Registered number
237626

P&O Ferries Limited

Directors' report and financial statements

31 December 2006

P&O Ferries Limited
Report and financial statements
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P&O Ferries Limited
Directors' Report

The directors present their report together with the audited financial statements for the year ended 31 December 2006.

Principal activities and business review

The company is principally engaged in the operation of passenger and vehicle ferries It provides passenger and freight services on the Dover to Calais route

The profit for the year after tax amounted to £21 8 million *(2005: loss £8 4 million)* after deducting exceptional costs of £1.2 million *(2005 £3 2 million)* Exceptional costs are analysed in note 4.

The Company had an improved trading year in 2006 with an operating profit of £22.7 million (2005: loss £2.2 million) The company continues to operate six ships following the fundamental business review in 2004 Safety and reliability have remained paramount. In the first half of 2005, there was major disruption of the berthing at Calais, which led to approximately 14% of the sailings being lost in that year Both freight and tourist volumes have improved in the current year but only freight is showing improvement when the 2005 figures are rebased for the Calais berthing issue. Margins have shown modest improvement over 2005.

On 8 March 2006, all the issued deferred and concessionary stock of The Peninsular and Oriental Steam Navigation Company was acquired by Thunder FZE, a wholly owned subsidiary of Ports, Customs and Free Zone Corporation, Dubai. Subsequent to the year end, on 30 March 2007, a group reorganisation was completed that moved ownership of the company from the Ports sector of Dubai World to directly reporting to Dubai World

Risk management
Overdraft facilities drawn down by one of the group parties are jointly and severally guaranteed by the other group parties to the agreement. Fuel prices continue to be volatile and the company has taken out a hedge position for the majority of its fuel purchases in 2007.

Future developments
Freight volumes are steady with improvements in margin over 2006 Passenger numbers are showing a modest increase on the corresponding period in 2006 Competition from other ferry operators, the tunnel and low cost flights means that the freight and tourist markets remain extremely competitive However, freight movements between the UK and mainland Europe are growing and the Company is confident of maintaining its position

To capitalise on the growing freight market between the River Thames and the Continent, a new freight route was started between Tilbury and Zeebrugge on 16 July 2007, with one time-chartered ship, and the intention of a second ship before the end of the year

In response to the growing demand for freight within the whole P&O Ferries group, a ship, the El Greco, has been purchased. It will be renamed European Endeavour and will be delivered in September 2007, and will be mainly used on the Dover Calais route.

Dividends
No dividends were paid during the year *(2005. £nil)*

Charitable and political donations
The company made no charitable donations during the year *(2005· £300)* and no political donations during the year *(2005: £nil)*

P&O Ferries Limited
Directors' Report

Directors

The directors who held office during the year, including those appointed subsequently, were as follows

R D Peters		(Resigned 30 April 2006)
H Deeble		
C A Mowatt		(Resigned 30 March 2007)
C J Laming		(Resigned 30 March 2007)
S E Ratcliffe		(Resigned 2 February 2007)
J P Garner		
A Reeves		(Resigned 30 March 2007)
K Howarth	(Appointed 26 February 2007)	
Y Narayan	(Appointed 1 December 2006)	(Resigned 30 March 2007)
J M Khalfan	(Appointed 1 December 2006)	(Resigned 30 March 2007)
R Woods	(Appointed 1 December 2006)	(Resigned 30 March 2007)
R Daelman	(Appointed 2 May 2006)	(Resigned 30 March 2007)

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Disabled employees

It is the company'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 company's payroll This policy is applied in a manner consistent with good business practice and the company's regard for the health and safety of all employees and the community at large

Employee involvement

The company 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 company as a whole as well as those of a local interest are communicated in writing

A profit sharing scheme for company employees is in operation

During the year, certain employees also participated in the P&O executive stock option plan

Creditor payment policy

The company's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed Where payment terms have not been specifically agreed, then invoices dated in one calendar month are paid close to the end of the following month This policy is understood by the purchasing and finance departments The company has procedures for dealing promptly with complaints and disputes The company does not follow any formal code or practice in respect of the payment of creditors The creditor payments of other group companies within P&O's Ferries division have been centralised within P&O Ferries Limited and the combined division's payments had 25 days purchases outstanding at the year end (2005 23 days)

