COMPANY REGISTRATION NUMBER: 06038090

P&O FERRIES DIVISION HOLDINGS LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

P&O FERRIES DIVISION HOLDINGS LIMITED

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P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their strategic report for the year ended 31 December 2021.

BUSINESS REVIEW

Principal activities

The Group's principal activity during the year continued to be transportation via land and sea of freight and passengers 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 for the year, after taxation, amounted to £375.6m (2020: loss £105.3m). The directors have not recommended a final dividend (2020: £nil). No interim dividends were paid in the year (2020: £nil).

Key Performance Indicators and Performance Review

2021 was a year of uncertainty and disruption across the business, caused by the Covid-19 global pandemic. This led to a decrease in revenue in all areas of the business. Costs have reduced in the year as a result of the limited trade and various related cost saving initiatives. The main revenue shortfalls were on our key tourist routes including Dover Calais, Larne Cairnryan and Hull Eurooport. The lack of tourist passengers obviously also reduced the income form on board services despite the re-introduction of Duty Free.

Covid restrictions varied by route with Holland closed to non-EU passengers for a period of time and again Scotland imposing lock down beyond the rest of the UK. This uncertainty reduced the demand for tourist travel and confidence in the market.

The cost saving initiatives included a minimum Viable service programme which scaled back the on board services crew to freight only levels, a reduction in trips run and the first full year effect of the closure of the Hull Zeebrugge combined passenger and freight route. Marketing and advertising were also scaled back. However where growth was possible such as Liverpool Dublin then increased capacity was made available.

	2021	2020
FERRIES:		
Freight units carried (thousands)	1,827	1,952
Tourist vehicles carried (thousands)	282	401
Total passengers carried (thousands)	1,986	2,727
Tourist Net Promoter Score	39	33
FERRYMASTERS:		
Total units transported (thousands)	517	535

The Tourist Net Promotor Score is a customer loyalty and satisfaction measurement taken from asking customers how likely they are to recommend our services to others.

Ferries tourist and passenger volumes contracted further in 2021 as a result of more Government enforced lockdowns and restrictions on travel. A number of the Company's vessels continued to be laid up as a result of the reduced carryings.

Ferrymasters' shows a reasonably consistent number of units transported in 2021 with transportation services still being required for goods.

BUSINESS REVIEW (CONTINUED)

Key Performance Indicators and Performance Review (continued)

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

	2021	2020
Revenue (£m)	834.8	865.7
Gross (Loss) / Profit (£m)	(4.3)	22.7
Gross (Loss) / Profit Margin (%)	(0.5)	2.6
Operating Loss (£m)	(360.7)	(97.7)
Loss After Tax (£m)	(375.6)	(105.3)
EBITDA (£m)	(28.9)	(25.6)
Capital Expenditure (£m)	73.2	39.0
Net Assets (£m)	(12.1)	345.8
Net Debt (£m)	234.4	87.6

The Group's operating profit for 2021 includes £271.7m of net exceptional expenses (2020: £38.9m net exceptional expenses), which is £277.9m impairment of goodwill, £0.3m restructuring costs and a provision release of £6.2m relating to an employment tribunal that ended favourably.

Loss before tax for 2021 was £374.5m (2020: loss £(103.3)m). The taxation for the year is disclosed in note 8 to the financial statements.

The Group's total retirement benefit obligations decreased to £144.4m (2020: £174.3m) in the year, principally due to the actuarial gains, asset ceiling adjustments and employer contributions made during 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 2022 the Group restructured the ROPAX and Freight Service organisations into one Ferries business, with two distribution channels: Passenger (including all onboard activities) and Freight. These two channels have full P&L responsibility for the products/services delivered to each of their customer segments across all routes. The two distribution channels are supported by central Vessel Operations (including fleet management), Port Operations and other back-office functions such as Finance, IT and HR.

The trading performance in 2022 has been determined by the demand in the Group's markets as they recover from over 2 years of disruption associated with Covid and the impact on the business from the Group's decision to change fundamentally the crewing model in March 2022, as described further in note 27). The Group's operations have, to the greatest extent possible, been scaled to fit with the ongoing reduced level of travel following the global Covid pandemic. One vessel remains held for sale at the time of this report.

Market volumes in 2022 have been significantly lower than in 2018, the last stable year before the impact of Brexit border controls and Covid 19. Consumer uncertainty has been compounded by political instability and adverse macroeconomic factors such as high inflation and the impacts of the war in Ukraine. Demand has also been impacted by the impact on the Group's (freight) prices from rising fuel costs, that it passes on via the Bunker Adjustment Factors process.

Freight markets have been impacted by recessionary pressures and the Group is not seeing the market growth that it had previously predicted. Consequently, the Group has better targeted and significantly reduced the number of sailings on the Dover Calais route during 2022. It has also operated a "space charter" (freight code sharing arrangement) on the route with DFDS. This arrangement (which has been cleared by the UK Competition and Markets Authority) has resulted in increasing vessel utilisation and cost savings as well as a growing market share during the second half of the year. The Group has reduced the number of RORO ships to be chartered in 2023 to service the Group's North Sea routes and are reviewing the routes it operates.

The Passenger business has also been severely impacted by a lower number of tourist cars and coaches. It has offset the reduction in volume by delivering a better service (including the Group's on-board World Duty Free concessions) and an enhanced food and beverage offer.

2023 will see the Group deploying two new "Ships of the Future" on the Dover Calais route which will offer game-changing levels of customer experience and operational/environmental effectiveness.

Whilst the macroeconomic factors are out of the Group's control, it continues to focus on what it can control such as safety standards, ship deployments, the execution of the customer offer, pricing, cost control and working capital management.

The Group believes that the platform laid in 2022 will equip the business to grow profitably when demand rises in the coming years.

SECTION 172 OF THE COMPANIES ACT 2006

Group Directors must act in a way that adheres to the requirements of section 172 of the Companies Act 2006. This requires Directors to act in a way that would promote the success of the Group and consider the following matters:

- 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.

As part of their induction to the Group, Directors are made aware of their duties by the Company Secretary.

Long term decisions – the Directors make long term decisions in the context of the risks associated and have developed functional Risk Registers accordingly which are reflected in the Group's Enterprise Risk Register. These Registers are monitored for legislative, political and financial exposures and the Directors act to mitigate any long-term risk. Details of principal risks and uncertainties can be found within this Report.

Interests of the Group's employees - the Directors promote a safe working environment for employees and operate a well-being programme including an employee assistance programme. The Group engages constructively with recognised trade unions, wherever possible. Furthermore, the Directors believe that the actions taken in March 2022 to change the crewing model fundamentally (as described in note 27) were essential for the long-term financial health of the business and in the interests of the majority of the Group's employees.

Business relationships – the Group's strategy is to grow and develop business relationships. The Directors do this by maintaining strong relationships with customers and suppliers, ensuring that all key customers and suppliers have agreed terms and conditions with the business. For example, in 2021 the Group commences a collaboration with DFDS to provide a "Space Charter" freight service to provide greater frequency of crossings to its freight customers on its flagship Dover-Calais route. The Group expects its suppliers to agree to its supplier code of conduct or maintain their own equivalent.

Community and environment – the Group recognises that its operations have environmental impacts and the Directors consider these when planning and making decisions, for example when specifying vessels and route operations. The Group has commissioned two new-build hybrid "Ships of the Future" on its flagship Dover-Calais route, which are due to enter service in 2023 which will run electric generators thereby reducing greenhouse gas emissions while in port, and which may be upgraded to be fully electric once charging facilities are available at both ports. The Group also engages with various stakeholders, such as ports and industry trade organisations, to improve collective environmental outcomes such as vehicle traffic management at ports in peak times. Additionally, appropriate care is taken when handling dangerous materials and managing hazardous activities.

Reputation - the Group aims to maintain a reputation for high standards of business conduct and acting fairly. The Directors periodically consider changes in health and safety legislation, anti-bribery standards, anti-trust legislation and modern slavery prevention expectations. The Group has an external and independent whistle-blowing hotline and portal with training and reminders about this sent out regularly.

The Directors recognise that the actions taken in March 2022 were perceived negatively by sections of the national media and political leaders. The Directors maintain that the actions taken were necessary for the long-term financial health of the business and that public sentiment will gradually recover towards the business as it continues to operate in a transparent and compliant manner.

Acting fairly - the Group believes that it is essential to engage effectively with all stakeholders who influence or are impacted by the Group's business operations, wherever possible (see note 27 for more details regarding the crewing model change where this was not possible). Engagement processes include formalised stakeholder relationship management and communications. Activities are managed centrally and devolved across functional teams as applicable. The Group's 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, Republic of Ireland and continental Europe, the Group does not adopt a one-size-fits-all approach. The Group strives to be sensitive to the varying needs, interests and engagement styles of the Group's stakeholder groups, taking into account local custom, practice and culture. This approach ensures that the Group adapts its engagement style and method to the audience.

The Group has only one shareholder, and as such it is committed to engaging openly with its shareholder, recognising the importance of continuing effective dialogue. It is important to the Group that the shareholder understands and shares its strategy and objectives - so ensures these are explained clearly, feedback is sought, and issues raised are properly considered and responded to.

Principal decisions

Principal decisions are those that are material to the Group and that are significant to any of the Group's key stakeholders. In making the principal decisions in the year, the Board considered the impact on all stakeholder groups as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between stakeholders.

Several of the principal decisions taken during the year were a direct result of the material impact that Covid 19 had on the Group and its business operations. All material decisions were approved and supported by the Group's shareholder. The principal decisions taken during the year include:

Significant reduction in operations
As a result of Covid 19 in the United Kingdom and the resulting mandatory lockdowns and ongoing travel restrictions, the Board took the decision to limit the tourist passenger business and to operate a freight-focussed service. Several vessels were laid up due to reduced volumes. This decision affected a large proportion of the Group's customers and workforce, many of whom were placed on furlough and other job retention schemes.

The Board also took the discretionary decision to top-up salaries for those furloughed employees, from the Governments subsidised value of 80%, to 100% of basic salary for part of the year.

Vessels held for sale
In October 2020, the Board made the decision to place four of the Group's vessels up for sale, namely the Pride of York, Pride of Bruges, Pride of Burgundy and European Seaway. In April 2021, the Pride of York and Pride of Bruges were sold realising a gain on disposal of £3.4m. In December 2021, the European Seaway was sold realising a gain on disposal of £1.5m.

At 31 December 2021, the Pride of Burgundy was included as held for sale as a current asset with a net book value of £5.1m.

Right-sizing of workforce
The Board completed the right-sizing exercise which had commenced in 2020 resulting in a restructure of the non-seafaring workforce, cognisant of the significant impact the restructure had on colleagues.

See note 27 below for details of a material non-adjusting event concerning the decision in 2022 to make 786 seafarers redundant without consulting with Trade Unions as required by UK employment legislation.

PRINCIPAL RISKS AND UNCERTAINTIES

During 2021 the Group monitored principal risks that could materially affect the group's business and financial condition. Below we focus on those that are deemed the most significant to our Group. Our risk management process aims to provide reasonable assurance so that the Group understands, is appraised of changes and is able to manage the principal uncertainties. A summary of Group risks and our approach to managing these is described below.

1. GEOPOLITICAL
Risks and issues: the Group operates across multiple jurisdictions including UK, continental Europe and Republic of Ireland. This operating area is exposed to a spectrum of economies, political and social frameworks. Political instability, changes to the regulatory regime or taxation, international sanctions, civil unrest and conflict can disrupt the Group's operations, increase costs or otherwise negatively impact services, revenues and volumes.

The continuing Ukraine war with Russia is anticipated to impact both customers' confidence to travel and the movement of freight throughout Europe. Additionally, the new international vessel crewing model may be affected due to the proportion of the global shipping personnel market originating from Russia and Ukraine, potentially affecting Group resource constraints. The UK ended its membership of the European Union (EU) on 31 January 2021 and in doing so negotiated a free trade agreement with the EU which avoids tariffs but increases regulatory burdens including rigorous enforcement on "Country of origin". This enforcement has complicated freight travel between the EU and UK which has led to longer check-in times and a reduction in exports from the UK to the EU.
Full implementation of third-party travel restrictions was implemented at the end of 2021 when the UK began checking imports from the EU.

The Brexit settlement agreed between the UK and the EU includes a controversial new protocol for the land border between Northern Ireland and the Republic (which is a part of the EU Customs Union and Single Market). To avoid a hard border on the island of Ireland, Northern Ireland remains in the EU for Customs and Single Market purposes resulting in increased policing between GB and Northern Ireland – however these checks have not yet been fully implemented and remain a work in progress. This has led to a transfer of freight traffic from Ireland to the UK via Northern Ireland as associated regulatory constraints are currently easier to navigate using this route.

Trend: Increasing risk due to the ongoing war between Russia and Ukraine, as well as political issues between UK and EU regulatory and administrative regimes.

Management:
• Conflict - the Group's senior leadership monitor the Russia-Ukraine situation and maintain business continuity arrangements. Business continuity plans are in place to respond to threat and safeguard the Group's operations and assets.
• EU - timely intervention in response to national and international legislative, administrative and fiscal proposals that the Group feels are not reasonable or in its best interest for example, through trade associations and direct engagement with regulators. The Group has developed products to ease freight compliance between the EU and UK (the "Travel Wallet") which should simplify the process and
• reduce port dwell times on the UK-EU borders going forward. Brexit has also altered tourist travel arrangements but to a lesser extent as travel of a duration of less than three months in the EU remains visa-free. Further developments related to freight and tourist travel administration within the UK and EU are anticipated, with a lack of clarity regarding timing and extent. As a result, the Group continues to manage operations within the context of this uncertainty, unable to plan fully.

2. TECHNOLOGY
Risks & issues: Increased digitalisation including mobile devices, cloud and social media combined with evolving cyber threats result in risks to the Group e.g., unauthorised and malicious access to systems, data and information. These could result in operational disruption, data loss or corruption, leading to revenue reduction, claims and legal sanctions including impacts on license to operate and fines as well as reputational harm in terms of brand damage. Legacy systems and platform gaps are being addressed but risks remain related to technical debt, knowledge management, colleague upskilling and security of cyber infrastructure and information.

