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P&O Ferrymasters Limited

**Directors' report and financial
statements**

Registered number NI4115 / FC 4745
31 December 2006

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities

The company is involved in international transport and freight management within Europe

Business review

P&O Ferrymasters had a positive year with improvement across all trading areas. In the year the trading operating profit was £2.1 million, this was before an exceptional trailer impairment of £1.6 million. Accordingly the overall operating profit was £0.5 million.

Total volumes increased by 5.3% in comparison to the previous year and revenue by 12%.

Freight management continued to grow, though at a level slightly below 2005 due to the deferral of some contracts to 2007.

The European trailer and intermodal divisions traded significantly ahead of the previous year.

Revenue improvements were secured across all European businesses, which were reflected in higher margins.

The Irish trailer business performed better than 2005 due to improvements in margins and a reduction in fixed costs.

Taking into account the aforementioned performance of the business, future objectives include further expansion and development of the freight management concept, within existing and new sectors.

Other objectives are to expand the Intermodal activity encompassing the European rail network and to expand overall geographical coverage.

Performance is monitored in order to maintain and achieve company objectives with both financial and operational weekly Key performance indicator reports.

Operational reports include Own tractor productivity, Trade lane volume analysis, Sub contractor haulage analysis and Seafreight analysis. Financial reports include Debtor reports, Cash flow reporting and Trade lane margin reports.

Examples of the results of these indicator reports in comparison to 2005 are:

Operating Profit (Pre exceptional Trailer impairment)	Favourable 3.5%
Cash at Bank in hand	Favourable 52.0%
UK Own Vehicle movements	Favourable 5.6%
P&O North Sea Ferries Load movements	Favourable 9.5%

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

From a Human resources perspective 2006 staff turnover was 10%. Exit interviews are conducted for employees that are leaving, corrective measures are implemented if required. In 2006 the organisation was involved in no employment related tribunals.

Service quality is measured internally and externally and customer service targets are established. In the event of customer complaints or service issues, the organisation endeavours to learn and implement corrective action, if required. If goods become damaged, lost or stolen during transportation a dedicated claims management department is in place. Claim types are monitored via a central database and preventative measures are taken for recurring types of incidents.

Health and safety is managed by all sites providing monthly safety returns and these disclose personal injury incidents. All of the organisation's sites are audited annually and all have Health and safety committees. Other procedures for risk assessment and safe working practices are reviewed annually.

Directors' report *(continued)*

The business hedges against currency fluctuations by purchasing forward foreign exchange contracts. Fuel prices continue to be volatile, this is monitored closely in order to mitigate this exposure.

On 31st March 2007, the Peninsular and Oriental Ferrymasters Limited was acquired by the Peninsular and Oriental Ferrymasters Holdings Limited, from the Peninsular and Oriental Properties BV. In the opinion of the directors, the ultimate parent undertaking from that date is Dubai World Corporation, a company incorporated in Dubai.

Proposed dividend and transfer from reserves

The directors do not recommend the payment of a dividend in the year (2005 £nil). Movements on reserves are shown in note 18.

Significant changes in fixed assets

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

Branches

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

Directors and directors' interests

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

RD Peters	Chairman (Resigned 28 th April 2006)
H Deeble	
J Bradshaw	Managing Director (Resigned 30 th May 2007)
HH Braam	Appointed 1 st January 2006
B Belder	Finance Director/Company Secretary (Appointed Company Secretary on 28 th April 2006)
CN Cassidy	Appointed 1 st August 2007
G Dilley	
J Menheere	Appointed 2 nd October 2006
RI Meyrick	Appointed 1 st August 2006
ME Mulder	Appointed 1 st September 2006
PJ Rogers	Company Secretary (Resigned 28 th April 2006)
DA Smith	Resigned 30 th March 2007
B Verbeke	Appointed 1 st January 2006
SK Walters	

Employees

The company recognises the need to keep employees informed and encourages identification with their employer. A company newsletter maintains regular contact with employees at all locations.