This report was approved by the board on 16 October 2007

K Howarth
Director

Channel House
Channel View Road
Dover
Kent
CT17 9TJ

P&O Ferries Limited
Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practices (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

P&O Ferries Limited

Independent auditors' report
to the members of P&O Ferries Limited

We have audited the Company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 27 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion
In our opinion,
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP
Registered auditors
London

Ernst & Young LLP

30 October 2007

P&O Ferries Limited
Profit and Loss Account
for the year ended 31 December 2006

	Notes	Before Items Exceptional 2006 £000	Exceptional Items (Note 4) 2006 £000	Total 2006 £000	2005 £000
Turnover	2	281,237	-	281,237	258,916
Cost of sales	3	(206,289)	-	(206,289)	(206,862)
Gross profit		74,948	-	74,948	52,054
Administrative expenses	3	(51,119)	(1,154)	(52,273)	(54,524)
Other operating income		53	-	53	255
Operating profit/(loss)	3	23,882	(1,154)	22,728	(2,215)
Loss on disposal of tangible fixed assets	3	-	-	-	(516)
Profit/(loss) on ordinary activities before interest		23,882	(1,154)	22,728	(2,731)
Interest receivable	5	237	-	237	221
Interest payable	6	(1,821)	-	(1,821)	(4,572)
Pension finance income/(charge)	24	488	-	488	(349)
Profit/(loss) on ordinary activities before taxation		22,786	(1,154)	21,632	(7,431)
Tax on profit/(loss) on ordinary activities	9	153	-	153	(981)
Profit/(loss) for the financial year		22,939	(1,154)	21,785	(8,412)

All the Company's activities are continuing

P&O Ferries Limited
Statement of total recognised gains and losses
for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Profit/(loss) for the financial year		**21,785**	(8,412)
Actuarial gain/(losses) on defined benefit pension schemes	24	**21,845**	(34,837)
Total recognised gains and losses related to the year		43,630	(43,249)

P&O Ferries Limited
Balance Sheet

	Notes		2006 £000		2005 £000
Fixed assets					
Tangible assets	10		**182,107**		193,045
Investments	11		**28**		28
			182,135		193,073
Current assets					
Stocks	12	**5,997**		9,185	
Debtors	13	**178,764**		126,872	
Cash at bank and in hand		**11,820**		16,553	
		196,581		152,610	
Creditors amounts falling due within one year	14	**(252,778)**		(234,979)	
Net current liabilities			**(56,197)**		(82,369)
Total assets less current liabilities			**125,938**		110,704
Creditors· amounts falling due after more than one year	15		**(166,106)**		(169,846)
Provisions for liabilities					
Other provisions	16		**(3,242)**		(4,474)
Net liabilities excluding pension liabilities			**(43,410)**		(63,616)
Pension liabilities	24		**(27,432)**		(50,926)
Net liabilities			**(70,842)**		(114,542)
Capital and reserves					
Called up share capital	17		**8,437**		8,437
Share premium	18		**20,663**		20,663
Share option reserve	19		**-**		2,094
Profit and loss account	20		**(99,942)**		(145,736)
Shareholders' funds	21		**(70,842)**		(114,542)

These financial statements were approved by the board of directors on 16 October 2007 and were signed on its behalf by

K Howarth
Director

P&O Ferries Limited
Notes to the financial statements
for the year ended 31 December 2006

1 Accounting policies

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

Basis of preparation and going concern
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules The financial statements have also been prepared on the going concern basis, since the Company's UK holding company, P&O Ferries Division Holdings Limited, has indicated that it will continue to provide such financial and other support as is necessary to enable the Company to continue to trade

The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare group financial statements on the grounds that the company is a wholly-owned subsidiary of The Peninsular and Oriental Steam Navigation Company, incorporated under Royal Charter, which prepares group financial statements Consequently the presented financial information is for P&O Ferries Limited only