Trends: Increasing due to ever enhancing digitalisation and integration by Group and its supply chains plus evolving cyber-criminal activity including state sponsored

Management: The Group utilises technology and data to provide competitive advantage. Digitalisation helps us maximise value creation and retention, effective asset use and reduction in inefficiency and friction. The Group automates where possible to enable assured compliance. The Group's technology control framework is aligned to its strategy and standards including COBIT, ITL and PCI DSS. The Group regularly reviews and evaluates IT arrangement including its architecture and estate e.g., policy updates, hardware and software upgrades, disaster recovery scenarios, vulnerability assessments and network penetration tests. Strong authentication and access controls are utilised to ensure data integrity and protection, with policy of 'use least privilege' as the Group's default position. Upgrades and patches are applied regularly and tested before release.

3. HEALTH & SAFETY
Risks and issues: The business includes significant H&S exposure due to the movement of heavy loads, working at height, handling of hazardous materials and working near water. Potential impacts include potential harm to colleagues, vendors, customers and the public as well as regulatory sanctions, increased costs, financial loss and reputational harm.

Trend: Increasing due to Covid 19 anticipated to continue to be a risk during 2022 as new strains are likely to develop and may create a new wave of disruption affecting freight and tourist travel.

Management: The Board is committed to its H&S Policy and aim of zero harm to personnel. Controls are tested through audits and inspections, and colleagues are provided with training to ensure familiarity with management expectations including policy. Existing occupational health controls were enhanced to address Covid 19 specific risks associated with colleagues, vendors and customers. The Group has implemented the H&S Pillars and appointed the newly created role of Health Safety and Security Director to support the achievement of Health and Safety targets. The Group continues to record, report and investigate Health and Safety incidents and near miss events, providing regular performance data to Group's Board and colleagues. The Group undertakes annual risk profiling to guide the Health and Safety Plan.

4. MACROECONOMIC
Risks and issues: The economic environment continued to be challenging. According to the IMF, in 2021 the global economy grew by 6.1%. The Russia war with Ukraine is expected to slow global growth in 2022 resulting in significantly reduced GPD growth. This is likely to constrain spending by the Group's freight and tourist customers, and increase costs such as energy and fuel - which impact the Group's growth and profitability.

Trend: Increasing; the unfolding Russia and Ukraine war poses further risks to energy availability and price as Russia supplies a significant proportion of Europe's energy in the form of oil and gas. Disruption to Russian supply of energy would pose wide ranging risk to the Group's operations and is a key risk.

Management: The Directors consider that the Group has appropriate planning processes in place to address this future uncertainty and will continue to monitor the trading outlook carefully and take appropriate mitigating action. The Group aims to deliver high levels of service to meet customer demands and actively manage costs. The Group has highly predictable requirements for bunker fuels for its ferry fleet and fuel prices continue to be increasingly volatile. The Ferries BU continues to mitigate the effect of rising fuel costs by applying fuel surcharges to customers. Additionally multiple sources of funding have been arranged to ensure the Group can meet liquidity requirements and to facilitate growth objectives.

5. REGULATORY
Risks and issues: The Group is subject to legal requirements across multiple jurisdictions i.e. UK, continental Europe and Republic of Ireland. The requirements are becoming more complex and increasingly stringent with relatively rapid change in some certain areas, particularly ESG. Evolving expectations in such areas as data protection and competition, could impact the Group's operations through administrative burdens and constraints causing increased costs. Failure to comply could lead to corporate and personal liability.

Trends: increasing. In addition to commercially driven efficiency changes, there are significant projected changes in regulation concerning fleet and port assets and infrastructure, relating to carbon and climate change expectations e.g., EU Fit for 55, and IMO Fuel EU Maritime. These transitions are anticipated to transform value chain management significantly, especially asset acquisition and operation, with associated technology readiness interfaces.

Management: The Group has enterprise oversight of compliance assurance through the in-house Legal team as well as functional compliance delivery and checking e.g. Fleet. It regularly monitors requirements and in areas engage specialist 3rd party support e.g., Regs4Ships database and external counsel. Extensive controls and training are used to ensure compliance.

The directors' report sets out the actions taken in March 2022 to reorganise our crewing model, together with the business rationale and commercial risk assessment for adopting that course of action.

6. RESOURCE CONSTRAINT
Risks and issues: the availability of sufficient levels of appropriate human resource has been a long-standing issue and is anticipated to continue to be a risk for the medium term. This is due to UK labour supply limits generally e.g., insufficient seafarers, and shortage of haulier driver numbers due to industry policies (misaligned to need to recruit and retain), Brexit (creating friction and less appealing conditions relative to locations outside the UK), Covid licensing delays in the UK, and IR35 implementation leading to workers leaving the sector and challenges for new joiners, as well as union actions. The Group is exposed to operational risk and also business continuity risk due to limited worker availability in relation to succession planning. Resource constraint related to leadership and talent is a typical risk post pandemic. Insufficient resource could hinder the Group's ability to operate and grow.

Trends: Increasing, the pipeline of seafarer talent is limited and has been affected by the Ukraine war. More generally attracting and retaining talent in the Group's catchment areas is proving increasingly challenging.

Management: The Group has a strategy to attract, develop and retain talent using focussed programmes for scarce skills including offering remote working in locations outside traditional catchment areas, and benchmarking remuneration packages. The Group has a dedicated internal recruitment team and uses external support to locate talent. Effective performance management is a strategic priority.

7. COMPETITION AND MARKET SUPPLY
Risks and issues: The Group operates in an increasingly tight market with new entrants into markets that historically lacked this level of competition e.g., cross Channel ferries.

Trends: increasing e.g., Irish Ferries obtaining berthing at Dover and route rights to continental Europe.

Management: 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. Additionally, engagement with port operators provides information on dynamic concession agreements.

8. SUSTAINABILITY
Risks and issues: The Group's shareholder and customers continue to encourage development of sustainability policies and focus. Lack of appropriate actions and information provision could harm the Group's reputation and lead to loss of business and market share. Climate risk related to the changing regulatory regime, which is highly dynamic and evolving, with divergence and inconsistencies between administrations relevant to the Group's business operations e.g., UK, EU and UN IMO. Additionally, there are physical impact risks in terms of damage to the Group's fixed and mobile assets, and disruption to supply chains affecting colleagues and vendors as well as the Group's freight and tourist customers.

There are potential physical impacts due to sea level rises and more intense weather.
Increasing direct and indirect financial costs/taxation related to climate are also a key risk to the business e.g., Emission Trading Schemes and fuel levies. Changes to the Group's operations are anticipated with potential for rapid need to adjust fleet operating modes to maximise efficiency and reduce emissions and costs which may affect service schedules.

Further to this, there are climate related technology risks in terms of transition to a low carbon economy with dependency on long lead times within supply chains e.g., conventional vs alternative propulsion, and reliance on third party infrastructure e.g., port authority electric charging points. Due to the severity and probability of these risks and pace of change, climate is, and is anticipated to remain, a key priority for the business. Additionally, there are environmental risks related to pollution e.g., single use plastics and spills, as well as social aspects e.g., human trafficking and community engagement. Assessment of the Group's controls and performance in these areas is also evaluated by lenders, customers and regulators potentially impacting the Group's reputation, revenue and profitability. Environmental incidents such as spills could result in clean-up costs and fines as well as reputational harm.

Trends: Increasing, there is an ongoing drive for electrification / alternative fuel sources with associated costs for asset upgrades and operational changes.

Management undertakes risk assessments and adjusts its strategies accordingly e.g., Fleet Technology and Strategy. Management also maintains policies e.g., Modern Slavery Act Statement. Carbon emissions are reported e.g., SECR.
The Group has an Environmental Lead (Enterprise SME) and a network of functions providing operational delivery support e.g., Port Managers have local teams ensuring Environmental compliance, and providing spill response.

9. CONTROL FRAMEWORKS
Risks and issues: The Group is focussed on its control environment and this has been exacerbated by organisational and executive changes during 2021. Insufficient or misaligned controls lead to risk of non-conformity resulting in legal penalties and friction affecting customer and colleague satisfaction.

Trends: Steady - control gaps are being resolved through enterprise-wide formalisation.

Management: Historic suboptimal control framework being addressed through a programme of discovery, gap analysis and enhancement to respond to the Group risk profile as well as to align with shareholder expectations and good practice. Whilst this transformation occurs, there is a risk of insufficient control across the functions which is formally articulated.

10. PENSIONS
Risks & Issues: 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, it 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.

Trends: Increasing exposure. 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.

Management: The Pension Trustees regularly monitor the risks and control adequacy, and act to limit any exposure. Specialist support is provided to the Group by third parties including Capital Cranfield.

11. FINANCIAL
Risks & Issues: The Group is exposed to Credit risk, Liquidity risk, Market risk, Interest rate risk, foreign exchange risk and Capital Management risk.

Trends: Increasing due to difficult trading conditions, revenue reduction and asset depreciation.

Management: See Group's financial risk management policy at note 1 page 39 to the financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

MATERIAL UNCERTAINTY IN RESPECT OF GOING CONCERN

The financial statements have been prepared on a going concern basis.

The Board continues to manage carefully the Group's funding and liquidity position. At the balance sheet date, the main sources of debt funding were external bank loans, shareholder loan, a multi-currency credit facility and overdraft facilities. The Group also had in place working capital facilities for trade debtors factored on a non-recourse basis. Cash levels throughout 2022 have varied but at December 2022 are higher than at the end of December 2021.

The directors have implemented cashflow management strategies which include further negotiation of the deferral of loan principal and pension deficit contribution payments from July 2022, and extended shareholder loan facilities in place to provide a total combined facility of £305 million to support the Group as it continues to address the challenges identified above, with an additional £30m having been approved internally, £295m of which had been drawn by the end of March 2023. The shareholder loan is repayable at a yet undetermined point in the future but no earlier than December 2023.

All of the Group's external bank loan counterparties and each Board of Pension Trustees were approached in July 2022 and were asked for a twenty-four-month payment holiday and extension of maturity on principal and deficit repayments, and waivers of covenants. All interest and limited principal loan and deficit payments have been made since the end of July 2022 with discussions ongoing with external banks to finalise a shorter principal deferral period of twelve months, with the pension fund deferral period remaining at twenty four months. Pending resolution of this process the overdraft facility has been suspended by the main relationship bank.

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; secured borrowings to tangible fixed assets; minimum EBITDA and minimum Liquidity. Waivers of the net debt to EBITDA before exceptional items and EBITDA to interest payable covenants had been obtained until December 2021 at which point the Group had not met the covenant ratios and continues not to do so throughout 2022. These base case and downside modelling foresee the continuation of breaches to the existing covenants during the forecast period. The revision of covenants and waivers over past breaches will be considered as part of the deferral discussions referenced above.

In deciding that the accounts should be prepared on going concern basis, the Board has considered the continuing trading impact on our customers and business resulting from Covid-19, and the longer-term impact of the related restructure measures taken by the board, particularly the March 2022 crewing model change which led to over seven hundred redundancies and widespread media attention which has been disruptive to trade.
The directors have prepared several forecasts including the base case, a severe trading downside case and an overall severe but plausible downside scenario as discussed below, covering a period of sixteen months from the date of approval of these financial statements.

The base case, being the approved budget for 2023 and an associated five-year plan sees the Group recover to positive EBITDA generation in April 2023. The tourist market is budgeted to continue to be adversely affected by Covid-19 and economic recession, though recovering over the course of the plan. Freight volumes are also budgeted to be impacted by economic recession in 2023, recovering in 2024.

Both tourist and freight markets are budgeted to pass on significant price increases as it has experienced high-cost inflation in 2022 which is expected to reduce to normal levels throughout 2023.

The Group has planned various cost saving initiatives that reduce the costs in its base case including the change in the crewing model (note 27).

On 28 February 2023 the title of ownership of the new vessels under construction, being the assets on the balance sheet, were transferred, at net book value of £86.7m, to DP World France SAS, a DPW legal entity outside the P&O Ferries group. The consideration for this asset transfer was a combination of cash and a reduction in the shareholder loan facility balance, following receipt of the required approvals being obtained. The P&O Ferries Group will not incur any further capital expenditure costs. DP World is underwriting the financing of the vessels which are to be chartered to the P&O Ferries group at a competitive third-party charter rate.

No impact has been included in the forecast, or is expected from the ongoing Insolvency Service civil investigation (note 27). The base case assumes the successful agreement of the above mentioned payment deferral for principal loan and pension deficit payments. The base case also assumes increased capacity on the Dover-Calais route from the delivery of the two new build vessels that start sailing in May 2023 and November 2023 respectively.

The severe trading downside scenario assumes the freight and tourist markets will continue to recover from the impact of Covid-19 but that there will be a volume impact from economic recession and an additional impact from the pending European Entry System (EES) and European Travel Information and Authorisation System (ETIAS) checks required for travel post Brexit, limiting the maximum capacity through ports. These factors result in a total plausible downside of 11% of tourist volume in 2023, 9% on P&O Freight volumes and on 5% P&O Ferrymasters volumes due to the risk of a lower than budgeted market growth and increased competitive activity.In this scenario the group projects to remain in a negative EBIT position until the end of Q1 2023 but does not project to draw any additional shareholder support to the base case until March 2024, where £16.7m would be required however this could be managed with capital expenditure reductions and working capital management.

Under the overall severe but plausible downside case, in addition to the trading downsides described above, the Group has projected the effect of external bank loan counterparties and each Board of Pension Trustees providing no further concessions to contracted positions, with a catch up on unpaid principal amounts. An early repayment in full due to covenant breach has not been considered.

The extent of additional funding that is required is dependent on the Group's ability to achieve the base forecasts and successfully conclude binding agreements with the external bank loan counterparties and pension boards.

In the overall severe but plausible downside case funding of over £24.1m would be required in 2023 and £46m in 2024, resulting in a total of £52m additional shareholder support in excess of the existing facility of £305 million being required. The Directors are confident that this funding would be provided by the shareholder if required.

