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P&O European Ferries (Portsmouth) Limited

Directors' Report and Financial Statements

31 December 2011

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**P&O European Ferries (Portsmouth) Limited**  
**Directors' Report and Financial Statements**  
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## **P&O European Ferries (Portsmouth) Limited Directors' Report**

The directors present their report together with the audited financial statements for P&O European Ferries (Portsmouth) Limited ("the Company") for the year ended 31 December 2011

### **Principal activities**

The principal activity of the Company ceased in September 2010. The Company continues to operate the back-to-back charter of a vessel to a third party and to trade by acting as an intermediary in the provision of staff and vessels to other ships around the Group's route network.

### **Dividends**

No dividends were paid during the year (2010 £nil)

### **Directors**

The following persons served as directors during the year and up to the date of this report

J S Bell	(Appointed 15 May 2012)
L A Cotton	(Appointed 1 February 2011)
R F M Daelman	(Resigned 11 April 2011)
H Deeble	
J P Garner	
K Howarth	
S R Johnson	(Resigned 11 April 2011)
C J Laming	(Resigned 11 April 2011)
S M Mackenzie	

### **Charitable and political donations**

The Company made no charitable donations or political donations during the period (2010 £nil), nor did it incur any political expenditure during the year (2010 £nil)

### **Disclosure of information to auditors**

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

### **Appointment of auditors**

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

This report was approved by the board on 20 September 2012



**K Howarth**  
Director

P&O European Ferries (Portsmouth) Limited  
Channel House  
Channel View Road  
Dover  
Kent  
CT17 9TJ  
Registered number 801658

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**P&O European Ferries (Portsmouth) Limited**

**Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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.

## KPMG LLP

### Independent Auditor's Report to the members of P&O European Ferries (Portsmouth) Limited

We have audited the financial statements of P&O European Ferries (Portsmouth) Limited for the year ended 31 December 2011 set out on pages 4 to 20. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

#### Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities 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 upon, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### Scope of the audit

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

#### Opinion on the 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 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Opinion on other matters prescribed by the Companies Act 2006

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

#### Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been
- 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.



Peter G Read (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
15 Canada Square  
London  
E14 5GL

20 September 2012

**P&O European Ferries (Portsmouth) Limited**  
**Profit and Loss Account**  
**for the year ended 31 December 2011**

	Notes	2011 £000	2010 £000
Turnover	2	2,581	25,820
Cost of sales		(2,405)	(25,763)
Gross profit		<u>176</u>	<u>57</u>
Other income / (administrative expenses)		11	(4,279)
Operating profit / (loss)	3	<u>187</u>	<u>(4,222)</u>
<b>Analysed as</b>			
Operating loss before exceptional items		126	(220)
Exceptional items	4	61	(4,002)
Pension finance income/(charge)	18	10	(150)
Profit/(loss) on ordinary activities before taxation		<u>197</u>	<u>(4,372)</u>
Tax on profit/(loss) on ordinary activities	7	(2)	(6)
Profit/(loss) for the financial year		<u><u>195</u></u>	<u><u>(4,378)</u></u>

The 2011 results stated above are all derived from continued operations

The accounting policies and the notes on pages 7 to 20 form an integral part of these financial statements

**P&O European Ferries (Portsmouth) Limited**  
**Statement of Total Recognised Gains and Losses**  
**for the year ended 31 December 2011**

	<b>Notes</b>	<b>2011 £000</b>	<b>2010 £000</b>
Profit/(loss) for the financial year		<b>195</b>	<b>(4,378)</b>
Actuarial loss on defined benefit pension schemes	18	<b>(3,269)</b>	<b>(741)</b>
Total recognised losses related to the year		<u><b>(3,074)</b></u>	<u><b>(5,119)</b></u>

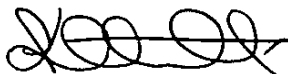
The accounting policies and the notes on pages 7 to 20 form an integral part of these financial statements