Cash flow statement
Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a UK parent undertaking which has produced a group cash flow statement in accordance with the provisions of the Standard

Turnover
Turnover comprises sales to third parties (excluding value added tax) for goods and services provided to customers Traffic revenue is recognised on departure of the relevant sailing

Tangible fixed assets and depreciation
Fixed assets are stated at cost less accumulated depreciation Freehold land is not depreciated Depreciation is provided to write down the cost or valuation of tangible fixed assets by equal annual instalments over their expected useful lives The depreciation charge for ships is calculated after adjusting for the residual value based upon a percentage of the original cost The periods applicable are -

Freehold buildings	50 years
Owned and leased ships	25 to 35 years
Plant, machinery, fixtures and fittings	4 to 10 years

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

Ships' refits
The cost of refitting each ship is recorded as a prepayment and amortised in equal instalments over the period up to the next scheduled refit for the ship

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

Leases

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

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

Pensions

The Company'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 is deducted The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations The calculation is performed by a qualified actuary using the projected unit credit method

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

All actuarial gains and losses that arise on the calculation of the Company's obligation in respect of a plan are recognised in the year in which they arise directly into the statement of recognised gains and losses

The operating and financing costs of the defined pension schemes are recognised separately in the income statement, current service costs are spread systematically over the expected average remaining life of employees and financing costs are recognised in the period in which they arise

Contributions including lump sum payments, in respect of defined contribution pension schemes and multi employer defined benefit schemes where it is not possible to identify the Company's share of the scheme, are charged to the income statement as they fall due

Stocks

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

Deferred taxation

The P&O Group elected to enter the UK tonnage tax regime for its shipping related activities with effect from 1 January 2002 This has the effect of eliminating related future potential tax liabilities on shipping related profits in the United Kingdom

2 Turnover and profit / (loss) on ordinary activities before tax

Turnover and profit/(loss) on ordinary activities before taxation are primarily derived from the operation of ferry services between Great Britain and Continental Europe

P&O Ferries Limited
Notes to the financial statements
for the year ended 31 December 2006

3 Operating profit/(loss)

This is stated after charging/(crediting).

	2006 £000	2005 £000
Depreciation and other amounts written off owned fixed assets	19,044	16,623
Loss on disposal of fixed assets	-	516
Operating lease rentals - plant and machinery	139	154
Auditor's remuneration - audit services	98	186
Auditor's remuneration - non-audit services	-	26
Ships' charter hire payments	261	1,647
Exchange (gains)/losses	(391)	1,302

Other operating income of £53,000 *(2005: £255,000)* relates principally to recharges made to other group companies for administration costs

4 Exceptional items

	2006 £000	2005 £000
Cost of sales		
Reorganisation costs	-	(1,382)
Administrative expenses		
Reorganisation costs (note 16)	(1,154)	(1,837)
Total	(1,154)	(3,219)

Reorganisation costs in 2006 comprised redundancy and restructuring costs

5 Interest receivable and other similar income

	2006 £000	2005 £000
On bank deposits	237	219
On balances with immediate parent undertaking	-	2
	237	221

6 Interest payable and similar charges

	2006 £000	2005 £000
Bank loans and overdrafts	1,821	4,572

P&O Ferries Limited
Notes to the financial statements
for the year ended 31 December 2006

7 Directors' emoluments

	2006	2005
	£000	£000
Directors' emoluments	**1,080**	1,337
Long term incentive scheme	**3,240**	145
Compensation for loss of office	**-**	94
Pension contributions	**208**	269
	4,528	1,845
Highest paid director		
Emoluments	**1,921**	314
Highest paid director		
Accrued retirement benefits from defined benefit pension schemes	**123**	156

Number of directors in company pension schemes:	**2006**	2005
	Number	Number
Defined benefit schemes	**4**	4

8 Staff costs

	2006	2005
	£000	£000
Wages and salaries	**34,932**	32,498
Social security costs	**2,210**	2,421
Other pension costs	**3,432**	5,259
	40,574	40,178

Average number of employees during the year	**Number**	Number
Sea Staff	**-**	68
Shore based - Great Britain	**796**	937
Shore based - Continental Europe	**290**	296
	1,086	1,301