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

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

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

Directors' report *(continued)*

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amount to £409 (2005 £2,086).

Credit payment policy

The Company's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed. Where payment terms have not been specifically agreed, then invoices dated in one calendar month are paid close to the end of the following month. This policy is clearly communicated and understood by suppliers. The company has procedures for dealing promptly with complaints and disputes. This policy is a combination of the CBI Best Code of Practice and terms agreed with suppliers. The company had 53 days' purchases outstanding at 31 December 2006 (2005 55 days).

Disclosure of information to the 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 group'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.

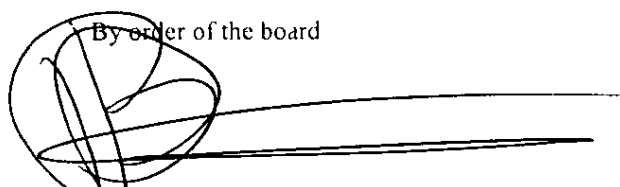
Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Post balance sheet event

On 31st March 2007 the Peninsular and Oriental Ferrymasters Limited was acquired by the Peninsular and Oriental Ferrymasters Holdings Limited from the Peninsular and Oriental Properties BV. In the opinion of the directors, the ultimate parent undertaking from that date is Dubai World Corporation, a company incorporated in Dubai.

By order of the board



B Belder
Secretary
11/12/2007

Whitehouse Industrial Estate
3 Goddard Road
Ipswich
IP1 5NP

Statement of Directors' responsibilities in respect of the financial statements.

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (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 these 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 (Northern Ireland) Order 1986. 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.

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

We have audited the company's financial statements for the year ended 31 December 2006 which is comprised of the primary financial statements such as the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 22. 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 Article 243 of the Companies (Northern Ireland) Order 1986. 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 Annual Report and the financial statements in accordance with applicable law and United Kingdom 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 (Northern Ireland) Order 1986. 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 judgments 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 loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

14 December 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	2006 £000	Restated 2005 £000
Turnover	2	355,348	317,388
Cost of sales		(326,714)	(289,237)
Gross profit		28,634	28,151
Administrative expenses		(27,974)	(26,237)
Operating Profit		660	1,914
Other interest receivable and similar income	6	1,786	1,458
Interest payable and similar charges	7	(1,849)	(1,728)
Profit on ordinary activities before taxation	3	597	1,644
Tax on profit on ordinary activities	8	(707)	611
(Loss)/Retained profit for the financial year	18	(110)	2,255

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

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

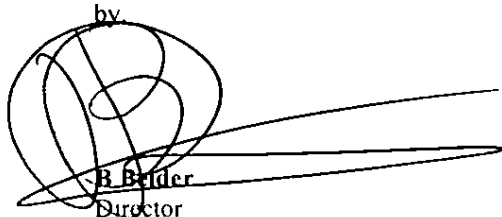
The accounts are prepared on an unmodified historical basis, and therefore the profit reported is based on historical cost

The notes on pages 10 to 25 form part of these financial statements

Balance sheet
at 31 December 2006

	Note	2006	Restated 2005
		£000	£000
Fixed assets			
Intangible assets	9	972	924
Tangible assets	10	11,019	15,211
Investments	11	8	8
		11,999	16,143
Current assets			
Stocks	12	817	864
Debtors	13	75,034	69,720
Cash at bank in hand		18,450	12,117
		94,301	82,701
Creditors amounts falling due within one year	14	(77,117)	(70,186)
Net current assets		17,184	12,515
Total assets less current liabilities		29,183	28,658
Creditors amounts falling due after more than one year excluding pension liability	15	(28,421)	(27,454)
Provisions for liabilities	16	(1,174)	(1,124)
Net (liabilities)/assets before pension liabilities		(412)	80
Pension liability	20	(5,171)	(9,291)
Net Liabilities		(5,583)	(9,211)
Capital and reserves			
Called up share capital	17	34,300	34,300
Profit and loss account	18	(39,883)	(43,511)
Equity Shareholders' deficit		(5,583)	(9,211)