Consequently, the directors believe that the Group and company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore believe that it remains appropriate to prepare the financial statements on a going concern basis. However they acknowledge that the agreement of the finance providers and pensions trustees to a payment deferral and covenant waivers are still outstanding and both the trading downside case and overall severe but plausible downside case require significant levels of further, uncommitted, support from DP World Limited. There is a a material uncertainty that may cast significant doubt on the group's and company's ability to continue as a going concern and therefore to continue realising their assets and discharging their 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.

P&O FERRIES DIVISION HOLDINGS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

CORPORATE GOVERNANCE AND BOARD

The Board is at the centre of our corporate governance framework. For the year ended 31 December 2021, under The Companies (Miscellaneous Reporting) Regulations 2018, the Group has applied the Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") as its framework for disclosure regarding its corporate governance arrangements.

Principle 1 - Purpose and leadership

The Board continues to operate strong corporate governance practices, adding value to its performance, improving its strategic thinking and allowing it to monitor the risks it faces more effectively. It promotes the highest standards of professionalism and ethical behaviour throughout the Group. The Board remains at the centre of the business and consists of two independent non-executive board members and one executive director. The directors represent a diverse mix of skills and experience, and collectively contribute to the Group's future strategic direction. The Board seeks to ensure that the Group delivers enduring value for its shareholder by achieving its strategic goals.

The Group's Values are articulated through 'Our Principles' which apply across all organisations within the DP World Group and are to 'Create Growth', 'Adapt & Evolve', 'Make Others Excel', and 'Drive Results'.

The aspirations of the business are communicated and promoted to all personnel through line management and Group-wide townhall meetings. Each department is responsible for contributing towards these through their individual Functional Plans. The Board considers that the Corporate Responsibility Framework promotes the prudent and sound management of the Group creating long-term interest and value for the Group and its shareholder.

During the year, the Board has continued to focus on taking the necessary steps to navigate the Group through the challenges associated with the Covid19 pandemic and ensuring it is in a fit shape to compete in the long term.

Principle 2 - Board composition

The Board is collectively responsible for the management and effective oversight of the Company's business.

As at 31 December 2021, the Board comprised of six members, of multi-national background, with a diverse range of individuals, skills and experience, to enable it to fulfil its responsibilities effectively and meet its long-term strategic plan. The board now contains one executive Director. The Board is organised to include two non-executive directors as shareholder representatives to offer constructive challenge and oversight. The meetings occurred quarterly throughout 2021 and continue to occur at least quarterly.

The Group's Chief Executive Officer and Director, Peter Hebblethwaite, leads the Board and is responsible for ensuring that the Directors have access to the complete and appropriate information required to inform its decision making..

The Board is comprised of experienced professionals whom are all encouraged to engage in professional development including seeking any external training as may be necessary

Principle 3 - Directors' Responsibilities

Effective Board leadership requires a clear division between the Board's responsibilities of strategic oversight and challenge, and those responsibilities which the Board has delegated to management. The clear division of responsibilities supports effective decision making, to deliver long-term value.

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 key policies including those on safety and environment; and
- insurance, risk management and internal controls.

The Board has delegated the following responsibilities to management:

- development and recommendation of strategic proposals for consideration by the Board that reflect the long term objectives and priorities established by the Board;
- implementation of the Company's (and 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 Company strategy and objectives, prioritising the allocation of capital and technical resources; and
- developing and implementing risk management systems, and control arrangements subject to the continued oversight of the Board and the Shareholder's Audit and Risk Committee.

The Board periodically reviews the Group's corporate governance processes to ensure they are up to date and are aligned to the Group's strategy.

Principle 4 - Opportunity and risk

Opportunities
Long term opportunities are identified through the strategic planning process which includes input from all areas of the business. The Group produces a five-year budget and business plan which is presented to the Board and subsequently the shareholder for approval each year.

Risk management
The Risk and Compliance Manager provides oversight of the Group's enterprise risk profile and recommends reviews and updates to risk policies and control procedures to the Board. The Board delegates responsibility for identifying and treating risks to leaders and line managers within the respective business areas.

Internal control framework
The Board is accountable for establishing and maintaining an effective system of internal control and has enabled a control framework within which the Group operates. This system of internal control is utilised in key operations and is designed to provide reasonable assurance that the Group's business objectives will be achieved and exposure is maintained to within its risk appetite.

The Group is audited by the shareholder's Group Internal Audit function and takes steps to ensure it follows the relevant DP World requirements. Additionally, controls and performance are evaluated through other audits e.g., external statutory assessments on Finance and Safety arrangements. The Board is responsible for ensuring the findings of audits are remediated in a timely manner.

Principle 5 - Remuneration

The Board's remuneration policy and key decisions are discussed by the Board and coordinated with the HR Director. The Board's remuneration is aligned with individual performance and the Group's performance which include the achievement of the Group's strategic objectives.

Principle 6 - Stakeholder relationships and engagement

Information relating to the Board's engagement with key stakeholders is set out in the Section 172 statement on page 4. The Group has a whistleblowing hotline (monitored by DP World) to provide colleagues and other stakeholders with the confidence and means to raise concerns regarding any elements of fraud, wrongdoing, or other ethical conduct breaches they observe, knowing that their concerns will be dealt with effectively, confidentially and consistently.

Approved by the Board on 21 April 2023 and signed on its behalf by:

....
P D G Hebblethwaite
Director

P&O FERRIES DIVISION HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021.

DIRECTORS

The directors who held office during the year, and to the date of approval of these accounts were as follows:

K Howarth (resigned 31 March 2022)

R B Woods (resigned 16 December 2021)

D Stretch (resigned 23 November 2021)

T Runge (resigned 31 May 2022)

C B Bailey (resigned 23 May 2022)

L Cotton (resigned 31 March 2021)

P D G Hebblethwaite

J M Woollacott (resigned 31 May 2022)

A Odinius (appointed 1 September 2021 and resigned 31 May 2022)

The following directors were appointed after the year end:

Mr J Kristensen (appointed 3 August 2022)

Mr P Narayan (appointed 3 August 2022)

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 (2020: £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 2021

MATERIAL NON ADJUSTING EVENTS AFTER THE END OF FINANCIAL PERIOD

In March 2022, the Group enacted a strategic change related to its fleet crewing resources. The financial impacts of the Covid 19 pandemic on the Group resulted in a need to ensure operating efficiency and flexibility if it was to return to profitability and have a viable long-term future.

The ability of the Group to operate with this required flexibility (to vary staffing levels and sailing schedule frequency in the light of changing demand) was constrained by legacy restrictive collective bargaining agreements.

The Board resolved on 17 March 2022 that the solution to gaining this essential operational flexibility was to deploy an international agency based crewing model common in the international maritime industry.

The Group did not consult with 786 employees who were made redundant as required under UK Employment law in the implementation of this decision. However, all impacted employees were compensated in full for "failure to consult", as is required within the law, without the need for Employment Tribunal hearings, with settlement packages exceeding minimum statutory requirements and have signed final settlement agreements.

The cost of the enhanced redundancy packages was £36.5m, which will be recognised in the financial statements in 2022. There was a further impacts arising from the subsequent disruption from ships being delayed returning to service due to seafarer familiarisation and extensive safety checks.

A criminal investigation into the circumstances of the crewing model change by the Insolvency Service has been closed with no prosecution. A civil investigation by the Insolvency Service is ongoing but remains at the information gathering stage and the Insolvency Service have not confirmed the exact scope of their investigation. The Insolvency Service would need to show that any action it proposed to take was in the public interest and just and equitable. The directors consider that it will not be able to demonstrate this and consequentially there is a less than remote possibility of a related economic outflow in relation to any such action.

P&O FERRIES DIVISION HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The shareholder has continued to provide significant funding to support the Group during 2022, to support operations and fund turnaround efforts. The shareholders loan facility of £160m that existed at the balance sheet date was extended by a further £115m in September 2022 and then a further £30m in November 2022. See also the strategic report.

The court hearing to consider the approval of the settlement in the Merchant Navy Ratings Pension Fund (MNRPF) ill-health early retirement benefits case occurred on 24 February 2022 with the court approving the settlement, which is subject to appeal, a current service cost of £27m was recognised in 2022 (please see note 17).

On 28 February 2023 the title of ownership of the new vessels under construction, being the assets on the balance sheet, were transferred, at net book value of £88.6m, to DP World France SAS, a DPW legal entity outside of the P&O Ferries group. The consideration for this asset transfer will be a corresponding reduction in the shareholder loan facility balance, subject to the required approvals being obtained and the Ferries group will not incur any further capital expenditure costs. DP World is underwriting the financing of the vessels which are to be chartered to the P&O Ferries group at a competitive third party charter rate.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

P&O FERRIES DIVISION HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

EMISSIONS AND ENERGY CONSUMPTION

In accordance with the Streamlined Energy and Carbon Reporting ('SECR') requirements, the Group discloses the following energy and carbon metrics for the year:

Name and description	Metric and / or KPI	Unit of measurement	2021	2020
Annual emissions in tonnes of CO2e	Scope 1	tCO2e	651,734	692,505
	Scope 2 location-based	tCO2e	2,759	3,266
	Scope 2 market-based	tCO2e	1,849	2,273
	Scope 3	tCO2e	500	822
Intensity ratios	FTE energy intensity (location-based)	tCO2e/FTE	272,120	256,319
	FTE energy intensity (market-based)	tCO2e/FTE	271,742	255,954
	Emissions intensity (location-based)	kgCO2e/km	293,992	294,738
	Emissions intensity (market-based)	kgCO2e/km	293,583	294,318
Energy in MWh	Electricity	MWh	11,315	11,978
	Fuels	MWh	3,585,702	2,690,163

Over the last year, while our overall emissions have decreased (Scope 1 by circa 6%, Scope 2 by circa 17% and Scope 3 by 39%) our FTE energy intensity metric has increased partly due to reduced headcount.

Scope 1 and 2 emission reduction results from a slight decrease in our maritime fuel consumption i.e. Marine Gas Oil due to multiple aspects:

• This was primarily driven by the standard of Ultra Low Fuel Oils being available. The standard for specification of marine fuels (ISO 8217) has not yet been adapted to the newer low sulphur fuels which has led to multiple blend variations being provided by suppliers. This issue was finally resolved by contracting a different supplier.

• Vessel fuel consumption fell as the fleet was more effectively operated i.e. vessels were better employed on their routes, timetables were changed, and some vessels withdrawn from service.

• Benefits in technical updates also helped to reduce fuel consumption e.g. improved propulsion systems and drag reduction.

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 AUDITOR

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

Approved by the Board on 21 April 2023 and signed on its behalf by:

....
P D G Hebblethwaite
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 Accounting Standards in conformity with the requirements of the Companies Act 2006 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 the Group's 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 estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- 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.

P&O FERRIES DIVISION HOLDINGS LIMITED

INDEPENDENT AUDITOR 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 2021, which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated and Company statements 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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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 to the financial statements which indicates that the group and parent company's ability to continue as a going concern is dependent on the availability of sufficient debt facilities which will be affected by the follow factors which remain uncertain, agreement of it's finance providers to a payment deferrals and covenant waivers, the agreement of the relevant Pension Trustees to a contribution deferral, the substantial achievement of the base forecasts and the availability of such additional funding as is needed from the controlling shareholder of the intermediate parent company.

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.

GOING CONCERN

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Our conclusion based on our financial statements audit work: we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that freight revenue is recorded in the wrong period and the risk that Group and component management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition for other revenue streams because they consist of high number of low value transactions for which the correct period of recording requires little judgement.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts and those posted with rounded numbers.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: employment law, health and safety, anti-bribery, and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the material non adjusting events after the reporting date of a criminal investigation and civil investigation into the circumstances of the crewing model change discussed in note 28 we assessed disclosures against our understanding obtained from legal correspondences and discussions, used our employment law specialists to help us assess compliance with laws and regulations and obtained communications received from relevant authorities.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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.

INDEPENDENT AUDITOR 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 23, 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 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.

P&O FERRIES DIVISION HOLDINGS LIMITED

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

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

21 April 2023

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £ 000	2020 £ 000
Revenue	2	834,825	865,710
Cost of sales		(839,173)	(843,000)
Gross (loss)/profit		(4,348)	22,710
Administrative expenses		(356,342)	(120,416)
Operating (loss) before separately disclosed items		(88,977)	(58,786)
Separately disclosed items	3	(271,713)	(38,920)
Operating loss		(360,690)	(97,706)
Finance income		2,374	4,240
Finance costs		(16,326)	(9,886)
Net finance cost	4	(13,952)	(5,646)
Share of profit of equity accounted investees	11	112	74
Loss before tax		(374,530)	(103,278)
Tax expense	8	(1,078)	(2,018)
Loss for the year		(375,608)	(105,296)
Profit attributable to:			
Owners of the company		(375,608)	(105,296)

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 2021

	Note	2021 £ 000	2020 £ 000
Loss for the year		(375,608)	(105,296)
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations		25,463	2,274
Tax on remeasurement of post employment benefit obligations	8	(990)	35
		24,473	2,309
Items that may be reclassified subsequently to profit or loss			
Gain on cash flow hedges (net)		(5,825)	(1,256)
Foreign currency translation gains		(1,001)	1,049
		(6,826)	(207)
Total comprehensive loss for the year		(357,961)	(103,194)
Total comprehensive loss attributable to:			
Owners of the company		(357,961)	(103,194)

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (REGISTRATION NUMBER: 06038090)

	Note	31 December 2021 £ 000	31 December 2020 £ 000
Assets			
Property, plant and equipment	9	439,669	423,372
Intangible assets	10	14,050	289,381
Equity accounted investments	11	725	665
Other Investments	11	25	25
Retirement benefit surplus	17	12,387	-
Deferred tax assets	8	600	700
		467,456	714,143
Current assets			
Inventories	12	7,794	7,322
Trade and other receivables	13	151,277	146,718
Cash and cash equivalents	14	9,778	31,851
		168,849	185,891
Non-current assets classified as held for sale	9	5,129	15,200
Total assets		641,434	915,234
Liabilities and equity			
Current liabilities			
Trade and other payables	16	(214,432)	(207,399)
Loans and borrowings	15	(130,687)	(117,693)
Tax Liability		(579)	(2,469)
Retirement benefit obligations	17	(10,553)	(26,944)
Provisions	18	(11,808)	(27,059)
		(368,059)	(381,564)
Non-current liabilities			
Loans and borrowings	15	(149,805)	(39,435)
Retirement benefit obligations	17	(133,849)	(147,321)
Deferred tax liabilities	8	(1,916)	(1,148)
		(285,570)	(187,904)
Total liabilities		(653,629)	(569,468)

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (REGISTRATION NUMBER: 06038090)

	Note	31 December 2021 £ 000	31 December 2020 £ 000
Equity			
Share capital	19	(428,542)	(428,542)
Share premium		(107,135)	(107,135)
Foreign currency translation reserve		105	(896)
Cash flow hedging reserve		13,776	7,951
Other reserves		222,590	247,063
Retained losses / (earnings)		311,401	(64,207)
Equity attributable to owners of the company		12,195	(345,766)
Total liabilities and equity		(641,434)	(915,234)

Approved by the Board on 21 April 2023 and signed on its behalf by:

....