The company's ships are manned by a combination of permanent and agency crew Permanent members of ships' staff are employed by another P&O Group company The Company also uses a number of third party crewing agencies

9 Taxation

	2006 £000	2005 £000
Analysis of charge in period		
Current tax		
UK corporation tax on profits of the period	35	31
Adjustments in respect of previous periods	(188)	950
Tax on (loss)/profit on ordinary activities	(153)	981

The current taxation charge is reconciled to the UK standard rate as follows

	2006 £000	2005 £000
Profit/(loss) on ordinary activities before tax	21,632	(7,431)
Standard rate of corporation tax in the UK	30%	30%
	£000	£000
Profit on ordinary activities multiplied by the standard rate of corporation tax	6,490	(2,229)
Effects of		
Tonnage tax	(6,455)	2,260
Adjustments to tax charge in respect of previous periods	(188)	950
Current tax charge for period	(153)	981

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

10 Tangible fixed assets

	Owned ships £000	Freehold land and buildings £000	Plant, machinery, fixtures and fittings £000	Total £000
Cost				
At 1 January 2006	241,948	4,243	55,096	301,287
Additions	2,891	-	5,337	8,228
Disposals	-	-	(771)	(771)
At 31 December 2006	244,839	4,243	59,662	308,744
Depreciation				
At 1 January 2006	62,149	504	45,589	108,242
Charge for the year	15,616	160	3,268	19,044
On disposals	-	-	(649)	(649)
At 31 December 2006	77,765	664	48,208	126,637
Net book value				
At 31 December 2006	**167,074**	**3,579**	**11,454**	**182,107**
At 31 December 2005	179,799	3,739	9,507	193,045

List of ships at 31 December 2006

Pride of Burgundy
Pride of Dover
Pride of Calais
Pride of Kent
Pride of Canterbury
European Seaway

11 Investments

	Investments in subsidiary undertakings £000
Cost	
At 1 January 2006 and 31 December 2006	28

P&O Ferries (France) SARL is a wholly owned dormant subsidiary undertaking incorporated in France

P&O Ferries Limited
Notes to the financial statements
for the year ended 31 December 2006

12 Stocks

	2006 £000	2005 £000
Raw materials and consumables	**438**	444
Finished goods and goods for resale	**5,559**	8,741
	5,997	9,185

13 Debtors

	2006 £000	2005 £000
Trade debtors	**51,878**	52,246
Amounts owed by fellow subsidiary undertakings	**120,412**	68,359
Other debtors	**1,488**	3,629
Prepayments and accrued income	**4,986**	2,638
	178,764	126,872

14 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Bank loans and overdrafts	**5,180**	33,195
Trade creditors	**20,988**	20,651
Amounts owed to immediate parent undertaking	**125,339**	118,669
Amounts owed to fellow subsidiary undertakings	**54,008**	23,301
Corporation tax	**175**	44
Other taxes and social security costs	**9,137**	9,447
Other creditors	**3,815**	5,490
Accruals and deferred income	**34,136**	24,182
	252,778	234,979

15 Creditors amounts falling due after one year

	2006 £000	2005 £000
Amounts owed to ultimate parent undertaking	**166,106**	169,846

The loan from the ultimate UK parent undertaking is interest free and has no repayment date

16 Provisions for liabilities

	Reorganisation provision £000	Legal provision £000	2006 £000
At 1 January 2006	4,074	400	**4,474**
Charged during the year	2,077	-	**2,077**
Utilised during the year	(2,386)	-	**(2,386)**
Released during the year	(923)	-	**(923)**
At 31 December 2006	2,842	400	3,242

The reorganisation provision includes £840,000 at the end of the year (2005 £1,640,000) in respect of the company's obligations to pay costs under contracts for properties surplus to its operational requirements These obligations are expected to extend until 2007 The balance of this provision is to meet the company's obligations for redundancy and restructuring costs, which is mostly expected to be utilised in 2007

The legal provision relates to disputed subsistence payments to Calais employees, which is currently ongoing