These financial statements were approved by the board of directors on 11/12/2007 and were signed on its behalf by


B. Belder
Director

The notes on pages 10 to 28 form part of these financial statements

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £'000	Restated 2005 £'000
(Loss)/Profit for financial year	(110)	2,255
Actual return less expected return on pension scheme assets	1,215	4,894
Experience gains and losses arising on pension scheme liabilities	2,180	(7,290)
Changes in assumptions underlying the present value of pension scheme liabilities	-	(2,371)
Amounts arising from P&O Nedlloyd sale	-	13,350
Deferred tax arising on gain/(loss)	309	82
Other recognised gain	15	-
Total recognised gains and losses relating to financial year	3,609	10,920
Prior year adjustment	-	(25,066)
Total gains and losses recognised since last annual report	3,609	(14,146)

Notes

(to the financial statements at 31st December 2006)

1 Accounting policies

Basis of preparation

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

The adoption of FRS 20 – Share based payments – has had an immaterial impact on the financial statements of the Company. Certain comparatives have been adjusted, by the inclusion of amounts relating to directors, to make them consistent with current year classifications

Cash flow statement

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

Goodwill

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

Fixed assets and depreciation

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

Owned and leased plant and machinery	-	2 to 12 years
Fixtures, fittings, tool and equipment	-	4 to 10 years

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

Freehold land and buildings

In the case of freehold buildings and leasehold properties occupied by the company, annual depreciation is provided on a straight-line basis. Freehold properties are written off over 50 years and leasehold properties are written off over the remainder of the lease period. No depreciation is provided on freehold land

Leases

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

Stocks

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

Foreign exchange

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

Notes (continued)

Taxation

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

Turnover

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

Post retirement benefits

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

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

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

Contributions, including lump sum payments, in respect of the defined benefit pension scheme where it is not possible to identify the company's share of the scheme, are charged to the income statement as they fall due. Namely these schemes are the Merchant Navy Ratings Pension Fund and the Merchant Navy Officers Pension Fund. These schemes are multi employer defined benefit schemes and it is not possible to identify assets and liabilities that relate to P&O Ferrymasters Limited.

Related party transactions

As the company is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of The Peninsular and Oriental Steam Navigation Company within which this company is included can be obtained from the address given in note 21.

Notes (continued)

2 Analysis of turnover

The turnover and profit before tax of the company is derived primarily from transport activities
 Turnover can be analysed, by geographical market, as follows

	2006 £000	2005 £000
United Kingdom	96,453	95,924
Continental Europe	238,895	221,464
	<u>335,348</u>	<u>317,388</u>

3 Profit on ordinary activities before taxation

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration		
Audit	102	106
Other services	-	10
Depreciation and other amount written off tangible fixed assets		
Owned	3,964	2,520
Leased	493	278
Amortisation of goodwill	58	67
Exchange losses	88	198
Rentals payable under operating leases		
Hire of plant and machinery	6,473	7,529
Land and buildings	451	676
Profit on disposal of fixed assets	(249)	-
Impairment of fixed assets	1,578	-
	<u>1,578</u>	<u>-</u>

Notes (continued)

4 Remuneration of directors

	2006 £000	2005 £000
Directors' emoluments		
Remuneration as executives	1,012	855

The emoluments excluding pension contributions, of the highest paid director were £179,366 (2005 £140,257).
 Accrued pension at the year-end was £75,387 (2005 £70,121).

The aggregate amount of pension contributions paid on behalf of the directors was £152,863 (2005 £160,247). The number of directors to whom retirement benefits are accruing is 3 (2005 3) under the P&O defined benefit Pension Scheme.