**P&O European Ferries (Portsmouth) Limited**  
**Balance Sheet**  
**as at 31 December 2011**

	Notes	2011 £000	2010 £000
<b>Fixed assets</b>			
Tangible assets	8	12	12
Investments	9	<u>2</u>	<u>2</u>
		14	14
<b>Current assets</b>			
Debtors	10	<u>41</u>	<u>185</u>
		41	185
<b>Creditors amounts falling due within one year</b>	11	<u>(85,993)</u>	<u>(78,599)</u>
<b>Net current liabilities</b>		(85,952)	(78,414)
<b>Total assets less current liabilities</b>		<u>(85,938)</u>	<u>(78,400)</u>
<b>Creditors amounts falling due after more than one year</b>	12	(51,233)	(51,233)
<b>Provisions for liabilities</b>	13	(3,497)	(3,813)
<b>Net liabilities excluding pension liabilities</b>		<u>(140,668)</u>	<u>(133,446)</u>
Pension assets/(liabilities)	18	157	(3,991)
<b>Net liabilities</b>		<u>(140,511)</u>	<u>(137,437)</u>
<b>Capital and reserves</b>			
Called up share capital	14	48,383	48,383
Profit and loss account	15	(188,894)	(185,820)
<b>Shareholders' deficit</b>	16	<u>(140,511)</u>	<u>(137,437)</u>

Registered number 801658

These financial statements were approved by the board of directors on 20 September 2012 and were signed on its behalf by



**K Howarth**  
*Director*

The accounting policies and the notes on pages 7 to 20 form an integral part of these financial statements

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

**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 and going concern***

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The financial statements have also been prepared on the going concern basis, notwithstanding the net liabilities of £140.5m as at 31 December 2011, since the Directors of the Company's intermediate parent undertaking, P&O Ferries Division Holdings Limited, have agreed to provide such financial support as is necessary to enable the Company to continue to trade for at least 12 months from the date of approval of these financial statements.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements on the grounds that the Company is a wholly-owned subsidiary of P&O Ferries Division Holdings Limited, which prepares group financial statements that can be obtained from Companies House. Consequently, the presented financial information is for P&O European Ferries (Portsmouth) Limited only.

***Cash flow statement***

Under Financial Reporting Standard 1 Cash Flow Statements (Revised), the Company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned UK subsidiary undertaking of a parent undertaking, P&O Ferries Division Holdings Limited, which has produced a group cash flow statement in accordance with the provisions of the Standard. The financial statements of P&O Ferries Division Holdings Limited can be obtained from Companies House.

***Turnover***

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

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

Revenue from tourist and freight traffic (including on-board sales) is recognised on departure of the relevant sailing.

***Tangible fixed assets and depreciation***

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided to write down the cost or valuation of tangible fixed assets by equal annual instalments over their expected useful lives. The depreciation charge for ships is calculated after adjusting for the residual value based upon a percentage of the original cost. The periods applicable are:

Owned and leased ships	Period of charter
Plant, machinery, fixtures and fittings	3 to 15 years

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

***Investments***

Investments in subsidiary and associated undertakings are shown at cost less provision for any diminution in value.

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

**1 Accounting policies (continued)**

***Dry dock overhaul***

Where the Company 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).

***Foreign currencies***

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

***Derivative financial instruments***

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

***Leases***

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

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

***Pensions***

***Defined contribution schemes***

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

***Defined benefit schemes***

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

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

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

A further scheme is the Merchant Naval Ratings Pension Fund ('MNRPF') in which the Company is no longer a current employer. Further information in respect of the MNRPF and the Company's interest in this scheme is in Note 18.

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

**1 Accounting policies (continued)**

**Stocks**

Stocks are stated at the lower of cost and net realisable value

**Taxation**

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

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

**2 Turnover and profit on ordinary activities before tax**

Turnover and profit on ordinary activities before taxation in 2011 is derived from the sub charter of the company's vessel, 2010 turnover and loss were derived from the operation of ferry services between Great Britain and Continental Europe. The operation of these ferry services ceased in October 2010.

**3 Operating profit/(loss) on discontinued operations**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
This is stated after charging		
Depreciation and other amounts written off owned fixed assets	-	63
Operating leases - charter hire - annual charge	<b>2,418</b>	2,356
Operating leases - sub-charter income	<b>(2,581)</b>	(2,624)
Operating leases - hire of plant and machinery	-	6
Foreign exchange gains	-	(12)
Management service re-charge agreement	-	104
	<u>          </u>	<u>          </u>

The audit fee relating to the Company was as follows

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Fees for the audit of the Company	<u>21</u>	<u>25</u>

Fees paid to the Company's auditors, KPMG LLP, and its associates for services other than the statutory audit of the Company are not disclosed in these financial statements. This is on the basis that such non-audit fees are disclosed in the consolidated accounts of the Company's immediate parent, P&O Ferries Division Holdings Limited.