Deferred taxation

The company has no deferred taxation liabilities (2005 £nil)

During 2001 the company elected to enter the UK tonnage tax regime which eliminated future potential tax liabilities on most of its activities' profits The tonnage tax regime includes provision whereby a proportion of capital allowances previously claimed by the company may be subject to tax in the event that a significant number of ships were sold and not replaced This contingent liability decreases to nil over the first seven years following entry to the regime The contingent liability at 31 December 2006 was approximately £0 1 million (2005 £0 4 million) assuming such disposal occurred at book value No provision has been made as no liability is expected to arise

17 Share capital

	2006 £000	2005 £000
Authorised Ordinary shares of £1 each	**8,437**	8,437

	2006 No	2005 No	2006 £000	2005 £000
Allotted, called up and fully paid Ordinary shares of £1 each	8,437,000	8,437,000	**8,437**	8,437

18 Share premium

	2006 £000	2005 £000
At 1 January and 31 December 2006	**20,663**	20,663

19 Share option reserve

	2006 £000	2005 £000
At 1 January	**2,094**	1,182
Issue of share options	**70**	912
Redemption of share options	**(2,164)**	-
At 31 December	**-**	2,094

Share options were redeemed as at 8 March 2006 when The Peninsular and Oriental Steam Navigation Company was purchased by Thunder FZE

20 Profit and loss account

	2006 £000	2005 £000
At 1 January	**(145,736)**	(102,487)
Profit/(loss) for the financial year	**21,785**	(8,412)
Actuarial gains and losses on defined benefit schemes	**21,845**	(34,837)
Redemption of share options	**2,164**	-
At 31 December	**(99,942)**	(145,736)

21 Reconciliation of movement in shareholders' funds

	2006 £000	2005 £000
At 1 January	**(114,542)**	(72,205)
Profit/(loss) for the financial year	**21,785**	(8,412)
Actuarial gains and losses on defined benefit schemes	**21,845**	(34,837)
Issue of share options	**70**	912
At 31 December	**(70,842)**	(114,542)

22 Capital commitments

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

	2006 £000	2005 £000
Contracted		
Ships	518	498
Other	483	1,327
	1,001	1,825

23 Other financial commitments

Annual commitments under non-cancellable operating leases as follows

	Land and buildings 2006 £000	Land and buildings 2005 £000
Operating leases which expire		
within one year	54	85
within two to five years	129	118
in over five years	510	510
	693	713

24 Pension schemes

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

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

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

The latest valuation of the P&O UK Scheme and the MNOPF scheme have been updated to 31 December 2006 by qualified independent actuaries

The principal assumptions are included in the table below

The assumptions used by the actuaries are the best estimates chosen from a range of possible

	P&O UK Scheme			MNOPF Scheme		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
	%	**%**	**%**	**%**	**%**	**%**
Discount rates	**5 10**	4 75	5 30	**5 10**	4 75	n/a
Expected rates of salary increases	**4 40**	4 20	4 20	**4 40**	4 20	n/a
Pension increases						
- deferment	**2 90**	2 70	2 70	**2 90**	2 70	n/a
- payment	**2.70**	2 50	2 50	**2 70**	2 50	n/a
Inflation	**2.90**	2 70	2 70	**2 90**	2 70	n/a
Expected rate of return on plan assets	**5 70**	5 80	6 20	**6.85**	6 60	n/a

The market value of the schemes' assets , which are not intended to be realised in the short term may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from the cash flow projections over the long periods and thus inherently uncertain are set out below

	P&O UK Scheme		MNOPF Scheme		
	Expected long term rate of return	Market value	Expected long term rate of return	Market value	Total market value
	%	**£000**	**%**	**£000**	**£000**
2006					
Equities	7 70	39,557	7 70	72,220	111,777
Bonds	4 60	66,155	5 00	29,601	95,756
Other	4 20	2,818	6 05	11,120	13,938
	5 70	108,530	6 85	112,941	221,471
Present value of scheme liabilities		(108,564)		(140,339)	(248,903)
Net pension liability		**(34)**		**(27,398)**	**(27,432)**