P D G Hebblethwaite

Director

P&O FERRIES DIVISION HOLDINGS LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (REGISTRATION NUMBER: 06038090)

	Note	31 December 2021 £ 000	31 December 2020 £ 000
Assets			
Non-current assets			
Investments in subsidiaries, joint ventures and associates	11	202,229	394,429
Current assets			
Trade and other receivables	13	196,544	115,265
Total assets		398,773	509,694
Liabilities and equity			
Current liabilities			
Trade and other payables	16	(43,895)	(138,080)
Loans and borrowings	15	(6,070)	-
		(49,965)	(138,080)
Non-current liabilities			
Loans and borrowings	15	(130,000)	-
Total liabilities		(179,965)	(138,080)
Equity			
Share capital	19	(428,542)	(428,542)
Share premium		(107,135)	(107,135)
Retained losses		316,869	164,063
Total equity		(218,808)	(371,614)
Total liabilities and equity		(398,773)	(509,694)

Approved by the Board on 21 April 2023 and signed on its behalf by:

....

P D G Hebblethwaite
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	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 2021	428,542	107,135	896	(7,951)	(247,063)	64,207	345,766
Loss for the year	-	-	-	-	-	(375,608)	(375,608)
Other comprehensive income/(loss)	-	-	(1,001)	(5,825)	24,473	-	17,647
Total comprehensive income/(loss)	-	-	(1,001)	(5,825)	24,473	(375,608)	(357,961)
At 31 December 2021	428,542	107,135	(105)	(13,776)	(222,590)	(311,401)	(12,195)

	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 2020	428,542	107,135	(153)	(6,695)	(249,372)	169,503	448,960
Loss for the year	-	-	-	-	-	(105,296)	(105,296)
Other comprehensive income/(loss)	-	-	1,049	(1,256)	2,309	-	2,102
Total comprehensive income/(loss)	-	-	1,049	(1,256)	2,309	(105,296)	(103,194)
At 31 December 2020	428,542	107,135	896	(7,951)	(247,063)	64,207	345,766

The notes on pages 39 to 109 form an integral part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	428,542	107,135	(164,063)	371,614
Loss for the year	-	-	(152,806)	(152,806)
Total comprehensive income	-	-	(152,806)	(152,806)
At 31 December 2021	428,542	107,135	(316,869)	218,808

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	428,542	107,135	(161,660)	374,017
Loss for the year	-	-	(2,403)	(2,403)
Total comprehensive loss	-	-	(2,403)	(2,403)
At 31 December 2020	428,542	107,135	(164,063)	371,614

The notes on pages 39 to 109 form an integral part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £ 000	2020 £ 000
Cash flows from operating activities			
Loss for the year		(375,608)	(105,296)
Adjustments to cash flows from non-cash items			
Depreciation and amortisation		54,254	72,130
Impairment loss		277,545	-
Profit on disposal of property plant and equipment		(2,979)	(277)
Finance income	4	(2,374)	(4,240)
Finance costs	4	16,326	9,886
Share of (profit) or loss of equity accounted investees	11	(112)	(74)
Tax expense	8	1,078	2,018
Defined benefit pension non-cash charges		7,298	4,810
		(24,572)	(21,043)
Working capital adjustments			
(Increase)/decrease in inventories	12	(472)	1,496
Increase in trade and other receivables	13	(3,850)	(4,047)
(Decrease)/increase in trade and other payables	16	(11,811)	49,148
Increase in provisions		(14,652)	7,505
Cash generated from operations		(55,357)	33,059
Income taxes paid		(2,196)	(1,209)
Employer contributions paid	17	(26,329)	(1,171)
Net cash flow from operating activities		(83,882)	30,679
Cash flows from investing activities			
Interest received	4	2	25
Acquisitions of property plant and equipment		(54,871)	(21,082)
Proceeds from sale of property plant and equipment		9,389	380
Acquisition of intangible assets	10	(2,638)	(2,364)
Acquisition of available for sale investments	11	-	(25)
Net cash flows from investing activities		(48,118)	(23,066)
Cash flows from financing activities			
Repayment of bank borrowing		(4,956)	(13,830)
Repayments of lease creditors		(13,262)	(28,708)
Interest paid		(3,482)	(4,229)
Shareholder loan draw downs		130,000	-
Net cash flows from financing activities		108,300	(46,767)
Net decrease in cash and cash equivalents		(23,700)	(39,154)
Cash and cash equivalents at 1 January		31,851	69,981

The notes on pages 39 to 109 form an integral part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £ 000	2020 £ 000
Effect of exchange rate fluctuations on cash held		1,627	1,024
Cash and cash equivalents at 31 December		9,778	31,851

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 UK ("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 2021

MATERIAL UNCERTAINTY IN RESPECT OF GOING CONCERN

The financial statements have been prepared on a going concern basis.

The Board continues to manage carefully the Group's funding and liquidity position. At the balance sheet date, the main sources of debt funding were external bank loans, shareholder loan, a multi-currency credit facility and overdraft facilities. The Group also had in place working capital facilities for trade debtors factored on a non-recourse basis. Cash levels throughout 2022 have varied but at December 2022 are higher than at the end of December 2021.

The directors have implemented cashflow management strategies which include further negotiation of the deferral of loan principal and pension deficit contribution payments from July 2022, and extended shareholder loan facilities in place to provide a total combined facility of £305 million to support the Group as it continues to address the challenges identified above, with an additional £30m having been approved internally, £295m of which had been drawn by the end of March 2023. The shareholder loan is repayable at a yet undetermined point in the future but no earlier than December 2023.

All of the Group's external bank loan counterparties and each Board of Pension Trustees were approached in July 2022 and were asked for a twenty-four-month payment holiday and extension of maturity on principal and deficit repayments, and waivers of covenants. All interest and limited principal loan and deficit payments have been made since the end of July 2022 with discussions ongoing with external banks to finalise a shorter principal deferral period of twelve months, with the pension fund deferral period remaining at twenty four months. Pending resolution of this process the overdraft facility has been suspended by the main relationship bank.

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; secured borrowings to tangible fixed assets; minimum EBITDA and minimum Liquidity. Waivers of the net debt to EBITDA before exceptional items and EBITDA to interest payable covenants had been obtained until December 2021 at which point the Group had not met the covenant ratios and continues not to do so throughout 2022. These base case and downside modelling foresee the continuation of breaches to the existing covenants during the forecast period. The revision of covenants and waivers over past breaches will be considered as part of the deferral discussions referenced above.

In deciding that the accounts should be prepared on going concern basis, the Board has considered the continuing trading impact on our customers and business resulting from Covid-19, and the longer-term impact of the related restructure measures taken by the board, particularly the March 2022 crewing model change which led to over seven hundred redundancies and widespread media attention which has been disruptive to trade.

The directors have prepared several forecasts including the base case, a severe trading downside case and an overall severe but plausible downside scenario as discussed below, covering a period of sixteen months from the date of approval of these financial statements.

The base case, being the approved budget for 2023 and an associated five-year plan sees the Group recover to positive EBITDA generation in April 2023. The tourist market is budgeted to continue to be adversely affected by Covid-19 and economic recession, though recovering over the course of the plan. Freight volumes are also budgeted to be impacted by economic recession in 2023, recovering in 2024. Both tourist and freight markets are budgeted to pass on significant price increases as it has experienced high-cost inflation in 2022 which is expected to reduce to normal levels throughout 2023. The Group has planned various cost saving initiatives that reduce the costs in its base case including the change in the crewing model (note 27). No impact has been included in the forecast, or is expected from the ongoing civil investigation. The base case assumes the successful agreement of twenty-four-month payment deferral for principal loan and pension deficit payments. The base case also assumes increased capacity on the Dover-Calais route from the delivery of the two new build vessels that start sailing in May 2023 and November 2023 respectively.

On 28 February 2023 the title of ownership of the new vessels under construction, being the assets on the balance sheet, were transferred, at net book value of £86.7m, to DP World France SAS, a DPW legal entity outside the P&O Ferries group. The consideration for this asset transfer was a combination of cash and a reduction in the shareholder loan facility balance, following receipt of the required approvals being obtained. The P&O Ferries Group will not incur any further capital expenditure costs. DP World is underwriting the financing of the vessels which are to be chartered to the P&O Ferries group at a competitive third-party charter rate.

No impact has been included in the forecast, or is expected from the ongoing Insolvency Service civil investigation (note 27). The base case assumes the successful agreement of the above mentioned payment deferral for principal loan and pension deficit payments. The base case also assumes increased capacity on the Dover-Calais route from the delivery of the two new build vessels that start sailing in May 2023 and November 2023 respectively.

The severe trading downside scenario assumes the freight and tourist markets will continue to recover from the impact of Covid-19 but that there will be a volume impact from economic recession and an additional impact from the pending European Entry System (EES) and European Travel Information and Authorisation System (ETIAS) checks required for travel post Brexit, limiting the maximum capacity through ports. These factors result in a total plausible downside of 11% of tourist volume in 2023, 9% on P&O Freight volumes and on 5% P&O Ferrymasters volumes due to the risk of a lower than budgeted market growth and increased competitive activity.

In this scenario the group projects to remain in a negative EBIT position until the end of Q1 2023 but does not project to draw any additional shareholder support to the base case until March 2024, where £16.7m would be required however this could be managed with capital expenditure reductions and working capital management.

Under the overall severe but plausible downside case, in addition to the trading downsides described above, the Group has projected the effect of external bank loan counterparties and each Board of Pension Trustees providing no further concessions to contracted positions, with a catch up on unpaid principal amounts. An early repayment in full due to covenant breach has not been considered.

The extent of additional funding that is required is dependent on the Group's ability to achieve the base forecasts and successfully conclude binding agreements with the external bank loan counterparties and pension boards. In the overall severe but plausible downside case funding of over £24.1m would be required in 2023 and £46m in 2024, resulting in be a total of £52m additional shareholder support in excess of the existing facility of £305 being required. The Directors are confident that this funding would be provided by the shareholder if required.

Consequently, the directors believe that the Group and company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore believe that it remains appropriate to prepare the financial statements on a going concern basis. However they acknowledge that the agreement of the finance providers and pensions trustees to a payment deferral and covenant waivers are still outstanding and both the trading downside case and overall severe but plausible downside case require significant levels of further, uncommitted, support from DP World Limited. There is a a material uncertainty that may cast significant doubt on the group's and company's ability to continue as a going concern and therefore to continue realising their assets and discharging their 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 2021.

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 £152.8m (2020 - £2.4m).

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;

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.

Commissions income is received on the sales made of World Duty Free Group products, through an agency agreement for the on-board retail sales.

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.

GOVERNMENT GRANTS

Government grants are included within deferred government grants in the balance sheet and credited to the profit and loss account on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

The Group has elected to present grants related to income under the heading "Revenue". See note 2 for further details.

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. 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.

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.

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.

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.

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

Vessel maintenance and dry dock overhaul costs for owned or leased vessels are deferred as a component of the related tangible fixed asset and depreciated over their useful economic lives (typically over a period of 24 months or more to the next estimated overhaul).

Depreciation

Depreciation 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.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are classified as held for sale when the Group has committed to sell the asset, and it is highly probable that its carrying amount will be recovered through a sale transaction rather than continuing use. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Assets are not depreciated or amortised once classified as held for sale.

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.

CONTINGENT LIABILITIES

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. No provision is required for such items if a future transfer of benefits is not probable or cannot be reliably measured. If settlement becomes probable, a provision is required. Refer to note 18.

LEASES

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in statement of profit or loss.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately on statement of financial position.

Variable lease payments that depend on revenue and output are recognised in statement of profit or loss in the period in which the condition that triggers those payments occurs.

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 ('MNOPF'), 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.

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.

There is a multi-currency cash pooling arrangement with the relationship bank across that extends across the business, the combined balance of all pooled these accounts is what constitutes a potential overdraft.

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.

DERIVATIVES AND HEDGING

Derivative financial instruments

Derivative financial instruments such as interest rate swaps, foreign currency forwards and fuel commodity swaps are held to hedge the cash flows exposed to risk of fluctuations in interest rates, foreign currencies and fuel price.

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk managements objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

Initial recognition

Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognised in the consolidated income statement or the consolidated statement of other comprehensive income.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows with highly probable forecast transactions arising from changes in foreign exchange rates, fuel price and interest rates.

On initial designation of the derivatives as the hedging instrument, the Group formally documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedging instrument and hedged item, including whether the changes in cash flow of the hedged item and hedging instrument are expected to offset each other together with the methods that will be used to assess the effectiveness of the hedging relationship.

DERIVATIVES AND HEDGING

Subsequent measurement

Changes in the fair value of the derivative hedging instruments designated as a cash flow hedge are recognised directly in consolidated statement of other comprehensive income to the extent that the hedge is effective and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the consolidated income statement.

