

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Goodwill

Goodwill acquired is included within intangible fixed assets and is stated at cost less accumulated amortisation. Amortisation is calculated to write off goodwill on a straight-line basis over its expected useful life, normally 20 years. This is subject to annual impairment reviews and adjusted as necessary.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Owned and leased plant and machinery	-	2 to 12 years
Fixtures, fittings, tools and equipment	-	4 to 10 years
Leasehold improvements	-	Over the term of the lease

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Leases

All leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease. The company has no finance leases.

Stocks

Stock consists of consumables and are valued on a FIFO basis at the lower of cost and net realisable value.

Notes (continued)

1 Accounting policies (continued)

Foreign exchange

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Taxation

The charge for taxation is based on the profit for the year. Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accountancy purposes which have arisen but not reversed by the balance sheet date, except to the extent the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse based on the tax rates enacted or substantially enacted at the balance sheet date.

Turnover

Turnover represents the amounts (excluding value added tax) derived from transport revenue to customers during the year. Turnover is recognised at the point of delivery of the load.

Post retirement benefits

The company participates in four funded defined benefit pension schemes. The principal scheme, the P&O Pension Scheme (the "P&O UK Scheme"), was closed to new routine members on 1 January 2002. The assets of the scheme are managed on behalf of the trustee by independent fund managers. The company also participates in the Merchant Navy Officers' Pension Fund (the "MNOPF Scheme"), an industry wide scheme, the Merchant Navy Ratings Pension Fund (the "MNRPF Scheme") and the P&O Irish Pension Scheme. The company also makes contributions to various industry schemes which have assets in separate administered funds. The latest valuation of the P&O UK Scheme, the MNOPF scheme, the MNRPF Scheme and the P&O Irish Pension Scheme have been updated to 31 December 2014 by qualified independent actuaries.

The company's net obligation is calculated by estimating the amount of future benefit that employees have in return for their service in the current and prior periods. The benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. The discount rate is the yield at the balance sheet date on AA credit rated bonds or local equivalent that have maturity dates approximating to the terms of the company's obligations.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Actuarial gains and losses that arise in calculating the company's obligation in respect of the plan are recognised in the period in which they arise directly in the statement of recognised income and expenses. The operating and financing costs of the defined benefit pension plan are recognised separately in the income statement; current service costs are spread systematically over the expected average remaining service lives of employees and financing costs are recognised in the periods within which they arise.

The Company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Notes (continued)

1 Accounting policies (continued)

Related party transactions

As the company is a wholly owned subsidiary of P&O Ferries Division Holdings Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group. The consolidated financial statements of P&O Ferries Division Holdings Limited within which this company is included can be obtained from the address given in note 22.

2 Analysis of turnover

The turnover and profit before tax of the company is derived primarily from transport activities.

Turnover can be analysed, by geographical market, as follows:

	2014 £000	2013 £000
United Kingdom	118,142	122,436
Continental Europe	268,713	288,032
	<u>386,855</u>	<u>410,468</u>

3 (Loss)/profit on ordinary activities before taxation

	2014 £000	2013 £000
<i>(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditor's remuneration:		
Audit of these financial statements	76	76
Depreciation and other amount written off tangible fixed assets:		
Owned	1,034	972
Amortisation of goodwill	78	82
Foreign exchange gains	(685)	(153)
Rentals payable under operating leases:		
Hire of plant and machinery	5,394	6,567
Land and buildings	582	615
Profit on disposal of fixed assets	8	23
	<u> </u>	<u> </u>

Administrative expenses include exceptional costs of £760,000 (2013: £304,000) in respect of restructuring costs incurred during the financial year, and an exceptional credit of £nil (2013: £624,000) in respect of curtailments on the pension scheme (see note 20).

Notes (continued)

4 Remuneration of directors

	2014 £000	2013 £000
Directors' emoluments:		
Remuneration as executives	802	919

The emoluments, excluding pension contributions, of the highest paid director were £223,251 (2013: £198,419).
Accrued pension at the year-end was £nil (2013: £nil).