P&O Ferries Limited
Notes to the financial statements
for the year ended 31 December 2006

24 Pension schemes (continued)

	P&O UK Scheme		MNOPF Scheme		
	Expected long term rate of return %	Market value £000	Expected long term rate of return %	Market value £000	Total market value £000
2005					
Equities	7 70	43,300	7 70	66,213	109,513
Bonds	4 40	59,540	4 50	27,821	87,361
Other	3 70	1,120	4 45	12,082	13,202
	5 80	103,960	6 60	106,116	210,076
Present value of scheme liabilities		(110,190)		(150,812)	(261,002)
Net pension liability		**(6,230)**		**(44,696)**	**(50,926)**
2004					
Equities	8 00	50,508	n/a	n/a	50,508
Bonds	4 70	57,229	n/a	n/a	57,229
Other	3 70	3,772	n/a	n/a	3,772
	6 20	111,509	n/a	n/a	111,509
Present value of scheme liabilities		(143,669)		n/a	(143,669)
Deficit		**(32,160)**		**n/a**	**(32,160)**
Related deferred tax asset		-		n/a	-
Net pension liability		**(32,160)**		**n/a**	**(32,160)**

The pension costs for defined benefit schemes are as follows

	P&O UK Scheme	MNOPF Scheme	Total
2006	**£000**	**£000**	**£000**
Operating profit			
Current service costs	(2,232)	(693)	(2,925)
Past service costs	(123)	-	(123)
Total charge to the operating profit	**(2,355)**	**(693)**	**(3,048)**
Other finance income/(expense)			
Expected return on pension scheme assets	5,943	6,717	12,660
Interest on pension scheme liabilities	(5,127)	(7,045)	(12,172)
Net return	**816**	**(328)**	**488**
Statement of total recognised gains and losses			
Actual return less expected return on pension assets	1,609	2,625	4,234
Experience gains and losses on pension scheme liabilities	-	12,867	12,867
Changes in assumptions underlying the present value of the scheme liabilities	4,277	467	4,744
Actuarial gain recognised in statement of total recognised gains and losses	**5,886**	**15,959**	**21,845**

24 Pension schemes (continued)

	P&O UK Scheme £000	MNOPF Scheme £000	Total £000
2005			
Operating profit			
Current service costs	(2,310)	(295)	(2,605)
Past service costs	(60)	-	(60)
Net gain on settlements and curtailments	-	20	20
Total charge to the operating profit	(2,370)	(275)	(2,645)
Other finance income/(expense)			
Expected return on pension scheme assets	5,240	1,756	6,996
Interest on pension scheme liabilities	(5,520)	(1,825)	(7,345)
Net return	(280)	(69)	(349)
Statement of total recognised gains and losses			
Actual return less expected return on pension assets	4,597	2,200	6,797
Experience gains and losses on pension scheme liabilities	(7,510)	(550)	(8,060)
Benefit arising from P&O Nedlloyd transfer/sale	17,370	-	17,370
Changes in assumptions underlying the present value of the scheme liabilities	(2,911)	(5,819)	(8,730)
Reclassification of defined contribution scheme as defined benefit scheme	-	(42,214)	(42,214)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	11,546	(46,383)	(34,837)

As the P&O UK Scheme and MNOPF Scheme are closed to new entrants, under the Projected Unit valuation method, the current service cost as a percentage of relevant defined benefit pensionable payroll will increase as the members of the scheme approach retirement

P&O UK Scheme	**2006**	**2005**	**2004**	**2003**
Difference between the expected and actual return on scheme assets (£'000)	1,609	4,597	4,201	7,213
As a percentage of the scheme assets (%)	1%	4%	4%	7%
Experience gains and losses on pension scheme liabilities ('000)	-	(7,510)	116	322
As a percentage of the present value of scheme liabilities (%)	0%	7%	0%	0%
Total actuarial gain/(loss) recognised in the consolidated statement of total recognised gains and losses (£000)	5,886	11,546	(6,623)	(5,747)
As a percentage of the present value of scheme liabilities (%)	(5%)	(10%)	5%	4%