5 Staff numbers and costs

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

	2006	2005
Drivers	188	182
Maintenance and repair	57	21
Administrative & supervisory	614	666
	859	869

The aggregate payroll costs of these persons were as follows:

	2006 £000	2005 £000
Wages and salaries	20,364	18,455
Social security costs	1,837	1,760
Other pension costs	1,396	1,555
	23,597	21,770

6 Other interest receivable and similar income

	2006 £000	2005 £000
Bank interest	1,437	1,458
Finance benefit on pension liability	349	-
	1,786	1,458

Notes (continued)

7 Interest payable and similar charges

	2006 £000	2005 £000
Group undertaking	878	573
Bank interest	968	915
Exchange	3	-
Finance charge on pension liability	-	240
	<u>1,849</u>	<u>1,728</u>

8 Taxation

	£000	2006 £000	£000	Restated 2005 £000
<i>UK corporation tax</i>				
Current tax on income for the year	471		453	
Adjustments in respect of prior years	188		(1,212)	
		<u>659</u>		<u>(759)</u>
<i>Foreign tax</i>				
Current tax on income for the year	-		105	
Adjustments in respect of prior years	(2)		(9)	
		<u>(2)</u>		<u>96</u>
Total current tax		<u>657</u>		<u>(663)</u>
<i>Deferred tax (see note 16)</i>				
Origination/reversal of timing differences	(473)		263	
Adjustment in respect of previous year	523		(211)	
		<u>50</u>		<u>52</u>
		<u>707</u>		<u>(611)</u>

Notes (continued)

Factors affecting the tax credit for the current period

The current tax charge for the period is higher (2005 lower) than the standard rate of corporation tax in the UK, 30%, (2005 30%) The differences are explained below

	2006 £000	Restated 2005 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	597	1,644
	<hr/>	<hr/>
Current tax at 30% (2005 30%)	179	493
<i>Effects of</i>		
Expenses not deductible for tax purposes	(181)	328
Accelerated capital allowances	473	(158)
Other short term timing differences	-	(105)
Adjustments to tax charge in respect of previous periods	186	(1,221)
	<hr/>	<hr/>
Total current tax charge (see above)	657	(663)
	<hr/>	<hr/>

Notes (continued)

9 Intangible fixed assets

Goodwill	2006
	£000
<i>Cost</i>	
At beginning of year	7,102
Additions	132
Disposals	(5,762)
Exchange	(31)
	<hr/>
At end of year	1,441
	<hr/>
<i>Amortisation</i>	
At beginning of year	(6,138)
Charge for the year	(58)
Disposal	5,716
Exchange	11
	<hr/>
At end of year	(469)
	<hr/>
<i>Net book value</i>	
At 31 December 2006	972
	<hr/>
At 31 December 2005	924
	<hr/>

The disposal in the year is a correction of a 2004 impairment review which should have been classified as a goodwill write-off

The goodwill addition in the year of £132,000 was the purchase of a freight forwarding company P&O Ferries (ALA) SARI. Details of the purchase shown below

Acquisition of P&O Ferries (ALA) SARI	Cost	Fair Value Adjustment	Fair Value
	£000	£000	£000
Fixed Assets	144	-	144
Debtors	1,814	-	1,814
Creditors	(1,117)	-	(1,117)
Net Borrowings	(327)	-	(327)
	<hr/>	<hr/>	<hr/>
	514	-	514
	<hr/>	<hr/>	<hr/>
Goodwill			132
			<hr/>
Total Consideration			646
			<hr/>

Notes (continued)

10 Tangible fixed assets

	Freehold land and building	Long lease land and buildings	Plant machinery owned	Fixtures fittings tools and equipment	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	1,098	3 049	25 529	5,721	35,397
Additions	-	146	355	522	1,023
Disposals	(1,098)	-	(1,316)	(66)	(2,480)
At end of year	-	3,195	24,568	6,177	33,940
Depreciation					
At beginning of year	(573)	(1 089)	(14 355)	(4,169)	(20,186)
Charge for the year	(1)	(493)	(3 440)	(523)	(4 457)
Disposals	574	-	1,146	2	1,722
At end of year	-	(1,582)	(16 649)	(4,690)	(22,921)
Net book value					
At 31 December 2006	-	1,613	7,919	1,487	11,019
31 December 2005	525	1,960	11,174	1,552	15,211