The aggregate amount of pension contributions paid on behalf of the directors was £93,469 (2013: £106,896).
Total pension contributions paid on behalf of the highest paid director were £36,964 (2013: £29,877). There
are no directors to whom retirement benefits are accruing under the P&O defined benefit pension scheme
(2013: none).

5 Staff numbers and costs

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

	2014 No.	2013 No.
Maintenance and repair	2	2
Administrative and supervisory	359	381
	<u>361</u>	<u>383</u>

The aggregate payroll costs of these persons were as follows:

	2014 £000	2013 £000
Wages and salaries	11,975	12,149
Social security costs	1,394	1,384
Other pension costs	731	713
	<u>14,100</u>	<u>14,246</u>

6 Other interest receivable and similar income

	2014 £000	2013 £000
Bank interest	6	15
Net finance income on pension liabilities	220	152
	<u>226</u>	<u>167</u>

Notes (continued)

7 Interest payable and similar charges

	2014 £000	2013 £000
Bank interest	543	475
Foreign exchange movement	999	24
	<u>1,542</u>	<u>499</u>

8 Taxation

Analysis of (credit)/charge in the year

	2014 £000	2013 £000	2013 £000
<i>UK corporation tax</i>			
Group relief in respect of prior years	(1,148)	-	-
	<u>(1,148)</u>		
<i>Foreign tax</i>			
Adjustments in respect of prior years	-	(144)	-
	<u>-</u>	<u>(144)</u>	
Total current tax		(1,148)	(144)
<i>Deferred tax (see note 16)</i>			
Origination of timing differences	56	139	
Effect of changes in tax rates	-	36	
	<u>56</u>	<u>175</u>	
Tax on profit on ordinary activities		<u>(1,092)</u>	<u>31</u>

Notes (continued)

8 Taxation (continued)

Factors affecting the tax credit for the current year

The current tax credit for the year is higher (2013: lower) than the standard rate of corporation tax in the UK, 21.5% (2013: 23.25%). The differences are explained below:

	2014 £000	2013 £000
<i>Current tax reconciliation</i>		
(Loss)/profit on ordinary activities before tax	(2,681)	163
	<hr/>	<hr/>
Current tax at 21.5% (2013: 23.25%)	(576)	38
<i>Effects of:</i>		
Expenses not deductible for tax purposes	25	5
Pension contributions adjustment	(183)	(282)
Accelerated capital allowances	76	65
Other short term timing differences	-	16
Increase in losses carried forward	658	158
Group relief in respect of prior years	(1,148)	(144)
	<hr/>	<hr/>
Total current tax credit (see above)	(1,148)	(144)
	<hr/>	<hr/>

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and to 20% (effective 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes (continued)

9 Intangible assets

Goodwill	2014
	£000
<i>Cost</i>	
At beginning of year	1,657
Foreign exchange	(107)
	<hr/>
At end of year	1,550
	<hr/>
<i>Amortisation</i>	
At beginning of year	1,171
Charge for the year	(78)
Foreign exchange	79
	<hr/>
At end of year	1,172
	<hr/>
<i>Net book value</i>	
At 31 December 2014	378
	<hr/>
At 31 December 2013	486
	<hr/>

Notes (continued)

10 Tangible assets

	Leasehold improvements	Plant machinery owned	Fixtures, fittings, tools and equipment	Total
	£000	£000	£000	£000
Cost				
At beginning of year	1,978	4,773	4,675	11,426
Additions	34	13	640	687
Disposals	-	(585)	(129)	(714)
At end of year	2,012	4,201	5,186	11,399
Depreciation				
At beginning of year	1,589	3,440	3,126	8,155
Charge for the year	110	411	513	1,034
Disposals	-	(502)	(120)	(622)
At end of year	1699	3,349	3,519	8,567
Net book value				
At 31 December 2014	313	852	1,667	2,832
At 31 December 2013	389	1,333	1,549	3,271

11 Investments

	Unlisted investments 2014 £000
Cost	
At beginning of year	8
Additions	806
At 31 December 2014	814

On 7 August 2014, the 100% shareholding in P&O Ferrymasters SAS was transferred at book value to P&O Ferrymasters Limited from P&O Ferrymasters Holdings Limited, its parent entity.