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

<b>4 Exceptional items</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Reversal of unused provision for route closure costs	61	-
Loss on disposal of land and buildings	-	(4,002)
	<u>61</u>	<u>(4,002)</u>

**5 Directors' remuneration**

The directors received no remuneration from the Company in 2011 (2010 £nil)

**6 Staff costs**

The company had no employees in 2011 or in 2010, with the ship being manned by a combination of permanent and agency crew. Permanent members of ship staff are employed by another group company, P&O Portsmouth (Gibraltar) Limited, with the costs being recharged to the Company. The Company also uses a number of third party crewing agencies.

Details of pension schemes in which the Company participates on behalf of its ships' crews are given in Note 18.

<b>7 Taxation</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of charge in year</b>		
Current tax		
UK corporation tax on loss of the year	<u>2</u>	<u>6</u>

The current tax charge is lower (2010 higher) than the standard rate of corporation tax in the UK of 26.5% (2010 28.0%). The differences are explained below.

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Profit/(loss) on ordinary activities before tax	<u>197</u>	<u>(4,372)</u>
Standard rate of corporation tax in the UK	26.5%	28.0%
	<b>£000</b>	<b>£000</b>
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax	52	(1,224)
Effects of		
Tonnage tax	<u>(50)</u>	<u>1,230</u>
Current tax charge for year	<u>2</u>	<u>6</u>

Most of the company's activities are qualifying activities for the purpose of the United Kingdom tonnage tax regime and the Company pays corporation tax on these activities by reference to the tonnage of the ships owned or operated.

**Factors affecting the future tax charge**

The main rate of UK corporation tax reduced from 28% to 26% with effect from 1 April 2011. The Company's future tax charge is expected to be significantly lower than this rate as a result of the majority of the Company's UK profits qualifying for the UK tonnage tax regime. Legislation to further reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was included in the Finance Act 2011.

On 21 March 2012 the Chancellor announced a further reduction in the main rate of UK corporation tax to 24% with effect from 1 April 2012. This change became substantively enacted 26 March 2012.

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

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

**8 Tangible fixed assets**

	<b>Owned and leased ships £000</b>	<b>Plant, machinery, fixtures and fittings £000</b>	<b>Total £000</b>
<b>Cost</b>			
At 1 January 2011 and 31 December 2011	<u>3,634</u>	<u>-</u>	<u>3,634</u>
<b>Depreciation</b>			
At 1 January 2011 and 31 December 2011	<u>3,622</u>	<u>-</u>	<u>3,622</u>
<b>Net book value</b>			
At 1 January 2011 and 31 December 2011	<u>12</u>	<u>-</u>	<u>12</u>

**9 Investments**

	<b>Shares in subsidiaries undertakings £000</b>
<b>Cost</b>	
At 1 January 2011 & 31 December 2011	<u>2</u>

Investments include the following subsidiaries

<b>Company</b>	<b>Country of registration or incorporation</b>	<b>Principal activity</b>	<b>%</b>
Solent Marine Services Limited	Great Britain	Dormant	100
Solent Marine Services (Jersey) Limited	Great Britain	Dormant	100
P&O European Ferries (Vizcaya) SA	Spain	Ship Management	100
Normandy Ferries (France) SA	France	Dormant	100

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

<b>10 Debtors</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	9	96
Corporation tax	28	28
Other taxes and social security costs	4	61
	<u>41</u>	<u>185</u>

<b>11 Creditors amounts falling due within one year</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Amounts owed to fellow subsidiary undertakings	85,777	78,220
Other creditors	-	3
Accruals and deferred income	216	376
	<u>85,993</u>	<u>78,599</u>

<b>12 Creditors amounts falling due after one year</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Amounts owed to intermediate parent undertaking	<u>51,233</u>	<u>51,233</u>

The loan is interest free and has no repayment date

**13 Provisions for liabilities**

	<b>Reorganisation costs</b>	<b>Ship reinstatement</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 January 2011	502	3,311	3,813
Reversal of provision no longer required	(61)	-	(61)
Utilised during the year	(27)	(228)	(255)
At 31 December 2011	<u>414</u>	<u>3,083</u>	<u>3,497</u>

The reorganisation provision relates to the Company's obligations for reorganisation costs mostly comprising onerous contracts, redundancy costs and legal costs resulting from the closure of the Portsmouth-Bilbao route in 2010, the remaining amount is expected to be utilised during 2012. The £3,083,000 (2010 £3,311,000) of ship reinstatement provision relates to the reinstatement of charter ships to original specification and delivery at the end of their contract.