When the hedged item is a non-financial asset, the amount recognised in the consolidated statement of other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in consolidated statement of other comprehensive income is transferred to the consolidated income statement in the same period that the hedged item affects the consolidated income statement.

Derecognition

If the hedging instrument no longer meets the criteria for hedge accounting, expires, or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in consolidated statement of other comprehensive income remains there until the forecast transaction or firm commitment occurs. If the forecast transaction or firm commitment is no longer expected to occur, then the balance in equity is reclassified to the consolidated income statement.

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.

(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.

(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.

(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.

Fuel price risk

The Group is exposed to movements in fuel prices. Management seek to reduce volatility by placing short term commodity swaps.

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 are not effective for accounting periods starting on or after 1 January 2022. 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 - 2018-2020 Cycle. (effective for accounting periods starting 1 January 2022).

• IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts (effective for accounting periods starting 1 January 2023). The Directors do not expect that there will be a material impact of IFRS17 on the group financial statements but are currently assessing the impact on the Parent Company which is the guarantor for various subsidiary debt balances.

CHANGES TO ACCOUNTING POLICIES

The Group has adopted the Phase 2 amendments to IFRS 9, IAS39, IFRS 7, IFRS 4 and IFRS16 - Interest rate benchmark (IBOR) reform during the year.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk free rates (referred to as 'IBOR reform'). The Group had exposures to IBORs on its borrowings as part of these market wide initiatives and have undertaken IBOR transition applying the Phase 2 amendments in 2021 with respect to its borrowings.

The impact of the IBOR reform on the financial statements is not material as discussed in note 15.

ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group and Company's financial statements prepared in accordance with IFRS and FRS 101 respectively require management to make judgements and estimates that affect amounts reported in the financial statements and related notes. The judgements and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates.

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The directors consider that significant judgements relate to:

• The reversal of a legal provision, originally made in 2020 which relates to an employment tribunal (note 18),

• The assessment of uncertainty regarding going concern as included in the basis of preparation accounting policy (note 1),

• The assessment of one Cash Generating Unit at for the purposes of goodwill impairment assessment (note 10).

The directors consider that significant estimates relate to:

• Defined benefit pension liabilities (note 17), estimation arises in respect of assumptions applied.

• Goodwill impairment assessment (note 10), estimation arises in respect of assumptions applied.

2. REVENUE

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

	2021 £ 000	2020 £ 000
Analysis by activity:		
Ferry service total	385,514	427,131
Ferry service inter-segment	(26,269)	(29,080)
Ferry service sales to third parties	359,245	398,051
Ferrymasters transport and freight management	455,821	450,789
Commissions Income	7,145	1,898
Government grant income	12,614	14,972
	834,825	865,710

Government grant income relates to post Brexit freight capacity agreements with the UK Department for Transport (DfT) and cost support UK and French Government Job Retention Schemes.

3 SEPARATELY DISCLOSED ITEMS

		2021 £ 000	2020 £ 000
Exceptional administrative expenses - Restructuring		(343)	(38,920)
Exceptional administrative expenses - Legal		6,175	-
Impairment loss	10	(277,545)	-
		(271,713)	(38,920)

The Group's operating profit for 2021 includes £271.7m (2020: £38.9m) of exceptional costs, £0.3m (2020 £36.6m) relating to restructuring and a provision release of £6.2m relating to an employment tribunal that concluded favourably to the Group.

The impairment loss of £277.5m (2020: £Nil) relates to goodwill (note 10).

4 FINANCE INCOME AND COSTS

	Note	2021 £ 000	2020 £ 000
Finance income			
Interest income on bank deposits		2	25
Foreign exchange gains		1,773	4,215
Other finance income		599	-
Total finance income		2,374	4,240
Finance costs			
Interest on bank overdrafts and borrowings		(7,735)	(3,635)
IFRS 16 Lease interest paid		(988)	(1,375)
Foreign exchange losses		(5,485)	(1,082)
Other finance costs		-	(470)
Other net financing charges in respect of pension plans	17	(2,118)	(3,324)
Total finance costs		(16,326)	(9,886)
Net finance costs		(13,952)	(5,646)

5 STAFF COSTS

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

	Note	2021 £ 000	2020 £ 000
Wages and salaries		125,670	129,803
Social security costs		4,688	10,680
Pension costs, defined contribution scheme		2,089	5,649
Pension costs, defined benefit scheme	17	(234)	820
		132,213	146,952

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

	2021 No.	2020 No.
Seafaring	859	1,699
Shore-based (including directors)	2,159	1,995
	3,018	3,694

6 DIRECTORS' REMUNERATION

The directors' remuneration for the year was as follows:

	2021 £ 000	2020 £ 000
Emoluments	2,358	2,336

Directors emoluments includes compensation paid for loss of office of £0.2m (2020 - £0.1m)

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

	2021 No.	2020 No.
Accruing benefits under money purchase pension scheme	4	4

In respect of the highest paid director:

	2021 £ 000	2020 £ 000
Remuneration	359	452

7 AUDITOR'S REMUNERATION

	2021 £ 000	2020 £ 000
Audit of the consolidated financial statements and subsidiaries	521	440
Tax Compliance Services	83	195
Audit related Assurance Services	-	64
	604	699

In 2021 and 2020 the auditor's remuneration in respect of the Company was borne by a subsidiary undertaking. The audit fee relating to the Company was £241,000 (2020 - £140,000) and is included in the Group audit fees disclosure above.

8 TAXATION

Tax charged/(credited) in the income statement

	2021 £ 000	2020 £ 000
Current taxation		
UK corporation tax	1,155	1,424
Foreign tax	45	91
Total current income tax	1,200	1,515
Deferred taxation		
Arising from origination and reversal of temporary differences	(122)	503
Tax expense in the income statement	1,078	2,018

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2020 - higher than the standard rate of corporation tax in the UK) of 19.00% (2020 - 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:

	2021 £ 000	2020 £ 000
Loss before tax	(374,530)	(103,278)
Corporation tax at standard rate	(71,161)	(19,623)
Increase from effect of capital allowances depreciation	287	421
Tonnage tax	19,383	21,220
Impact of items excluded in arriving at underlying earnings - Impairment charges	52,569	-
Total tax charge	1,078	2,018

Factors that may affect future tax charges

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

Income tax recognised in other comprehensive income

	2021 £ 000	2020 £ 000
Remeasurements of defined benefit liability	(990)	35
	(990)	35

DEFERRED TAX

GROUP

Deferred tax assets and liabilities

2021	Asset £ 000	Liability £ 000	Net deferred tax £ 000
Accelerated tax depreciation	-	(1,435)	(1,435)
Pension benefit obligations	-	(481)	(481)
Tax losses carry-forwards	600	-	600
	600	(1,916)	(1,316)

2020	Asset £ 000	Liability £ 000	Net deferred tax £ 000
Accelerated tax depreciation	-	(1,148)	(1,148)
Pension benefit obligations	471	-	471
Tax losses carry-forwards	229	-	229
	700	(1,148)	(448)

Deferred tax movement during the year:

	At 1 January 2021 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	(1,148)	(287)	-	(1,435)
Pension benefit obligations	471	38	(990)	(481)
Tax losses carry-forwards	229	371	-	600
Net tax assets/(liabilities)	(448)	122	(990)	(1,316)

Deferred tax movement during the prior year:

	At 1 January 2020 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	(727)	(421)	-	(1,148)
Pension benefit obligations	446	(10)	35	471
Tax losses carry-forwards	301	(72)	-	229
Net tax assets/(liabilities)	20	(503)	35	(448)

9 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Land and buildings £ 000	Other equipment £ 000	Ships £ 000	Total £ 000
Cost or valuation				
At 1 January 2020	46,484	210,911	915,677	1,173,072
Additions	10,746	8,588	17,333	36,667
Disposals	(4,013)	(3,312)	(42,489)	(49,814)
Transfer to held for sale	-	-	(232,235)	(232,235)
Transfers	9,495	(13,718)	1	(4,222)
Foreign exchange movements	4	32	2,297	2,333
Reassessment of lease term	(579)	-	(10,228)	(10,807)
At 31 December 2020	62,137	202,501	650,356	914,994
At 1 January 2021	62,137	202,501	650,356	914,994
Additions	3,110	12,232	55,294	70,636
Disposals	-	(10,502)	(5,972)	(16,474)
Transfer to held for sale	-	-	(6)	(6)
Foreign exchange movements	(7)	(55)	(2,893)	(2,955)
Reassessment of lease term	-	-	771	771
At 31 December 2021	65,240	204,176	697,550	966,966
Depreciation				
At 1 January 2020	36,694	137,244	513,264	687,202
Charge for year	4,857	11,016	55,598	71,471
Eliminated on disposal	(3,992)	(3,026)	(42,489)	(49,507)
Transfer to held for sale	-	-	(217,239)	(217,239)
Transfers	1,253	(2,077)	-	(824)
Foreign exchange movements	4	34	481	519
At 31 December 2020	38,816	143,191	309,615	491,622
At 1 January 2021	38,816	143,191	309,615	491,622
Charge for the year	1,341	13,208	39,281	53,830
Eliminated on disposal	-	(10,181)	(5,972)	(16,153)
Transfer to held for sale	-	-	(1,115)	(1,115)
Foreign exchange movements	(4)	(56)	(827)	(887)
At 31 December 2021	40,153	146,162	340,982	527,297
Carrying amount				
At 31 December 2021	25,087	58,014	356,568	439,669
At 31 December 2020	23,321	59,310	340,741	423,372
At 1 January 2020	9,790	73,667	402,413	485,870

Included within property, plant and equipment are £35.4m (2020 - £35.2m) relating to right-of use assets. See note 15 for more information.

Included within Ships assets is £64.5m (2020 - £29.7m) relating to assets under construction.

Disposals in include derecognition of right of use assets with a carrying value of £15.2m (2020 - £45.5m).

IMPAIRMENT
VESSELS

The spread of the COVID-19 virus and the longer-term impact on trade, has been identified as an event or condition that may lead to impairment of vessels.

Vessels have been reviewed for impairment based upon their recoverable amount, this has been obtained from independent broker valuations less cost of disposal.

The vessels do not generate independent cash flows, their impairment is assessed as part of the CGU, however their carrying amounts should not be reduced below their recoverable amounts. In all cases the carrying amount of vessels is lower than the recoverable amount.

The amount of impairment loss included in profit and loss is £Nil (2020 - £Nil).

The market valuation of the vessels would need to decrease between 16-74% for the recoverable amount to equate the carrying amount which is not considered sensitive.

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

	2021	2020
	£ 000	£ 000
Ships	10,271	2,833
Other equipment	4,394	14,395
Land & buildings	20,751	17,953
	35,416	35,181

Pledged as security
Property, plant and equipment with a carrying amount of £289.2m (2020 - £310.7m) has been pledged as security for term loans, leases and pension obligations.

Property plant and equipment held for sale
As at 31 December 2021 only the Pride of Burgundy vessel remained classified as held for sale, the European Seaway, Pride of York and Pride of Bruges having been sold during the year.

	2021	2020
	£ 000	£ 000
Ships	5,129	15,200

The Company committed to selling the vessels from 1 October 2020 as part of the 'right sizing' of the business following the Covid-19 global pandemic. The market is depressed as the global impacts of Covid-19 continue, however sales of the vessels were estimated to be in April 2021, as use of such ships is at a peak during summer months as they carry passengers and vehicles.

The assets held for sale are held at carrying value, being the lower of the their carrying value and fair value less costs to sell. The fair value of the vessels was determined using external vessel valuations, to estimate the sales proceeds, less the estimated costs of disposal.

The Pride of York and Pride of Bruges were sold on 21 April 2021, for EUR 5.0m per vessel, resulting in a gain on sale of £3.4m and the European Seaway was sold in December 2021 for EUR 4.1m, resulting in a gain on sale of £1.5m. Despite being brought back into service for a small part of the year, at the date of this report, the Pride of Burgundy was classified again held for sale.

10 INTANGIBLE ASSETS

GROUP

	Goodwill £ 000	Internally generated software £ 000	Total £ 000
Cost or valuation			
At 1 January 2020	289,804	9,744	299,548
Additions	-	2,364	2,364
Transfers	-	4,222	4,222
At 31 December 2020	289,804	16,330	306,134
At 1 January 2021	289,804	16,330	306,134
Additions	-	2,638	2,638
At 31 December 2021	289,804	18,968	308,772
Amortisation			
At 1 January 2020	12,259	3,010	15,269
Amortisation charge	-	660	660
Transfers	-	824	824
At 31 December 2020	12,259	4,494	16,753
At 1 January 2021	12,259	4,494	16,753
Amortisation charge	-	424	424
Impairment loss	277,545	-	277,545
At 31 December 2021	289,804	4,918	294,722
Carrying amount			
At 31 December 2021	-	14,050	14,050
At 31 December 2020	277,545	11,836	289,381

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

The impairment loss is recognised as a separately disclosed item, see note 3.

Intangible assets with indefinite useful economic lives
Goodwill with a carrying amount of £-m (2020 - £278m) 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 this has resulted in an impairment charge for the current year of £278m (2020 - £nil) being applied against the goodwill, reducing the carrying value to zero.

This large impairment charge is the result of the trading losses incurred in recent years and increased levels of debt coupled with a lower projected value in use, as the business recovers from Covid 19.

Goodwill is tested for one cash generating unit, the determination of our CGUs is judgemental. The identification of CGUs involves an assessment of whether the asset or group of assets generate largely independent cash inflows. This involves consideration of how our core assets are operated and whether these generate independent revenue streams.

Determining our CGUs: During the year we have reviewed our CGUs and consider that given the joint functions and management of the groups assets the cashflows are not considered independent, therefore at the point of this review the cash generating unit was considered by management as the Ferries division with its Ferry and logistics trade.

The recoverable amount of £622m has been determined on a value in use basis, calculated based on the Group's latest five year plan, restricted to a typical historical average budget fulfilment of 75%.