24 Pension schemes (continued)

MNOPF Scheme	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets (£000)	2,625	2,200	n/a	n/a
As a percentage of the scheme assets (%)	2%	2%	n/a	n/a
Experience gains and losses on pension scheme liabilities (£000)	12,867	(550)	n/a	n/a
As a percentage of the present value of scheme liabilities (%)	(9%)	0	n/a	n/a
Total actuarial gain/(loss) recognised in the consolidated statement of total recognised gains and losses (£000)	15,959	(46,383)	n/a	n/a
As a percentage of the present value of scheme liabilities (%)	(11%)	31%	n/a	n/a

Movement in the deficit during the two years ended 31 December 2006

	P&O UK Scheme £000	MNOPF Scheme £000	Total £000
Deficit in scheme as at 1 January 2005	**(32,160)**	**n/a**	**(32,160)**
Current service costs	(2,310)	(295)	(2,605)
Contributions paid	17,034	2,031	19,065
Past service cost	(60)	-	(60)
Net gain on settlements and curtailments	-	20	20
Other finance income / (expenses)	(280)	(69)	(349)
Reclassification of MNOPF as defined benefit scheme	-	(42,214)	(42,214)
Actuarial gain	11,546	(4,169)	7,377
Deficit in scheme as at 31 December 2005	**(6,230)**	**(44,696)**	**(50,926)**
Current service costs	(2,232)	(693)	(2,925)
Contributions paid	1,849	2,360	4,209
Past service cost	(123)	-	(123)
Other finance income / (expenses)	816	(328)	488
Actuarial gain	5,886	15,959	21,845
Deficit in schemes as at 31 December 2006	**(34)**	**(27,398)**	**(27,432)**

24 Pension schemes (continued)

P&O UK Scheme actuarial valuation for funding purposes

Formal valuations of the P&O UK Scheme are normally carried out triennially by qualified independent actuaries, the latest regular valuation report for the scheme being at 1 April 2003, using the projected unit method As a result of the decision by P&O Nedlloyd to form its UK scheme and the request to transfer its share of the assets and liabilities of the P&O UK Scheme into the new scheme, an additional valuation was carried out as at 30 September 2004 using the projected unit method

At this date, allowing for the P&O Nedlloyd transfer and related transactions, the market value of the P&O UK Scheme's assets was £987m and the value of accrued benefits to the members allowing for future increases in earnings was £1,176m giving a deficit of £189m and a funding ratio of 83 9 per cent

Excluding the deficit reduction payments, the average contribution rates for P&O UK Scheme were 23 7 per cent for the year to 31 December 2006 and 23 7 per cent from 1 January 2007

The principal long term assumptions in the P&O UK Scheme's 2004 valuation are

	Nominal % per annum
Price inflation	**3 00**
Investment return on pre-retirement portfolio	**6 50**
Investment return on post-retirement portfolio	**5.50**
Earnings escalation	**4.50**
LEL escalation	**3.00**
Increase in pensions in excess of Guaranteed Minimum Pensions	**2 75**

P&O Ferries Limited
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24 Pension schemes (continued)

Industry Schemes

Merchant Navy Officers' Pension Fund ("MNOPF")

The MNOPF Scheme is a defined benefit multi-employer scheme in which officers employed by the Company have participated

The Scheme is divided into two sections, the Old Section and the New Section, both of which are closed to new members and the latest valuation was carried out at 31 March 2006

The Old Section has been closed to benefit accrual since 1978 The Scheme's independent actuary advised that at 31 March 2006 the market value of the scheme's assets for the Old Section was £1,473m, representing approximately 107 per cent of the value of the benefits accrued to members The assets of the Old Section were substantially invested in bonds

As at 31 March 2006, the date of the most recent valuation, the New Section had assets with a market value of £1,931m, representing approximately 93 per cent of the benefits accrued to members The valuation assumptions were as follows

	%
Discount rate	**5.93**
Rate of salary increases	**4.50**
Rate of pension increases (where increases apply)	**3.00**

At the date of valuation, approximately 57 per cent of the New Section's assets were invested in equities, 15 per cent in bonds and 28 per cent in property, pooled investment vehicles and cash