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

<b>14 Share capital</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>No</b>	<b>No</b>	<b>£000</b>	<b>£000</b>
Authorised				
Ordinary shares of £1 each	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000</u>	<u>50,000</u>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>No</b>	<b>No</b>	<b>£000</b>	<b>£000</b>
Allotted, called up and fully paid				
Ordinary shares of £1 each	<u>48,382,638</u>	<u>48,382,638</u>	<u>48,383</u>	<u>48,383</u>

**15 Profit and loss account**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
At 1 January	(185,820)	(180,701)
Profit/(loss) for the financial year	195	(4,378)
Actuarial losses on defined benefit schemes	(3,269)	(741)
At 31 December	<u>(188,894)</u>	<u>(185,820)</u>

**16 Reconciliation of movement in shareholders' deficit**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
At 1 January	(137,437)	(132,318)
Profit/(loss) for the financial year	195	(4,378)
Actuarial losses on defined benefit schemes	(3,269)	(741)
At 31 December	<u>(140,511)</u>	<u>(137,437)</u>

**17 Other financial commitments**

At 31 December 2011 the Company had annual commitments under non-cancellable operating leases as follows

	<b>Ship charter payments</b>	<b>Ship charter payments</b>
	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Operating leases which expire		
within one year	-	-
within two to five years	<u>2,418</u>	<u>2,418</u>
	<u>2,418</u>	<u>2,418</u>

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

**18 Pension schemes**

The Company participates in two 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.

With effect from 1 April 2011, benefits earned in the P&O Ferries UK Scheme were changed from Final Salary to Career Average Revalued Earnings (CARE).

The Company also participates in the Merchant Navy Officers' Pension Fund (the "MNOPF Scheme"), an industry wide defined benefit scheme.

The Company does not expect to contribute 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 periods shown.

Details of the Merchant Naval Ratings Pension Fund ('MNRPF'), in which the Company is no longer a current employer, are given below.

**All schemes**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Present value of funded defined benefit obligations	<b>(42,434)</b>	(38,569)
Fair value of plan assets	<b>42,591</b>	34,578
Deficit/asset	<b><u>157</u></b>	<b><u>(3,991)</u></b>

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2011**

**18 Pension schemes (continued)**

**Movements in present value of defined benefit obligation**

	<b>P&amp;O UK Scheme £000</b>	<b>MNOFF Scheme £000</b>	<b>Total £000</b>
At 1 January 2010	601	34,042	34,643
Current service cost	11	152	163
Interest cost	30	1,881	1,911
Experience (gains)/losses	(20)	2,072	2,052
Changes in assumptions	(20)	1,661	1,641
Benefits paid	-	(1,841)	(1,841)
At 31 December 2010	<u>602</u>	<u>37,967</u>	<u>38,569</u>
Current service cost	-	130	130
Interest cost	31	2,022	2,053
Experience (gains)/losses	(8)	210	202
Changes in assumptions	24	3,393	3,417
Benefits paid	(16)	(1,921)	(1,937)
At 31 December 2011	<u>633</u>	<u>41,801</u>	<u>42,434</u>

**Movements in fair value of plan assets**

	<b>P&amp;O UK Scheme £000</b>	<b>MNOFF Scheme £000</b>	<b>Total £000</b>
At 1 January 2010	500	26,466	26,966
Expected return on plan assets	30	1,731	1,761
Actuarial gains	-	2,952	2,952
Contributions by employer	20	4,720	4,740
Benefits paid	-	(1,841)	(1,841)
At 31 December 2010	<u>550</u>	<u>34,028</u>	<u>34,578</u>
Expected return on plan assets	36	2,032	2,068
Actuarial (losses)/gains	(20)	370	350
Contributions by employer	-	7,532	7,532
Benefits paid	(16)	(1,921)	(1,937)
At 31 December 2011	<u>550</u>	<u>42,041</u>	<u>42,591</u>