Notes (continued)

11 Investments

	Unlisted investments 2006 £000
<i>Cost</i>	
As at January 1 st and December 31 st 2006	<u>8</u>

12 Stocks

	2006 £000	2005 £000
Raw materials and consumables	<u>817</u>	<u>864</u>

13 Debtors

	2006 £000	Restated 2005 £000
Trade debtors	62,015	57,944
Amounts owed by Group undertakings	135	28
Corporation tax	380	387
Group relief Corporation tax	-	628
Other tax and social security	2,258	3 170
Prepayments and accrued income	10,246	7,563
	<u>75,034</u>	<u>69,720</u>

Notes (continued)

14 Creditors amounts falling due within one year

	2006	2005
£000	£000	£000
Trade creditors	56,441	51,829
Amounts owed to Group undertakings	9,627	8,413
Other creditors including taxation and social security		
Other taxes and social security	2,395	3,313
Pensions	366	-
	<u>2,761</u>	<u>3,313</u>
Accruals and deferred income	8,140	6,631
Group relief Corporation Tax	148	-
	<u>77,117</u>	<u>70,186</u>

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

	2006	2005
	£000	£000
Amounts owed to group undertakings	<u>28,421</u>	<u>27,454</u>

This amount includes an inter company loan on which interest is payable at 1% above the UK base rate

Notes (continued)

16 Provisions for liabilities and charges

	Deferred Taxation £000
At beginning of year	1,124
Charged to profit and loss account in the year	50
	<hr/>
At end of year	1,174
	<hr/>

The elements of deferred taxation are as follows

	2006 £000	2005 £000
Difference between accumulated depreciation and capital allowances	1,174	1,387
Other timing differences	-	(263)
	<hr/>	<hr/>
Deferred tax liability	1,174	1,124
	<hr/>	<hr/>

17 Called up share capital

	2006 £000	2005 £000
Authorised 35 000 000 ordinary shares of £1 each	35,000	35,000
	<hr/>	<hr/>
Allotted called up and fully paid 34 300 000 ordinary shares of £1 each	34,300	34 300
	<hr/>	<hr/>

Notes (continued)

18 Reconciliation of movement in shareholders' funds

	Called up Share Capital £000	Profit and loss account £000	Total £000
At the beginning of the year as previously reported	34,300	(43,549)	(9,249)
Prior adjustment in respect of Share based payments	-	38	38
At the beginning of the year restated	34,300	(43,511)	(9,211)
Retained loss for the year	-	(110)	(110)
Actuarial gain arising on defined benefit pension scheme	-	3,395	3,395
Deferred tax arising on gain	-	309	309
Share based payments	-	19	19
Other recognised gains and losses	-	15	15
At end of year	34,300	(39,883)	(5,583)

19 Commitments

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

	2006 £000	2005 £000
Contracted	219	291

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

	Land and buildings £000	2006 Other £000	Land and buildings £000	2005 Other £000
Operating leases which expire				
Within one year	2	279	-	529
In the second to fifth years inclusive	491	3,105	73	2,431
Over five years	647	2,109	317	1,730
	1,140	5,493	390	4,690

Notes (continued)

20 Pension scheme

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

The latest valuation of the P & O UK scheme has been updated to 31 December 2006 by qualified independent actuaries and apportioned to the group companies. The aspect in relation P&O Ferrymasters Ltd is disclosed accordingly.