The key assumptions of this value in use calculation are, the pre-tax discount rate applied of 10.8% (2020 - 8.40%) and long term growth rate of 1.62% (2020 - 1.62%). The increase in the pre-tax discount rate applied for the current year reflects the increased market volatility during 2021 as a result of the Covid-19 pandemic. The long term growth rate assumption came from the Bank of England and is consistent with our macro economic key variables ie inflation and FX movements.

The pre-tax discount rate represents the current market assessment of the risks specific to the cash generating unit ('CGU'), taking into consideration the time value of money and the underlying risks of its primary market. The discount rate is derived from the Parent Company weighted average cost of capital ('WACC'), adjusted to reflect the CGU specific market risk which is evaluated based on available market data. The long term growth rate is reviewed annually based on the UK's long term gross domestic product ('GDP') growth.

The carrying amount per the calculation is sensitive to these variables, with the following implied effects if the variable is changed in isolation:

	Implied (decrease) / increase in value in use at 31 December 2021 £m	Change in carrying amount of Goodwill £m
Discount rate lower by 0.7%	77.7	10.3
Discount rate higher by 0.1	(10.1)	-
Discount rate lower by 2.5	355.5	277.6
Annual EBITDA lower by 5%	(70.3)	-
Annual EBITDA higher by 5%	70.3	2.9
Annual EBITDA higher by 25%	351.6	277.6
Terminal growth rate lower by 0.1	(7.5)	-
Terminal growth rate higher by 0.85	71.2	3.8
Terminal growth rate higher by 3.04	345.4	277.6

An implied decrease in value in use would require impairment of other assets in the CGU. IAS 36 requires the impairment loss to be allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis, the majority of this balance is the vessels which have been separately reviewed for impairment, note 9 with the recoverable amount being higher than the carrying amount. The remaining assets would require further impairment if the value in use decreases.

11 INVESTMENTS

GROUP SUBSIDIARIES

Details of the group subsidiaries as at 31 December 2021 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 2021	2020
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%
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	100%	100%
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	100%	100%
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%	100%
P&O Ferrymasters Taşımacılık Lojistik ve Ticaret A.Ş	International unit loads	Turkey	100%	100%

See note 28 for subsidiary undertaking registered office details.

GROUP JOINT VENTURES

Details of the group joint ventures as at 31 December 2021 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 2021	2020
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:

	2021 £ 000	2020 £ 000
Group share of profit / (loss) from continuing operations	112	74

	£ 000
Cost or valuation	
At 1 January 2020	515
Additions	74
Revaluation	76
At 31 December 2020	665
At 1 January 2021	665
Share of profit / (loss)	112
Revaluation	(52)
At 31 December 2021	725
Carrying amount	
At 31 December 2021	725
At 31 December 2020	665

GROUP OTHER INVESTMENTS

	£ 000
Cost or valuation	
At 1 January 2021	25
At 31 December 2021	25
Carrying Amount	
At 31 December 2021	25

Other investments include:

An investment of £8,000 in relation to 8,000 Ordinary "B" shares at £1 per share, and £12,576 in relation to 131 additional "B" shares at £96 per share in Maritime Cargo Processing Plc. Registered office is The Chapel, Maybush Lane, Felixstowe, Suffolk, IP11 7LL.

An investment of EURO 5,000 in relation to 50 shares at EUR 100 per share in RX/SeaPort. Registered office is located at Doverland Nr.7, Bus 12, 8380 Zeebrugge, company number BE 0698.584.201.

SUMMARY OF THE COMPANY INVESTMENTS

Subsidiaries	Investments £ 000	Long term loans £ 000	Total £ 000
Cost or valuation			
At 1 January 2020	239,323	157,526	396,849
At 31 December 2020	239,323	157,526	396,849
At 1 January 2021	239,323	157,526	396,849
At 31 December 2021	239,323	157,526	396,849
Impairment			
At 1 January 2020	-	-	-
Provision	2,420	-	2,420
At 31 December 2020	2,420	-	2,420
At 1 January 2021	2,420	-	2,420
Impairment	192,200	-	192,200
At 31 December 2021	194,620	-	194,620
Carrying amount			
At 31 December 2021	44,703	157,526	202,229
At 31 December 2020	236,903	157,526	394,429

Investments are reviewed annually for impairment which has resulted in an impairment charge for the year of £192.2m (2020 - £2.4m) being applied.

The recoverable amount has been determined on a discounted cash flow basis, calculated using the Groups latest five year plan but limited to the cashflows relevant to the subsidiary under review. Where applicable cashflows are limited to the historic fulfilment of plan. A cost of equity discount rate of 12.2% (2020 - 8.4%) has been applied, along with assumptions consistent to the impairment review of Goodwill as described in Note 10.

Impairment occurs when the recoverable amount is lower than the carrying value of the investment.

The carrying amount per the calculation is sensitive to these variables, with the following implied effects if the variable is changed in isolation:

	Implied increase/(Decrease) in value in use £m	Change in carrying amount of Goodwill £m
Discount rate lower by 3.5	303.4	192.2
Discount rate higher by 0.1	(5.5)	-
Discount rate lower by 1.7	114.9	3.8
Terminal growth rate lower by 0.1	(4.3)	-
Terminal growth rate higher by 4.2	304.8	192.2
Terminal growth rate higher by 2.05	111.3	0.2
Annual EBIDTA lower by 5%	(37.8)	-
Annual EBIDTA higher by 41%	309.6	192.2
Annual EBIDTA higher by 15%	113.3	2.2

The long term inter-company receivables within investments is subject to recognition of loss allowances for expected credit losses as at reporting date. In order to determine the expected credit losses, the Company has defined default as the ability of the subsidiary to repay the loan immediately. The loan is interest free and repayment on demand. Based on the above impairment in investment, the probability of default is considered to be high. The directors of the Company have concluded that the recovery strategy would be to allow the subsidiary to continue to trade and to recover the loan from future cash flows generated by the subsidiary. On this basis, the directors of the Company expect that it will eventually recover the outstanding balance of the loan in full, albeit over an extended period. Hence, the Loss Given Default is limited ("LGD") is limited to the effect of discounting the amount due on the loan over the period until the loan amount is recovered. As the effective interest rate on the loan is 0%, the directors have assessed that there is no LGD. As a result, no directors have concluded that there is no expected losses to be recognised (2020 - £nil).

12 INVENTORIES

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Marine stock supplies	6,924	6,308	-	-
Consumables for on board services	870	1,014	-	-
	7,794	7,322	-	-

Consumables and changes in finished goods recognised as cost of sales in the year amounted to £89.6m (2020 - £72.3m).

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Trade receivables	121,870	129,068	-	-
Provision for impairment of trade receivables	(3,981)	(3,306)	-	-
Provision for customer rebates	(6,392)	(6,678)	-	-
Net trade receivables	111,497	119,084	-	-
Receivables from related parties	928	772	196,544	115,265
Prepayments	33,618	22,856	-	-
Other receivables	5,234	4,006	-	-
Total current trade and other receivables	151,277	146,718	196,544	115,265

Included within trade receivables is £Nil (2020 - £Nil) held as collateral in relation to the Group's invoice financing facility.

See note 24 for details of receivables owed from related parties at the reporting date.

The Company receivables balance includes inter-company provisions of £79.6m.

14 CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Current				
Cash on hand	9,778	31,851	-	-
Bank overdrafts	-	-	(6,070)	-
	9,778	31,851	(6,070)	-

As at 31 December 2020 the Group had £0.4m placed on a short term deposit, with an interest rate of 0.00%. The deposit matured on 1 June 2021.

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		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Non-current loans and borrowings				
Bank borrowings	-	13,762	-	-
Leases	19,805	25,673	-	-
Shareholder loan	130,000	-	130,000	-
	149,805	39,435	130,000	-

	Group		Company	
	31 December 2021 £ 000	31 December 2020 £ 000	31 December 2021 £ 000	31 December 2020 £ 000
Current loans and borrowings				
Bank borrowings	114,190	105,668	-	-
Bank overdrafts	-	-	6,070	-
Leases	16,497	12,025	-	-
	130,687	117,693	6,070	-

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of Maturity	Face Value 2021 £ 000	Carrying Amount 2021 £ 000	Face Value 2020 £ 000	Carrying Amount 2020 £ 000
Term Loan 1	GBP	0.85-5.89%	2025	32,853	32,853	32,552	32,552
Term Loan 2	GBP	0.73-5.61%	2026	44,561	44,561	44,226	44,226
Term Loan 3	GBP	2.98%	2023	4,916	4,916	9,719	9,719
Term Loan 4	GBP	3.58%	2023	2,490	2,490	2,451	2,451
Term Loan 5	Euro	2.10%	2025	15,582	15,582	16,720	16,720
Term Loan 6	GBP	2.53%	2023	13,788	13,788	13,762	13,762
				114,190	114,190	119,430	119,430
Shareholder Loan	GBP	4.25%		130,000	130,000	-	-

Following the refinancing process of the majority of loans which concluded in October 2021, the new covenant requirements had not been met at the balance sheet date. As a result all bank borrowings have are accounted for as in default and repayable on demand. This default is continuing into 2022 with refinancing revisited.

See the basis of preparation at note 1 for the current status of the refinancing.

In March 2021, the ICE Benchmark Administration (the administrator of LIBOR), in conjunction with the UK's Financial Conduct Authority (FCA) announced that it will stop publishing the LIBOR settings (excluding USD LIBOR) after 31 December 2021. During the year, the Group has undertaken IBOR transition and have applied the Phase 2 amendments. New benchmark rates are concluded as economically equivalent compared to the old benchmark rate. Interest rate hedges remain effective as there is no uncertainty attached to the cashflows for both hedge item and hedge instrument and the hedge is continued to be effective under the Phase 2 of the IBOR reforms issued by IASB.

Three loans were impacted by the IBOR reform, with the all in rates moving from 1.1% to 1.0%, 3.2% to 3.1% and 1.0% to 0.8%. The impact was calculated using market data at the year end date. The change in present value that resulted from this change in rates was less than 0.3% for each of the loans affected and therefore the impact of the IBOR reform on the group has not been material, with no modification of loans.

The shareholder loan is repayable at a yet undetermined point in the future but no earlier than 31 December 2023.

LEASES

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

	31 December 2021 £ 000	31 December 2020 £ 000
Property, plant and equipment owned	404,251	388,190
Right-of-use assets, except for investment property	35,418	35,182
	439,669	423,372

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 of use assets in period was as follows:

	Land and buildings £ 000	Other equipment £ 000	Ships £ 000	Total £ 000
Cost				
At 1 January 2020	7,545	36,151	62,851	106,547
Additions	9,318	6,267	-	15,585
Disposals	(3,992)	(1,139)	(40,351)	(45,482)
Transfers	9,495	(9,496)	1	-
Reassessment of lease term	(579)	-	(10,228)	(10,807)
At 31 December 2020	21,787	31,783	12,273	65,843
At 1 January 2021	21,787	31,783	12,273	65,843
Additions	2,064	371	10,060	12,495
Disposals	-	(9,271)	(5,972)	(15,243)
Reassessment of lease term	-	109	662	771
At 31 December 2021	23,851	22,992	17,023	63,866
Depreciation				
At 1 January 2020	2,693	12,997	32,207	47,897
Charge for year	3,879	6,783	17,583	28,245
Eliminated on disposal	(3,992)	(1,138)	(40,351)	(45,481)
Transfers	1,253	(1,253)	-	-
At 31 December 2020	3,833	17,389	9,439	30,661
At 1 January 2021	3,833	17,389	9,439	30,661
Charge for the year	268	9,242	3,283	12,793
Eliminated on disposal	-	(9,034)	(5,972)	(15,006)
At 31 December 2021	4,101	17,597	6,750	28,448
Carrying amount				
At 31 December 2021	19,750	5,395	10,273	35,418
At 31 December 2020	17,954	14,394	2,834	35,182

Lease liability	**31 December 2021 £ 000**
Maturity analysis - contractual undiscounted cash flows	
Less than one year	16,624
One to five years	17,160
More than five years	2,943
Total undiscounted lease liabilities	36,727
Lease liabilities included in the statement of financial position	**36,302**
Current	16,497
Non-current	19,805

Amounts recognised in profit and loss

	31 December 2021 £ 000
Interest on lease liabilities	(988)
Foreign exchange revaluation losses - lease liabilities	(1,773)
Expenses relating to short-term leases	(9,757)

Amounts recognised in statement of cashflows

	31 December 2021 £ 000
Total cash outflow for leases	(13,262)

Other leases
The Group charters 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.

16 TRADE AND OTHER PAYABLES

	Group		**Company**	
	31 December 2021 £ 000	**31 December 2020 £ 000**	**31 December 2021 £ 000**	**31 December 2020 £ 000**
Trade payables	116,797	116,504	-	-
Amounts due to related parties	-	-	39,700	137,940
Social security and other taxes	-	9,972	-	-
Derivative financial instruments	14,220	4,910	-	-
Other payables	22,651	20,004	-	140
Accrued expenses	60,764	56,009	4,195	-
	214,432	207,399	43,895	138,080

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 £2.1m (2020 - £5.6m).

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 is closed to future accrual.

On 31st December 2020, the P&O North Sea Ferries (Netherlands) Scheme, a collective defined contribution scheme, closed to future accrual of benefit. Benefits within this Scheme are provided through an insurance contract and there are no further obligations for P&O with respect to this.

The Group also participates in the Merchant Navy Officers' Pension Fund (the "MNOPF Scheme") and the Merchant Navy Ratings' Pension Fund (the "MNRPF Scheme") industry wide schemes. Both of these Schemes are CARE schemes and are closed to future accrual. The MNRPF Scheme closed to future accrual in 2001 and the MNOPF 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.

These defined benefit schemes expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk. In addition, by participating in certain multi-employer industry schemes, the Group can be exposed to a pro-rata share of the credit risk of other participating employers.

The Trustees of the MNOPF 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. However, as the directors are not able to predict the future allocation actions of the Trustees no sensitivities can reasonably be provided in respect of allocation shares. The materiality of the Group's participation in the Schemes is also relevant. In the period the share of deficit did not change for either MNRPF or MNOPF (2020: no changes).