**P&O European Ferries (Portsmouth) Limited**  
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**18 Pension schemes (continued)**

<b>Expense recognised in the profit and loss account</b>	<b>2011 £000</b>	<b>2010 £000</b>
Current service cost	(130)	(163)
Interest on defined benefit plan obligation	(2,053)	(1,911)
Expected return on defined benefit pension plan assets	2,068	1,761
<b>Total</b>	<b>(115)</b>	<b>(313)</b>

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

	<b>2011 £000</b>	<b>2010 £000</b>
Administrative expenses	(130)	(163)
Pension finance income/(charge)	15	(150)
<b>Total</b>	<b>(115)</b>	<b>(313)</b>

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

	<b>2011 £000</b>	<b>2010 £000</b>
Actuarial gains on assets	350	2,952
Actuarial losses on liabilities	(202)	(2,052)
Actuarial losses on changes in assumptions	(3,417)	(1,641)
<b>Total actuarial losses for the period</b>	<b>(3,269)</b>	<b>(741)</b>

Cumulative actuarial losses reported in the statement of total recognised gains and losses for accounting periods ending on or after June 2002, and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £16.4m (2010 £13.2m)

**P&O European Ferries (Portsmouth) Limited**  
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**18 Pension schemes (continued)**

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

**P&O UK Scheme**

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Balance sheet</i>					
Present value of scheme liabilities	<b>(633)</b>	<b>(602)</b>	<b>(601)</b>	<b>(431)</b>	<b>(400)</b>
Fair value of scheme assets	<b>550</b>	<b>550</b>	<b>500</b>	<b>400</b>	<b>390</b>
Deficit	<b>(83)</b>	<b>(52)</b>	<b>(101)</b>	<b>(31)</b>	<b>(10)</b>
<i>Experience adjustments</i>					
Experience gains/(losses) on scheme liabilities	<b>8</b>	<b>20</b>	<b>10</b>	<b>(60)</b>	<b>(1,117)</b>
Experience gains/(losses) on scheme assets	<b>(20)</b>	<b>-</b>	<b>60</b>	<b>(31)</b>	<b>1,668</b>

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

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Equities	<b>289</b>	<b>289</b>
Bonds	<b>261</b>	<b>261</b>
	<b>550</b>	<b>550</b>
Actual return on plan assets	<b>16</b>	<b>30</b>

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

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

	<b>2011</b>	<b>2010</b>
Discount rate	<b>4.70%</b>	<b>5.50%</b>
Expected rate of return on plan assets	<b>5.60%</b>	<b>6.68%</b>
Expected return on plan assets at beginning of the period	<b>6.68%</b>	<b>6.53%</b>
Future salary increases *	<b>n/a</b>	<b>4.60%</b>
Future pension increases	<b>2.60%</b>	<b>2.90%</b>
	- deferment	
	- payment	
Inflation	<b>2.80%</b>	<b>3.60%</b>

\*The switch of the P&O Ferries UK Scheme from Final salary to Career average earnings during the year has meant that future salary increases are no longer relevant

PA92 medium cohort tables have been used as a basis projected up to 2011, subject to a 1% minimum annual increase in line with long cohort, to reflect improvements in future mortality

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**18 Pension schemes (continued)**

**MNOPF Scheme**

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Balance sheet</i>					
Present value of scheme liabilities	<b>(41,801)</b>	<b>(37,967)</b>	<b>(34,042)</b>	<b>(28,958)</b>	<b>(31,710)</b>
Fair value of scheme assets	<b>42,041</b>	<b>34,028</b>	<b>26,466</b>	<b>24,424</b>	<b>29,361</b>
Surplus	<b>240</b>	<b>(3,939)</b>	<b>(7,576)</b>	<b>(4,534)</b>	<b>(2,349)</b>
<i>Experience adjustments</i>					
Experience (losses)/ gains on scheme liabilities	<b>(210)</b>	<b>(2,072)</b>	<b>-</b>	<b>570</b>	<b>5,192</b>
Experience gains/(losses) on scheme assets	<b>370</b>	<b>2,952</b>	<b>1,071</b>	<b>(6,435)</b>	<b>(3,566)</b>

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

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Equities	<b>8,621</b>	<b>14,434</b>
Bonds	<b>24,890</b>	<b>13,473</b>
Other	<b>8,530</b>	<b>6,121</b>
	<b>42,041</b>	<b>34,028</b>
Actual return on plan assets	<b>2,402</b>	<b>4,683</b>