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 actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

	2006	2005	2004
Rate of increase in salaries	4.20%	4.20%	4.20%
Rate of increase in pensions in payment and deferred pensions			
- deferment	2.70%	2.70%	2.70%
- payment	2.50%	2.50%	2.50%
Discount rate applied to scheme liabilities	4.75%	4.75%	5.30%
Inflation assumption	2.70%	2.70%	2.70%

Scheme assets

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

	Value at 2006 £000	Value at 2005 £000	Value at 2004 £000
Equities	29,441	32,510	39,662
Bonds	49,237	44,700	44,940
Other	2,097	795	2,962
Total market value of assets	80,775	78,005	87,564
Present value of scheme liabilities	(87,120)	(88,420)	(112,817)
Deficit in the scheme – Pension liability	(6,345)	(10,415)	(25,253)
Related deferred tax asset	1,174	1,124	1,042
Net pension liability	(5,171)	(9,291)	(24,211)

Notes (continued)

20 Pension scheme (continued)

The expected rates of return on the assets in the scheme were

	Long term rate of return 2006	Long term rate of return 2005	Long term rate of return 2004
Equities	7.70%	7.70%	8.00%
Bonds	4.60%	4.40%	4.70%
Other	4.20%	3.70%	3.70%
	<hr/>	<hr/>	<hr/>
	5.70%	5.80%	6.20%

Movement in deficit during the year

	2006 £000	2005 £000
Deficit in scheme at beginning of year	(10,415)	(25,253)
Current service cost	(870)	(820)
Contributions paid	1,196	7,365
Past service cost	-	(50)
Other finance income/(cost)	349	(240)
Actuarial gain	3,395	8,583
	<hr/>	<hr/>
Deficit in the scheme at the end of the year	(6,345)	(10,415)
	<hr/>	<hr/>

Analysis of other pension costs charged in arriving at operating profit/loss

	2006 £000	2005 £000
Current service cost	(870)	(820)
Past service cost	-	(50)
	<hr/>	<hr/>
	(870)	(870)
	<hr/>	<hr/>

Notes (continued)

20 Pension scheme (continued)

Analysis of amounts included in other finance income/costs

	2006 £000	2005 £000
Expected return on pension scheme assets	(4,469)	4,440
Interest on pension scheme liabilities	4,120	(4,200)
	<u>(349)</u>	<u>240</u>

Analysis of amount recognised in statement of total recognised gains and losses

	2005 £000	2005 £000
Actual return less expected return on scheme assets	1,215	4,894
Experience gains and losses arising on scheme liabilities	2,180	(7,290)
Changes in assumptions underlying the present value of scheme liabilities	-	(2,371)
Amounts arising from P & O Nedlloyd sale	-	13,350
	<u>3,395</u>	<u>8,583</u>

History of experience gains and losses

	2006	2005	2004
Difference between the expected and actual return on scheme assets			
Amount (£000)	1,215	4,894	3,299
Percentage of year end scheme assets	1.50%	6.30%	3.80%
Experience gains and losses on scheme liabilities			
Amount (£000)	2,180	(7,290)	91
Percentage of year end present value of scheme liabilities	2.50%	(8.20%)	0.10%
Total amount recognised in statement of total recognised gains and losses			
Amount (£000)	3,395	8,583	(5,201)
Percentage of year end present value of scheme liabilities	3.90%	9.70%	(4.60%)

P&O UK Scheme actuarial valuation for funding purposes

Formal actuarial 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 own UK scheme and the request to transfer its share of the assets and liabilities of the P&O UK Scheme into that 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 were £987m and the value of accrued benefits to members allowing for future increases in earnings was £1,176m giving a deficit of £189m and a funding ratio of 83.9 per cent.

Notes (continued)

20 Pension scheme (continued)

Excluding the deficit reduction payments, the average contribution rates for the P&O UK Scheme were 22.8% for the year to 31 December 2005 and 23.7% from 1 January 2006

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
Increases in pensions in excess of Guaranteed Minimum Pensions	2.75

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

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

The Registrar of Companies
 Companies House
 Crown Way
 Mandy
 Cardiff
 CF14 3U7

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 Zone Corporation, a company incorporated in Dubai

22 Post balance sheet event

On 31st March 2007, the Peninsular and Oriental Ferrymasters Limited was acquired by the Peninsular and Oriental Ferrymasters Holdings Limited from the Peninsular and Oriental Properties BV. In the opinion of the directors, the ultimate parent undertaking from that date is Dubai World Corporation, a company incorporated in Dubai