12 Stocks

	2014 £000	2013 £000
Consumables	126	252

Notes (continued)

13 Debtors

	2014 £000	2013 £000
Trade debtors (gross)	54,882	51,183
Less: Non-refundable amounts received	(19,929)	(16,226)
	<hr/>	<hr/>
Trade debtors (net)	34,953	34,957
Amounts owed by group undertakings	1,218	143
Other debtors	38	881
Prepayments and accrued income	11,010	10,297
Deferred taxation (note 16)	290	258
	<hr/>	<hr/>
	47,509	46,536
	<hr/>	<hr/>

At 31 December 2014, the Company has in place working capital facilities for trade debtors factored on a non-recourse basis. A linked presentation is adopted as, although the seller has retained some benefits and risks relating to the factored debts, there is no doubt that its downside exposure to loss is limited to a fixed monetary amount and amounts advanced are non-refundable.

14 Creditors: amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	65,531	67,539
Amounts owed to group undertakings	7,513	6,747
Other creditors	603	1,123
Other taxes and social security	1,043	1,944
Pensions	73	59
Accruals and deferred income	2,733	2,299
	<hr/>	<hr/>
	77,496	79,711
	<hr/>	<hr/>

15 Creditors: amounts falling due after more than one year, excluding pension liability

	2014 £000	2013 £000
Amounts owed to group undertakings	5,252	5,245
	<hr/>	<hr/>

Amounts owed to group undertakings have no set repayment date and have no interest accruing on them.

Notes (continued)

16 Deferred taxation

	2014 £000	2013 £000
At beginning of year	258	273
Origination and reversal of timing differences	120	(139)
Transferred to net pension liability	(88)	160
Effect of changes in rates of taxation	-	(36)
	<hr/>	<hr/>
At end of year (note 13)	290	258
	<hr/>	<hr/>

The elements of deferred taxation are as follows:

	2014 £000	2013 £000
Difference between accumulated depreciation and capital allowances	290	258
	<hr/>	<hr/>
Deferred tax asset (note 13)	290	258
	<hr/>	<hr/>

Deferred taxation is calculated using a rate of 20% (2013: 20%), being the rate substantively enacted at the balance sheet date. Factors that may affect future deferred tax balances, and specifically the effects of changes in tax rates, are disclosed in note 8.

No deferred tax is recognised on tax losses carried forward. The losses available to the company to offset against future taxable profits are:

	2014 £000
Tax Losses	
At beginning of year	5,041
Losses surrendered for group relief in prior year	(4,346)
Current year tax losses	3,061
	<hr/>
At end of year	3,756
	<hr/>

The unrecognised deferred tax asset on these losses is £751,000 (2013: £1,008,000).

17 Called up share capital

	2014 £000	2013 £000
Allotted, called up and fully paid 46,830,000 (2013: 46,830,000) ordinary shares of £1 each	46,830	46,830
	<hr/>	<hr/>

Notes (continued)

18 Reconciliation of movement in shareholders' funds

	Called up share capital £000	Profit and loss account £000	Total £000
Loss for the year	-	(1,589)	(1,589)
Actuarial loss arising on defined benefit pension scheme	-	(1,987)	(1,987)
Deferred tax arising on actuarial gain	-	397	397
At the beginning of the year	46,830	(42,947)	3,883
At end of year	46,830	(46,126)	704

19 Commitments

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

	2014 £000	2013 £000
Contracted	-	-

(b) Annual commitments under non-cancellable operating leases are as follows:

	2014		2013	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	249	2,032	231	1,650
In the second to fifth years inclusive	481	1,141	48	1,858
Over five years	610	1,204	763	-
	1,340	4,377	1,042	3,508

Notes (continued)

20 Pension schemes

The company participates in four funded defined benefit pension schemes. The principal scheme, the P&O Pension Scheme (the "P&O UK Scheme"), was closed to new routine members on 1 January 2002. The assets of the scheme are managed on behalf of the trustee by independent fund managers.