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

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

	<b>2011</b>	<b>2010</b>
Discount rate	<b>4.65%</b>	<b>5.40%</b>
Expected rate of return on plan assets	<b>5.14%</b>	<b>6.68%</b>
Expected return on plan assets at beginning of the period	<b>6.68%</b>	<b>6.53%</b>
Future salary increases	<b>4.10%</b>	<b>4.60%</b>
Future pension increases - deferment	<b>2.10%</b>	<b>2.90%</b>
- payment	<b>3.05%</b>	<b>3.40%</b>
Inflation	<b>3.10%</b>	<b>3.60%</b>

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

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**18 Pension schemes (continued)**

**Other schemes**

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.

The Company ceased to employ members of the MNRPF and settled their statutory debt obligation to the pension fund a number of years ago. The Company was therefore not considered to have any legal or constructive obligation with respect to the ongoing deficit in the MNRPF fund and no share of the scheme deficit was recognised by the Company.

As disclosed in the 2010 financial statements, this position was challenged by Stena Line Limited, an MNRPF participating employer, in the High Court and subsequently in the Court of Appeal where judgments were handed down against the Company on 27 July 2010 and 12 May 2011 respectively. Final leave for the Company to appeal to the Supreme Court was refused in November 2011 and therefore it is now expected that the Trustees of the MNRPF will require the company to make future pension contributions. The judgment against the Company affects both the Company and a significant number of other employers who formerly participated in the MNRPF scheme and who had also settled their statutory debt obligations. These other employers may or may not continue to exist or be able to make future contributions and, notwithstanding the Company is the largest former employers affected by the judgment, the participation of other former employers will influence the future contributions payable by the Company. The basis of calculation of future contributions and the share of the pension obligation payable by the Company will also be influenced by the valuation methodology used by the Trustees, the allowances which are made for previous voluntary contributions paid since 2001, and the settlements made by employers when they previously settled their MNRPF statutory debt obligations.

These factors make it not possible, at the date of these financial statements, to estimate the present value of the future contributions that may be required to be made by the Company and it is not practical to account for its proportionate share of the related obligation and asset in the same way as for its other defined benefit pension plans. Therefore, pending further determination of the Company's future obligations, the MNRPF scheme is being accounted for as a defined contribution plan. At the balance sheet date and the date of these financial statements, no contractual agreement exists in respect of future contributions and no provision for future contributions has therefore been made. Prior to any such agreement being put into place, the Company is accounting for its contributions through profit and loss in the period in which such contributions are agreed. No such contributions were charged to the profit and loss account in the year ending 31 December 2011. The timing for determination of the above matters remains uncertain and will be dependent on a number of factors outside of the control of the Company, including possible further Court approvals.

The total MNRPF scheme deficit at 31 December 2011, in which the Company now expects to be required to participate by the MNRPF Trustees, is disclosed for information purposes. The total deficit (before deferred tax) at 31 December 2011 was £175m (2010 £128m) comprising gross liabilities of £905m (2010 £811m) and gross assets of £730m (2010 £683m), although it should be noted that the Company will only be liable for a proportion of the total deficit.

The Company also made contributions to various other smaller schemes in prior years, these include the P&O Ferries Limited Group Personal Pension Plan and the P&O Group Personal Pension Plan. The charge in the accounts for these schemes was £nil (2010 £11,552).

**P&O European Ferries (Portsmouth) Limited**  
**Notes to the Financial Statements**  
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**19 Related party disclosures**

The Company has taken advantage of the exemption contained in Financial Reporting Standard No 8 "Related Party Disclosure" as it is a wholly-owned subsidiary of Dubai World Corporation. Therefore the Company has not disclosed transactions or balances with wholly owned entities that form part of the Group headed by Dubai World Corporation.

The directors confirm that there are no other related party transactions which require disclosure.

**20 Ultimate parent and controlling company**

The smallest group of companies for which consolidated financial statements are prepared and in which the Company is consolidated is 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, Cardiff CF143UZ.

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

The Company's immediate controlling party and UK parent undertaking at 31 December 2011 is P&O Ferries Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

In the opinion of the directors, the ultimate parent undertaking at 31 December 2011 is Dubai World Corporation, a company incorporated in Dubai.