The trustee has advised the Company that the share of its deficit in the New Section is 7 4 per cent, and for the 2003 valuation, has issued a schedule of regular deficit payments from the Company totalling £2 2m per annum commencing on 30 September 2005 and payable on 30 March thereafter until 2014 Therefore, the Company has accounted for the MNOPF New Section as a defined benefit scheme from 30 September 2005 Prior to that date, the Company accounted for the New Section as a defined contribution scheme as it was unable to determine its share of the scheme The Company will also pay its proportion of the £151m deficit identified in the 2006 valuation, by instalments up to 2014 The next valuation will be no later than 31 March 2009

24 Pension schemes (continued)

Merchant Navy Ratings Pension Fund ("MNRPF")

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

As 31 March 2005, the date of the most recent full triennial valuation carried out by an independent actuary, the scheme had assets with a market value of £590m, representing 86 per cent of the benefits accrued to members allowing for future increases Approximately 68 per cent of the scheme's assets were invested in bonds, 25 per cent in equities and 7 per cent in property and cash The valuation assumptions were as follows

	%
Investment return on pre-retirement portfolio	**6.50**
Investment return on post-retirement portfolio	**5.00**
Rate of national average earnings increase	**4.20**
Rate of pension increases (where increase apply)	**2.70**

As a result of this valuation a revised fixed schedule of payments has been drawn up which remains in place until 31 March 2007 While the company is no longer a current employer in the MNRPF, and has no legal obligation with respect to the on-going deficit in the fund, having settled its statutory debt obligation, it is participating on a voluntary basis to the fixed schedule of payments

For the year ended 31 December 2006 the Company cannot identify its share of the underlying assets and liabilities of the MNRPF on a consistent and reasonable basis and is therefore for the year ended 31 December 2006 accounting for the MNRPF under FRS17 as if it were a defined contribution scheme The charge in the company accounts in 2006 was £1,972,000 (2005 £1,972,000)

Other schemes
In addition, the Company operates or participated in various other smaller schemes including the P&O Ferries Limited Personal Pension Plan The charge in the Company accounts for these schemes in 2006 was £250,000 (2005 £214,000) The Company also has a charge in the accounts for the French pension scheme of £438,000 (2005 £428,000)

25 Contingent liabilities

The Company has given guarantees in the sum of £7,147,000 (2005 £15,739,000) to a banker in respect of various bonds for removal, transhipment and importation of goods, including liability for duty payments in France

26 Related party disclosures

Under Financial Reporting Standard 8, the company is exempt from reporting transactions with its parent and fellow subsidiary undertakings, as 90 per cent or more of the voting rights of the company are controlled within the group There were no other related party transactions

27 Ultimate parent and controlling company

The smallest group of companies for which consolidated financial statements are prepared and in which the company is consolidated is The Peninsular and Oriental Steam Navigation Company, a company incorporated by Royal Charter and therefore not registered, copies of whose accounts can be obtained from The Registrar of Companies, Companies House, Crown Way, Cardiff CF143UZ

The largest group of companies for which consolidated financial statements are prepared and in which the company is consolidated is Dubai Ports Authority a company incorporated in Dubai, whose accounts are filed with the Dubai International Financial Exchange

In the opinion of the directors, the ultimate parent undertaking as at 31 December 2006 was Ports Customs and Free Zones Corporation, a company incorporated in Dubai

On 1 January 2007 Thunder FZE, the immediate parent undertaking of The Peninsular and Oriental Steam Navigation Company, was purchased by Galaxy Investments Ltd and in the opinion of the directors, the ultimate parent undertaking from that date is Dubai World Corporation, a company incorporated in Dubai

The company's immediate controlling party and UK parent undertaking at 31 December 2006 is P&O Short Sea Ferries Limited (formerly P&O Ferries (Holdings) Limited), a company incorporated in Great Britain and registered in England and Wales

On 30 March 2007, a group reorganisation was completed that moved the company from the Ports sector of Dubai World to directly reporting to Dubai World The ultimate parent undertaking remains Dubai World Corporation