The company also participates in the Merchant Navy Officers' Pension Fund (the "MNOFP Scheme"), an industry wide scheme, the Merchant Navy Ratings Pension Fund (the "MNRPF Scheme") and the P&O Irish Pension Scheme.

The company also makes contributions to various industry schemes which have assets in separately administered funds.

The company expects to contribute approximately £150,000 to its defined benefit plans in the next financial year.

The information disclosed below is in respect of the whole of the plans for which the company is either a sponsoring employer or has been allocated a share of the cost under an agreed group policy throughout the years shown.

All schemes

	2014 £000	2013 £000
Present value of funded defined benefit obligations	(39,305)	(36,163)
Fair value of plan assets	34,196	32,605
Deficit	(5,109)	(3,558)
Related deferred tax asset	1,022	712
Net pension liability	(4,087)	(2,846)

Notes (continued)

20 Pension schemes (continued)

Movements in present value of defined benefit obligation

	MNRPF Scheme £000	P&O UK Scheme £000	MNOFF Scheme £000	P&O Irish Scheme £000	Total £000
At 1 January 2013	1,580	21,200	5,027	7,738	35,545
Current service cost	-	150	-	63	213
Interest cost	64	870	225	240	1,399
Actuarial losses/(gains)	131	1,520	443	(1,311)	783
Curtailments	-	-	-	(624)	(624)
Contributions by members	-	50	-	16	66
Benefits paid	(63)	(720)	(233)	(402)	(1,418)
Foreign currency exchange	-	-	-	199	199
At 31 December 2013	1,712	23,070	5,462	5,919	36,163
Current service cost	-	140	-	38	178
Interest cost	73	990	232	206	1,501
Actuarial losses	210	760	538	1,742	3,250
Curtailments	-	-	-	-	-
Contributions by members	-	50	-	20	70
Benefits paid	(97)	(790)	(250)	(269)	(1,406)
Foreign currency exchange	-	-	-	(451)	(451)
At 31 December 2014	1,898	24,220	5,982	7,205	39,305

Movements in fair value of plan assets

	MNRPF Scheme £000	P&O UK Scheme £000	MNOFF Scheme £000	P&O Irish Scheme £000	Total £000
At 1 January 2013	1,196	18,720	4,670	5,130	29,716
Expected return on plan assets	53	1,050	231	217	1,551
Actuarial gains	83	1,680	319	174	2,256
Contributions by employer	-	140	-	191	331
Contributions by members	-	50	-	16	66
Benefits paid	(63)	(720)	(233)	(402)	(1,418)
Foreign currency exchange	-	-	-	103	103
At 31 December 2013	1,269	20,920	4,987	5,429	32,605
Expected return on plan assets	64	1,210	238	209	1,721
Actuarial gains/(losses)	140	(360)	738	745	1,263
Contributions by employer	-	160	-	172	332
Contributions by members	-	50	-	20	70
Benefits paid	(97)	(790)	(250)	(269)	(1,406)
Foreign currency exchange	-	-	-	(389)	(389)
At 31 December 2014	1,376	21,190	5,713	5,917	34,196

Notes (continued)

20 Pension schemes (continued)

Expense recognised in the profit and loss account

	2014 £000	2013 £000
Current service cost	(178)	(213)
Curtailments	-	624
Interest on defined benefit plan obligation	(1,501)	(1,399)
Expected return on defined benefit pension plan assets	1,721	1,551
	<u>42</u>	<u>563</u>

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

	2014 £000	2013 £000
Administrative expenses	(178)	411
Pension finance income	220	152
	<u>42</u>	<u>563</u>
Total	<u>42</u>	<u>563</u>

Included within administrative expenses above is a credit of £nil (2013: £624k) relating to curtailments on the pension scheme.