The Group expects to make a total of approximately £11.5m cash contributions to its defined benefit plans in the next financial year. Agreements were reached with the Trustees of the MNOPF, P&O Ferries UK Scheme and the MNRPF respectively regarding deficit contributions. The amount disclosed as a minimum funding liability for the MNRPF and MNOPF Schemes is based on Deficit Share Notices issued by the Trustees and payments set out in the respective contribution agreements. The gross deficit contributions for the MNRPF, MNOPF and P&O Ferries UK scheme are £153.4m, £0.9m and £16.1m respectively. No refunds or reductions in future contributions have been assumed in the calculation of these amounts. Under IFRIC14 the Group is required to recognise an additional liability if the contributions agreed as part of the schemes' funding plans are expected to lead to an IAS19 surplus. This would not apply if the Group has an "unconditional right" to any surplus arising in the pension schemes. We have assessed that no such unconditional right exists in relation to the MNOPF and MNRPF schemes, and have therefore applied a balance sheet restriction in respect of these schemes in line with the requirements of IFRIC14. This restriction has not been applied to the P&O Ferries UK scheme because an unconditional right to the surplus exists.

In accordance with the terms and conditions of the pension scheme, the surplus would be available in the form of a refund. In the event of a gradual settlement of Scheme liabilities over time, there will come a time when there are no more members or potential beneficiaries remaining in the Scheme. In such an event, notice to terminate the scheme would be given and the whole beneficial interest of the trust will be distributed to the Principal Employer.

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.

The Group also makes contributions to various company defined contribution schemes and various industry defined contribution schemes which have assets in separate administered funds.

All schemes	2021 £ 000	2020 £ 000
Fair value of scheme assets	1,077,405	1,139,062
Present value of scheme liabilities	(1,090,218)	(1,201,550)
	(12,813)	(62,488)
Effect of asset ceiling	(119,202)	(111,777)
Defined benefit pension scheme deficit	(132,015)	(174,265)
Total retirement benefit obligations	(132,015)	(174,265)

	2021 £ 000	2020 £ 000
Defined benefit pension scheme liability	(144,402)	(174,265)
Defined benefit pension scheme asset	12,387	-
	(132,015)	(174,265)

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 2020	213,750	413,700	434,100	61,561	1,123,111
Interest income	4,110	7,800	8,200	635	20,745
Return on plan assets, excluding amounts included in interest income/(expense)	21,630	43,700	26,900	3,440	95,670
Foreign exchange differences	-	-	-	3,021	3,021
Employer contributions	210	-	-	961	1,171
Contributions by scheme participants	-	-	-	75	75
Benefits paid	(5,900)	(20,600)	(23,100)	(1,423)	(51,023)
Assets distributed on settlements	-	-	-	(48,884)	(48,884)
Administrative expenses paid	(320)	(3,700)	(800)	(4)	(4,824)
At 31 December 2020	233,480	440,900	445,300	19,382	1,139,062
At 1 January 2021	233,480	440,900	445,300	19,382	1,139,062
Interest income	2,880	5,400	5,500	102	13,882
Return on plan assets, excluding amounts included in interest income/(expense)	10,770	(28,600)	(26,400)	740	(43,490)
Foreign exchange differences	-	-	-	(1,420)	(1,420)
Employer contributions	1,000	13,300	11,700	329	26,329
Contributions by scheme participants	-	-	-	4	4
Benefits paid	(6,200)	(21,500)	(21,600)	(329)	(49,629)
Assets distributed on settlements	-	-	-	(53)	(53)
Administrative expenses paid	(380)	(6,100)	(800)	-	(7,280)
At 31 December 2021	241,550	403,400	413,700	18,755	1,077,405

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 2020	231,620	475,000	412,400	61,211	1,180,231
Current service cost	-	-	-	784	784
Past service cost	-	500	100	(876)	(276)
Actuarial gains and losses arising from changes in demographic assumptions	4,230	5,600	1,800	(671)	10,959
Actuarial gains and losses arising from changes in financial assumptions	19,110	35,300	28,600	6,070	89,080
Actuarial gains and losses arising from experience adjustments	(3,700)	3,600	(3,600)	(668)	(4,368)
Foreign exchange differences	-	-	-	3,003	3,003
Interest cost	4,460	9,100	7,800	609	21,969
Benefits paid	(5,900)	(20,600)	(23,100)	(1,423)	(51,023)
Contributions by scheme participants	-	-	-	75	75
Liabilities extinguished on settlements	-	-	-	(48,884)	(48,884)
At 31 December 2020	249,820	508,500	424,000	19,230	1,201,550
At 1 January 2021	249,820	508,500	424,000	19,230	1,201,550
Current service cost	-	-	-	18	18
Actuarial gains and losses arising from changes in demographic assumptions	(550)	5,600	-	-	5,050
Actuarial gains and losses arising from changes in financial assumptions	(11,080)	(31,600)	(23,100)	(1,513)	(67,293)
Actuarial gains and losses arising from experience adjustments	(3,300)	(7,100)	(2,300)	(45)	(12,745)
Foreign exchange differences	-	-	-	(1,337)	(1,337)
Interest cost	3,100	6,200	5,200	100	14,600
Benefits paid	(6,200)	(21,500)	(21,600)	(329)	(49,629)
Contributions by scheme participants	-	-	-	4	4
At 31 December 2021	231,790	460,100	382,200	16,128	1,090,218

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:

	31 December 2021 £ 000	31 December 2020 £ 000
Fair value of scheme assets	241,550	233,480
Present value of scheme liabilities	(231,790)	(249,820)
Defined benefit pension scheme surplus/(deficit)	9,760	(16,340)

Analysis of assets

The major categories of scheme assets are as follows:

	2021 £ 000	2020 £ 000
Equity instruments	70,098	62,876
Bonds	46,909	50,759
LDI Portfolio	101,644	97,520
Other	22,899	22,325
	241,550	233,480

A liability driven investment (LDI) portfolio is intended to reflect changes in the value of the scheme liabilities arising as a result of changes in interest rate and inflation expectations.

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:

	2021 %	2020 %
Discount rate	1.90	1.25
Future pension increases - deferment	3.00	2.60
Future pension increases - payment	3.00	2.50
Inflation (RPI)	3.30	2.80

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 2019 projections with a long term improvement rate of 1.25%.

Assumptions regarding future longevity have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	31 December 2021 Years	31 December 2020 Years
Longevity at age 65 for current pensioners		
Males	22.90	22.80
Females	25.40	25.00
Longevity at age 65 for current members aged 45		
Males	24.60	24.50
Females	27.10	26.70

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:

	2021 - 0.1% £ 000	2020 - 0.1% £ 000
Adjustment to discount rate		
Present value of total obligation	4,500	5,100

	2021 + 0.1% £ 000	2020 + 0.1% £ 000
Adjustment to rate of inflation		
Present value of total obligation	3,100	3,400

	2021 + 0.25% £ 000	2020 + 0.25% £ 000
Adjustment to mortality age rating assumption		
Present value of total obligation	2,300	2,700

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last preliminary full actuarial valuation at 1 April 2020 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.

The sensitivities chosen are the reasonable possible changes as at the balance sheet date but are linear. If, for example the discount rate moved by -0.2% then the movement in discount rate would become 9,000.

Contributions payable to the pension scheme at the end of the year are £Nil (2020 - £Nil).

The expected contributions to the plan for the next reporting period are £2m.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 13 years (2020: 14 years).

The Scheme was exposed to the gilt market volatility experienced throughout September and October 2022. Liability values were volatile as they are linked to long term UK interest rates. On the asset side, the gilt market volatility triggered cash collateral calls from the Scheme's LDI manager as expected which were met by reducing exposure to the Scheme's liquid growth assets (equities and diversified growth funds). The Scheme was able to retain a high level of hedging throughout the volatile period as gilts yields peaked (reducing liability and LDI asset values) and subsequently eased back (increasing liability and LDI asset values). The Scheme remains well protected against similar market volatility and from a funding level perspective the Scheme has not been adversely impacted in a material way.

MNRPF Scheme

The Trustee of the MNRPF became aware in 2018 of legal uncertainties relating to ill-health early retirement benefits payable from the MNRPF since the early 1990s, which was likely to result in significant additional benefit liabilities.

The Court hearing to consider the approval of the settlement in the ill-health early retirement benefits case took place on 24 February 2022 and the Court has approved the settlement, which is subject to appeal. The current service charge of £27m in relation to ill health has been posted to the income statement in 2022. The trustees and administrators are investigating a number of other matters.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	31 December 2021 £ 000	31 December 2020 £ 000
Fair value of scheme assets	403,400	440,900
Present value of scheme liabilities	(460,100)	(508,500)
	(56,700)	(67,600)
Effect of asset ceiling	(86,802)	(78,277)
Defined benefit pension scheme deficit	(143,502)	(145,877)

Analysis of assets

The major categories of scheme assets are as follows:

	2021 £ 000	2020 £ 000
Equity instruments	57,800	60,600
Bonds	345,600	380,300
	403,400	440,900

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:

	2021 £ 000	2020 £ 000
Opening balance	(78,277)	(78,700)
Interest cost	(1,000)	(1,500)
Changes in asset ceiling, excluding amounts included in interest	(7,525)	1,923
Closing balance	(86,802)	(78,277)

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:

	2021 %	2020 %
Discount rate	1.90	1.25
Future pension increases - deferment	2.60	2.00
Future pension increases - payment	3.20	2.75
Inflation (RPI)	3.30	2.80

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.

Assumptions regarding future longevity have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	31 December 2021 Years	31 December 2020 Years
Longevity at age 65 for current pensioners		
Males	20.20	19.30
Females	23.50	22.50
Longevity at age 65 for current members aged 45		
Males	22.10	21.30
Females	25.50	24.60

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:

	2021 - 0.1% £ 000	2020 - 0.1% £ 000
Adjustment to discount rate		
Present value of total obligation	7,200	6,900

	2021 + 0.1% £ 000	2020 + 0.1% £ 000
Adjustment to rate of inflation		
Present value of total obligation	2,500	2,100

	2021	2020
	+ 0.25%	+ 0.25%
Adjustment to mortality age rating assumption	**£ 000**	**£ 000**
Present value of total obligation	3,400	6,900

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.

The sensitivities chosen are the reasonable possible changes as at the balance sheet date but are linear. If, for example the discount rate moved by -0.2% then the movement in discount rate would become 14,400.

Contributions payable to the pension scheme at the end of the year are £Nil (2020 - £Nil).

The expected contributions to the plan for the next reporting period are £9.0m.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 13 years (2020: 14 years).

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:

	31 December 2021 £ 000	31 December 2020 £ 000
Fair value of scheme assets	413,700	445,300
Present value of scheme liabilities	(382,200)	(424,000)
	31,500	21,300
Effect of asset ceiling	(32,400)	(33,500)
Defined benefit pension scheme deficit	(900)	(12,200)

Analysis of assets

The major categories of scheme assets are as follows:

	2021 £ 000	2020 £ 000
Equity instruments	88,300	116,100
Bonds	325,400	329,200
	413,700	445,300

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:

	2021 £ 000	2020 £ 000
Opening balance	(33,500)	(33,800)
Interest cost	(400)	(600)
Changes in asset ceiling, excluding amounts included in interest	1,500	900
Closing balance	(32,400)	(33,500)

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:

	2021 %	2020 %
Discount rate	1.90	1.25
Future pension increases - deferment	2.60	2.00
Future pension increases - payment	3.20	2.75
Inflation (RPI)	3.30	2.80

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.

Assumptions regarding future longevity have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	31 December 2021 Years	31 December 2020 Years
Longevity at age 65 for current pensioners		
Males	21.90	21.90
Females	24.00	24.00
Longevity at age 65 for current members aged 45		
Males	24.10	24.00
Females	26.20	26.20

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:

	2021 - 0.1% £ 000	2020 - 0.1% £ 000
Adjustment to discount rate		
Present value of total obligation	2,000	2,900

	2021 + 0.1% £ 000	2020 + 0.1% £ 000
Adjustment to rate of inflation		
Present value of total obligation	800	900

	2021	2020
	+ 0.25%	+ 0.25%
Adjustment to mortality age rating assumption	**£ 000**	**£ 000**
Present value of total obligation	1,500	1,700

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 2018 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.

The sensitivities chosen are the reasonable possible changes as at the balance sheet date but are linear. If, for example the discount rate moved by -0.2% then the movement in discount rate would become 4,000.

Contributions payable to the pension scheme at the end of the year are £Nil (2020 - £Nil).

The expected contributions to the plan for the next reporting period are £0.2m.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 13 years (2020: 14 years).

Other Schemes

On 31 December 2020, the P&O North Sea Ferries (Netherlands) Scheme, a collective defined contribution scheme, closed to future accrual of benefit. Benefits within this Scheme are provided through an insurance contract and there are no further obligations for P&O with respect to this. As no obligations remain for the Group, except for an occasional contribution related to possible individual value transfers, the pension plan is settled as at 31 December 2020.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	31 December 2021 £ 000	31 December 2020 £ 000
Fair value of scheme assets	18,755	19,382
Present value of scheme liabilities	(16,128)	(19,230)
Defined benefit pension scheme surplus	2,627	152

Analysis of assets

The major categories of scheme assets are as follows:

	2021 £ 000	2020 £ 000
Equity instruments	5,908	6,088
Bonds	9,396	9,738
Other	3,451	3,556
	18,755	19,382

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:

	2021 %	2020 %
Discount rate	1.15	0.55
Future pension increases - deferment	1.90	1.70
Future pension increases - payment	0.95	0.85
Inflation (RPI)	1.90	1.70

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 (2020 - £Nil).

The expected contributions to the other plans for the next reporting period are £0.3m.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 13 years (2020: 14 years).

18 OTHER PROVISIONS

GROUP

	Reorganisation & Restructuring £ 000	Other provisions £ 000	Total £ 000
At 1 January 2021	7,893	19,166	27,059
Increase in existing provisions	-	(112)	(112)
Provisions used	(6,964)	-	(6,964)
Unused provision reversed	(929)	(7,246)	(8,175)
At 31 December 2021	-	11,808	11,808
Current liabilities	-	11,808	11,808

The Reorganisation and Restructuring activities provided for at 1 January 2021 have occurred during the year.