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

	2014 £000	2013 £000
Actuarial gains on assets	1,263	2,256
Actuarial losses on liabilities	(3,250)	(783)
	<u>(1,987)</u>	<u>1,473</u>
Total actuarial gains/(losses) for the period	<u>(1,987)</u>	<u>1,473</u>

During the year actuarial losses of £1,987,000 (2013: Actuarial gains of £1,473,000) were recognised in the statement of total recognised gains and losses. Cumulative actuarial losses reported in the statement of total recognised gains and losses for accounting years ending on or after June 2002 are losses of £1,679,000 (2013: gains of £308,000).

Notes (continued)

20 Pension schemes (continued)

The history of the plans for the current and prior years are as follows:

MNRPF Scheme

<i>Balance sheet</i>	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of scheme liabilities	(1,898)	(1,712)	(1,580)	-	-
Fair value of scheme assets	1,376	1,269	1,196	-	-
Deficit	(522)	(443)	(384)	-	-
<i>Experience adjustments</i>					
Experience losses on scheme liabilities	(210)	(131)	(1,580)	-	-
Experience gains on scheme assets	140	83	1,197	-	-

The MNRPF Scheme is an industry wide multi-employer benefit pension scheme in which sea staff employed by the company have participated. The scheme has significant funding deficit and has been closed to further benefits accrual.

For the years ended 31 December 2011 and prior, the company could not identify its share of the underlying assets and liabilities of the MNRPF on a consistent and reasonable basis and therefore for the year ended 31 December 2011 accounted for the MNRPF under FRS17 as if it were a defined contribution scheme. The charge in the company accounts in 2011 was £nil.

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

	2014 £000	2013 £000
Equities	225	249
Bonds	838	611
Other	313	409
Fair value of plan assets	1,376	1,269
Actual return on plan assets	204	136

The overall expected rate of return on plan assets is calculated by weighting the individual rates of return, adjusted for current and anticipated market performance, in accordance with the expected balance in the plan's investment portfolio.

Notes (continued)

20 Pension schemes (continued)

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

	2014 £000	2013 £000
Discount rate	3.60%	4.35%
Expected rate of return on plan assets	4.29%	5.18%
Expected return on plan assets at beginning of the period	5.18%	4.82%
Future salary increases	4.15%	4.60%
Future pension increases: - deferment	2.15%	2.20%
- payment	3.05%	3.00%
Inflation	3.15%	4.35%

P&O UK Scheme

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
<i>Balance sheet</i>					
Present value of scheme liabilities	(24,220)	(23,070)	(21,200)	(17,150)	(18,160)
Fair value of scheme assets	21,190	20,920	18,720	16,100	16,620
Deficit	(3,030)	(2,150)	(2,480)	(1,050)	(1,540)
<i>Experience adjustments</i>					
Experience (losses)/gains on scheme liabilities	(760)	(1,520)	(3,670)	1,640	(250)
Experience (losses)/gains on scheme assets	(360)	1,680	2,000	(1,230)	(1,010)

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

	2014 £000	2013 £000
Equities	8,552	9,742
Bonds	5,263	5,327
Other	7,375	5,851
Fair value of plan assets	21,190	20,920
Actual return on plan assets	850	2,730

The overall expected rate of return on plan assets is calculated by weighting the individual rates of return, adjusted for current and anticipated market performance, in accordance with the expected balance in the plan's investment portfolio.

Notes (continued)

20 Pension schemes (continued)

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

	2014 £000	2013 £000
Discount rate	3.60%	4.35%
Expected rate of return on plan assets	5.18%	5.79%
Expected return on plan assets at beginning of the period	5.88%	5.88%
Future salary increases	n/a*	n/a*
Future pension increases:		
- deferment	2.90%	3.20%
- payment	2.80%	3.10%
Inflation	3.15%	2.60%

*The switch of the P&O UK Scheme from Final Salary to CARE in 2011 has meant that future salaries are no longer relevant.