Other provisions at 1 January 2021 of £19.2m includes £11.9m in relation to a longstanding dispute with a Belgian port authority and £6.2m in relation to an ongoing employment tribunal claim.

During the year the Flemish Government's lawyers have taken the necessary court actions to keep the claim live for the port authority dispute, reconfirming the validity and quantum of this provision, subject to a release of £1.1m. There remains no certainty on the expected timing of any resulting cashflows.

Following an unsuccessful appeal by the claimant in the ongoing employment tribunal the provision of £6.2m was reversed.

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	2021 £ 000	No. 000	2020 £ 000
Ordinary of £1 each	428,542	428,542	428,542	428,542

100% of share capital is owned by Dubai Ferries Holding FZE and controlled by the Group's ultimate controlling party, DP World Limited.

20 RESERVES

GROUP

Share capital

Ordinary share capital issued by the Company.

Share premium

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

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.

Cash flow 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.

Other reserves

Other reserves include the actuarial reserve which comprises all actuarial movements regarding the Group's pension obligations.

Retained earnings

Retained earnings comprises the cumulative net earnings of the Group.

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)	-	(5,825)	-	(5,825)
Foreign currency translation (losses)/gains	(1,001)	-	-	(1,001)
Remeasurements of post employment benefit obligations	-	-	24,473	24,473
	(1,001)	(5,825)	24,473	17,647

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)	-	(1,256)	-	(1,256)
Foreign currency translation (losses)/gains	1,049	-	-	1,049
Remeasurements of post employment benefit obligations	-	-	2,309	2,309
	1,049	(1,256)	2,309	2,102

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.

Cash flow 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.

Retained earnings

Retained earnings comprises the cumulative net earnings of the Company.

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.

The total amount contracted for but not provided in the financial statements was £185.7m (2020 - £216.9m).

OTHER FINANCIAL COMMITMENTS

The total amount of other financial commitments not provided in the financial statements was £142.2m (2020 - £163.1m) for port concession charges.

These charges relate to Seabed rent, port taxes, and port handling services and range between four and nineteen years. £20.2m being payable within twelve months of the balance sheet date.

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 2021 and 31 December 2020:

	2021		2020	
	Book Value £ 000	**Fair Value £ 000**	**Book Value £ 000**	**Fair Value £ 000**
Trade and other receivables	151,277	151,277	146,718	146,718
Trade and other payables	(200,212)	(200,212)	(202,489)	(202,489)
Secured bank loans	(114,190)	(114,190)	(119,430)	(119,430)
Shareholder loan	(130,000)	(130,000)	-	-
Leases	(36,302)	(36,302)	(37,698)	(37,698)
Cash and cash equivalents	9,778	9,778	31,851	31,851
Derivative financial instruments				
Interest rate swaps	(399)	(399)	(1,433)	(1,433)
Forward exchange contracts - liabilities	(13,951)	(13,952)	(3,284)	(3,284)
Forward fuel oil contracts	130	130	(193)	(193)
	(333,869)	(333,870)	(185,958)	(185,958)

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

The shareholder loan is at a fixed rate of interest with a yet undetermined maturity, however it is not expected to be repaid within five years from the balance sheet date.

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.

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).

2021	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
Derivative financial liabilities	-	(14,220)	-	(14,220)

2020	Level 1 £ 000	Level 2 £ 000	Level 3 £ 000	Total £ 000
Derivative financial liabilities	-	(4,910)	-	(4,910)

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:

	2021 £ 000	2020 £ 000
Trade receivables	111,497	119,084
Other receivables	38,852	26,862
Cash and cash equivalents	9,778	31,851
Receivables from related parties	928	772
	161,055	178,569

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

	2021 £ 000	2020 £ 000
Continental Europe and United Kingdom	111,497	119,084

Credit quality of financial assets and impairment losses

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

	Gross 2021 £ 000	Impairment 2021 £ 000	Customer Rebates 2021 £ 000	Gross 2020 £ 000	Impairment 2020 £ 000	Customer Rebates 2020 £ 000
Not past due	109,268	(572)	(6,392)	115,425	(1,580)	(6,678)
7 to 30 days	3,002	(573)	-	9,397	(1,420)	-
31 to 60 days	2,080	(1,186)	-	2,761	344	-
61 to 90 days	1,175	(396)	-	508	(56)	-
91 to 120 days	681	(305)	-	233	(101)	-
3 to 6 months	5,664	(949)	-	744	(493)	-
	121,870	(3,981)	(6,392)	129,068	(3,306)	(6,678)

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

	2021 £ 000	2020 £ 000
At start of period	(3,306)	(2,953)
Additional impairment for credit losses	(744)	(3,643)
Reversal of impairment for credit losses	-	2,848
Other movement	69	442
At end of year	(3,981)	(3,306)

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.

Liquidity Risk

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

2021	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
Trade and other payables	(200,212)	(199,775)	(199,775)	-	-	-
Secured bank loans	(114,190)	(118,990)	(34,153)	(32,707)	(52,130)	-
Lease liabilities	(36,302)	(36,727)	(17,589)	(6,537)	(9,658)	(2,943)
Shareholder loan	(130,000)	(130,000)	-	-	-	(130,000)
Derivative financial instruments	(14,220)	(14,220)	(14,220)	-	-	-
	(494,924)	(499,712)	(265,737)	(39,244)	(61,788)	(132,943)

2020	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
Trade and other payables	(202,489)	(202,489)	(202,489)	-	-	-
Secured bank loans	(119,430)	(127,603)	(57,415)	(28,699)	(41,489)	-
Lease liabilities	(37,698)	(40,761)	(13,212)	(8,020)	(14,883)	(4,646)
Derivative financial instruments	(4,910)	(4,910)	(4,910)	-	-	-
	(364,527)	(375,763)	(278,026)	(36,719)	(56,372)	(4,646)

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:

2021	Sterling £ 000	Euro £ 000	US Dollar £ 000	Others £ 000	Total £ 000
Cash and cash equivalents	(17,480)	36,308	(9,050)	-	9,778
Trade receivables	52,458	58,794	237	8	111,497
Other receivables	19,139	18,084	1,455	1,101	39,779
Secured bank loans	(98,608)	(15,582)	-	-	(114,190)
Shareholder loan	(130,000)	-	-	-	(130,000)
Leases	(9,896)	(26,842)	-	-	(36,738)
Trade payables	(29,829)	(82,804)	(3,980)	(184)	(116,797)
Other payables	(82,702)	(12,885)	(258)	(1,353)	(97,198)
	(296,918)	(24,927)	(11,596)	(428)	(333,869)

2020	Sterling £ 000	Euro £ 000	US Dollar £ 000	Others £ 000	Total £ 000
Cash and cash equivalents	3,482	31,622	(3,253)	-	31,851
Trade receivables	117,647	1,330	99	8	119,084
Other receivables	20,844	4,751	1,020	1,019	27,634
Secured bank loans	(102,710)	(16,720)	-	-	(119,430)
Leases	(11,748)	(25,950)	-	-	(37,698)
Trade payables	(95,442)	(17,155)	(3,755)	(152)	(116,504)
Other payables	(66,027)	(18,192)	(622)	(1,144)	(85,985)
	(133,954)	(40,314)	(6,511)	(269)	(181,048)

Sensitivity analysis

A 10 percent weakening of the following currencies against the pound sterling at 31 December 2021 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 2020.

	Equity		Profit or loss	
	2021 £ 000	2020 £ 000	2021 £ 000	2020 £ 000
Euro	(2,703)	(4,056)	(2,703)	(4,056)
US Dollar	(1,422)	(805)	(1,422)	(805)

A ten percent strengthening of the above currencies against the pound sterling at 31 December 2021 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.

A portion of the Group's activities generate part of their revenue and incur some costs outside their main functional currency. Due to the diverse number of locations in which the Group operates there is some natural hedging that occurs within the Group. When it is considered that currency volatility could have a material impact on the results of an operation, hedging using foreign currency forward exchange contracts is undertaken to reduce the short-term effect of currency movements.

When the Group enters into significant capital expenditure commitments in currencies other than their main functional currency, these commitments are hedged in most instances using foreign currency forward exchange contracts in order to fix the cost when converted to the functional currency. The Group classifies its foreign currency forward exchange contracts hedging forecast transactions as cash flow hedges and states them at fair value.

The Group has hedged its exposure to significant capital expenditure commitments by entering into foreign currency forward contracts to the value of €234.6m.

During 2021, the group entered into fuel commodity swaps for over 170 thousand metric tonnes of fuel as part of the hedging strategy.

Currency forward contracts to the value of over $70m were taken out for the related fuel payments.

Market risk – Interest rate risk

Profile

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

	2021 £ 000	2020 £ 000
Fixed Rate instruments		
Financial assets	-	-
Financial liabilities	(74,633)	(74,625)
	(74,633)	(74,625)
Variable Rate instruments		
Financial assets	9,778	31,851
Financial liabilities	(39,527)	(44,805)
	(29,749)	(12,954)

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a fixed/ floating interest rate and bank deposits.

The Group's policy is to manage its interest cost by entering into interest rate swap agreements, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

The Group has hedged its exposure to variable interest rates by entering into fixed interest rate swaps for a notional amount equivalent to £130m (2020: £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 2020.

	2021 £ 000	2020 £ 000
Equity		
Increase	(1,171)	(432)
Decrease	972	157
Profit or loss		
Increase	(932)	(432)
Decrease	425	157

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 £2.2m (2020 - £2.8m) and contributions to post-employment benefits £0.1m (2020 - £0.1m).

INCOME AND RECEIVABLES FROM RELATED PARTIES

2021	Other related parties - DP World group members £ 000
Receipt of services	1,104
Amounts receivable from related party	261

2020	Other related parties - DP World group members £ 000
Receipt of services	995
Amounts receivable from related party	143

EXPENDITURE WITH AND PAYABLES TO RELATED PARTIES

2021	Parent £ 000	Other related parties - DP World group members £ 000
Rendering of services	-	4,408
Paid in Kind (PIK) interest	4,195	-
Amounts payable to related party	4,195	599

2020	Other related parties - DP World group members £ 000
Rendering of services	1,512
Leases	300
	1,812
Amounts payable to related party	187

LOANS FROM RELATED PARTIES

2021	Parent £ 000
Advanced	130,000
At end of period	130,000

TERMS OF LOANS FROM RELATED PARTIES

This loan is repayable at a yet undetermined point in the future but no earlier than 31 December 2023.

The overall loan facility was £160m as the balance sheet date and PIK interest is accrued at 4.25% within other creditors.

The Group has not forecast to make any repayments within its five year plan.

25 CONTINGENT LIABILITIES

In January 2020 there was a fatality of a contractor at the port of Tilbury. The HSE are investigating the incident and there is a possibility of an economic outflow, however the extent of this cannot be reliably measured and the timing is uncertain.

26 PARENT AND ULTIMATE PARENT UNDERTAKING

The Company's immediate parent is DP World Limited, a company incorporated in Dubai.

The ultimate controlling party is DP World Limited, 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.

27 MATERIAL NON ADJUSTING EVENTS AFTER THE FINANCIAL PERIOD

In March 2022, the Group enacted a strategic change related to its fleet crewing resources. The financial impacts of the Covid 19 pandemic on the Group resulted in a need to ensure operating efficiency and flexibility if it was to return to profitability and have a viable long-term future.

The ability of the Group to operate with this required flexibility (to vary staffing levels and sailing schedule frequency in the light of changing demand) was constrained by legacy restrictive collective bargaining agreements.

The Board resolved on 17 March 2022 that the solution to gaining this essential operational flexibility was to deploy an international agency based crewing model common in the international maritime industry.

The Group did not consult with 786 employees who were made redundant as required under UK Employment law in the implementation of this decision. However, all impacted employees were compensated in full for "failure to consult", as is required within the law, without the need for Employment Tribunal hearings, with settlement packages exceeding minimum statutory requirements and have signed final settlement agreements.

The cost of the enhanced redundancy packages was £36.5m, which will be recognised in the financial statements in 2022. There was a further impacts arising from the subsequent disruption from ships being delayed returning to service due to seafarer familiarisation and extensive safety checks.

A criminal investigation into the circumstances of the crewing model change by the Insolvency Service has been closed with no prosecution. A civil investigation by the Insolvency Service is ongoing but remains at the information gathering stage and the Insolvency Service have not confirmed the exact scope of their investigation. The Insolvency Service would need to show that any action it proposed to take was in the public interest and just and equitable. The directors consider that it will not be able to demonstrate this and consequentially there is a less than remote possibility of a related economic outflow in relation to any such action.

The shareholder has continued to provide significant funding to support the Group during 2022, to support operations and fund turnaround efforts. The shareholders loan facility of £160m that existed at the balance sheet date was extended by a further £115m in September 2022 and then a further £30m in November 2022. See also the strategic report.

The court hearing to consider the approval of the settlement in the Merchant Navy Ratings Pension Fund (MNRPF) ill-health early retirement benefits case occurred on 24 February 2022 with the court approving the settlement, which is subject to appeal, a current service cost of £27m was recognised in 2022 (please see note 17).

On 28 February 2023 the title of ownership of the new vessels under construction, being the assets on the balance sheet, were transferred, at net book value of £88.6m, to DP World France SAS, a DPW legal entity outside of the P&O Ferries group. The consideration for this asset transfer will be a corresponding reduction in the shareholder loan facility balance, subject to the required approvals being obtained and the Ferries group will not incur any further capital expenditure costs. DP World is underwriting the financing of the vessels which are to be chartered to the P&O Ferries group at a competitive third party charter rate.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

28 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

- 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

- Barbaros mah. Çiğdem sok. No:1 Kat:8, Ataşehir - Istanbul, Turkey

PO Ferrymasters Taşımacılık Lojistik ve Ticaret Anonim Şirketi, Turkey

- Na Florenci 1332/23, Nové Mêsto, 110 00 Prague, Czech

  PO Ferrymasters s.r.o.