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

MNOPF Scheme

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
<i>Balance sheet</i>					
Present value of scheme liabilities	(5,982)	(5,462)	(5,027)	(3,887)	(3,530)
Fair value of scheme assets	5,713	4,987	4,670	2,784	2,729
Deficit	(269)	(475)	(357)	(1,103)	(801)
<i>Experience adjustments</i>					
Experience (losses)/gains on scheme liabilities	(538)	(443)	(1,148)	(20)	(193)
Experience gains/(losses) on scheme assets	738	319	625	34	275

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

	2014 £000	2013 £000
Equities	2,008	1,664
Bonds	3,705	2,929
Other	-	394
Fair value of plan assets	5,713	4,987
Actual return on plan assets	976	550

Notes (continued)

20 Pension schemes (continued)

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

	2014	2013
Discount rate	3.60%	4.35%
Expected rate of return on plan assets	4.32%	4.89%
Expected return on plan assets at beginning of the period	4.89%	4.54%
Future salary increases	4.15%	4.60%
Future pension increases:		
- deferment	2.15%	2.20%
- payment	3.05%	3.00%
Inflation	3.15%	2.60%

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

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

The Scheme is divided into two sections, the Old Section and the New Section, both of which are closed to new members.

P&O Irish Pension Scheme

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
<i>Balance sheet</i>					
Present value of scheme liabilities	(7,205)	(5,919)	(7,738)	(5,496)	(4,705)
Fair value of scheme assets	5,917	5,429	5,130	4,206	4,327
Deficit	(1,288)	(490)	(2,608)	(1,290)	(378)
<i>Experience adjustments</i>					
Experience (losses)/gains on scheme liabilities	(1,742)	1,311	(2,113)	200	27
Experience gains/(losses) on scheme assets	745	174	661	(466)	99

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

	2014 £000	2013 £000
Equities	1,804	2,546
Bonds	2,959	2,791
Other	1,154	92
Fair value of plan assets	5,917	5,429
Actual return on plan assets	954	391

Notes (continued)

20 Pension schemes (continued)

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

	2014	2013
Discount rate	2.00%	3.00%
Expected rate of return on plan assets	3.50%	4.13%
Expected return on plan assets at beginning of the period	3.60%	0.00%
Future salary increases	2.30%	3.00%
Future pension increases:		
- deferment	0.90%	2.00%
- payment	0.90%	2.00%
Inflation	1.80%	2.00%

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

The P&O Irish Pension Scheme is a defined benefit multi-employer scheme in which officers employed by Group companies have participated.

The Scheme is divided into two sections, the Old Section and the New Section, both of which are closed to new members.

Other pension schemes

In addition, the company operates or participated in various other smaller defined contribution schemes including the P&O Ferrymasters Limited Personal Pension Plan. The charge in the company accounts for these schemes in 2014 was £731,000 (2013: £713,000). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

21 Contingent liabilities

The Company is participating in an ongoing appeal against an assessment by an overseas tax authority that sales taxes should have been charged on certain ordinary activities in that jurisdiction. Whilst the Company is vigorously appealing this assessment, and is taking appropriate external advice, the final appeal outcome is inherently uncertain. Should the Company be unsuccessful in its appeal, the quantum of any additional liability to be borne by the Company, after taking into account potential mitigating actions taken or available to the Company, is also uncertain. For these reasons, no provision has been recorded in these financial statements and this matter is disclosed as a contingent liability under FRS 12: Provisions and Contingent Liabilities.

Notes *(continued)*

22 Ultimate parent company and parent undertaking of largest group of which the company is a member

The smallest group of companies for which consolidated financial statements are prepared and in which the company is consolidated is that of P&O Ferries Division Holdings Limited (registration number 6038090), copies of whose accounts can be obtained from:

The Registrar of Companies
Companies House
Crown Way
Maindy
Cardiff
CF14 3UZ

The largest group of companies for which consolidated financial statements are prepared and in which the company is consolidated is Port and Free Zone World FZE, whose parent is Dubai World Corporation. These statements are not publicly filed.

The company's immediate controlling party at 31 December 2014 is P&O Ferrymasters Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.