

Chairman's message

As in previous years, this summary report is being sent to all members of the Fund. It is based on the formal Annual Report for the year ended 31 March 2008 but is presented in a shorter and more readable form to enable members to see more easily the progress of the Fund during the year.

The Trustee wants to ensure that you receive sufficient information to enable you to have a reasonable understanding of the operations of the Fund and its development during the year. If you have any comments on the content of this summary, please write to the MNOFP.

A copy of the full Annual Report is available on the Fund's website or from the MNOFP (see contact details in this report).

Strategic Review

You may have read either in the Nautilus Telegraph or on the MNOFP website that the Trustee is currently undertaking a strategic review. The purpose of the review is to investigate the options available for enhancing the security of members' benefits both in the Old Section and the New Section. This is a complex matter and it will take some time to fully explore the alternatives. Members will be kept fully informed of the outcome.

Market Conditions

As you are no doubt aware, global investment markets have been very volatile in recent months mainly due to the lack of available credit. Pension funds tend to invest for the longer term and are thus less affected by short term changes

to investment markets. However, the Trustee continues to monitor changes in market conditions and is looking at what further steps might be taken to reduce the exposure to possible adverse changes.

Deficit Contributions

As reported previously, the deficit in the New Section disclosed by the 2003 and 2006 Actuarial Valuations is being made good by additional contributions from the employers over the period to 2014.

The Trustee continues to take a pro-active approach to recovering any deficit contributions that have not been paid when due. Further information on actions being taken can be found inside this report.

Actuarial Valuation

Actuarial valuations are undertaken triennially and the next one is due as at 31 March 2009. In between triennial Actuarial Valuations, financial updates are produced, the last one being as at 31 March 2007. Enclosed with this report is a Summary Funding Statement which gives details of the funding position as at 31 March 2007.

Early Retirement

Members have previously been advised of regulatory changes regarding early retirement. Inside this report is a reminder for those thinking of taking early retirement that the regulations will change from April 2010.

Peter McEwen

Chairman

September 2008

Trustee and Executives

Trustee Board Directors

P G McEwen
(Chairman) (I, MC)
Nautilus UK

W D Everard CBE
(Vice Chairman) (M)
Employer Representative

E J N Brookes (A, M)
The Chamber of Shipping

A J Davies (I)
Shell International Limited

A M Dickinson (A, M)
Nautilus UK

A Graveson (I, A)
Nautilus UK

K Howarth (AC)
P&O Ferries Limited

D E Jones (M)
Carnival (UK)

P Keenan
Nautilus UK

J McGurk (I)
The Maersk Line (UK) Limited

P L Moloney (I)
Nautilus UK

B D Orrell OBE (M)
Nautilus UK

L D Stracey (IC)
Stena Line Limited

Capt R Stuart
Nautilus UK

I Member of the Investment Committee

A Member of the Audit Committee

M Member of the Management Committee

C Committee Chairman

Executives

A G Waring
Chief Executive

P Greenwood
Director of Pensions

A Stevenson
Director of Investments

As at 30 September 2008

Pension Increases

Old Section

There are no guaranteed increases to Old Section pensions whether in payment or in deferment and any increases are granted at the discretion of the Trustee.

Discretionary increases are considered after each triennial valuation. The last such valuation was as at 31 March 2006 and as reported last year, pensions in payment and deferred pensions were increased by 4% with effect from April 2007. Each year the Trustee gives consideration as to whether any additional increase can be awarded.

New Section

As members are aware, there is an actuarial deficit in the New Section. Unfortunately, it is not possible to award any discretionary increases from the New Section while it remains in deficit, although those increases required to be paid by law (also known as statutory increases) are paid as they fall due. Statutory increases are taken into account and allowed for in the actuarial valuations.

Deficit Contributions

During the year the deficit contributions required following the 2003 and 2006 actuarial valuations have continued to be received.

However, not all amounts due to date have been collected. This may be for any one of a number of reasons, including the following:

- Ship management companies who are responsible for paying but have not been reimbursed by their clients;
- Employers that are dormant companies after their shipping activities ceased;
- Companies that have gone into liquidation where the Trustee has to make a claim for a share of any distribution to creditors made by the liquidator.

Those employers who are considered sufficiently creditworthy are allowed to pay their deficit contributions in annual instalments up to 2014, if their liability exceeds £100,000; employers with smaller liabilities are required to pay as a lump sum.

The Trustee continues to take a proactive approach to recovering those deficit contributions that remain outstanding, undertaking regular financial reviews of the employers concerned, ensuring the Trustee's position is protected with security where considered appropriate and instructing solicitors to enforce payment where necessary. Whilst the preferred approach is to open constructive discussions with employers who have defaulted on payment, where

this has not proved possible, statutory demands have been issued and, if necessary, winding-up proceedings started. In a few cases, legal action through the Courts has been initiated and been successful.

Following the assessment of the employers' covenant reported last year, the Trustee decided that credit support arrangements should be put in place for certain participating employers who are paying their deficit contributions by instalments. Credit support arrangements include (but are not restricted to) guarantees provided by financially strong employers to their weaker subsidiary companies, (where the legal obligation to pay deficit contributions rests with the subsidiary), or bank guarantees, which fulfil a similar function. In either case, if an employer defaults on its obligation to pay future instalments of deficit contributions, the Trustee has recourse to the guarantor for payment.

In a number of cases, employers have gone into liquidation and the Trustee has made a claim in the liquidation. The amount recovered in the liquidation will of course depend on the assets available. Nevertheless, in each case, the Trustee is investigating the circumstances leading to the liquidation with a view to ensuring that the dividend received by the Trustee in the liquidation is the maximum possible.

Actuarial Valuations

The last Actuarial Valuation was carried out as at 31 March 2006 separately for the Old Section and the New Section. Copies of the valuation reports are available on request from the MNOPF or may be found on the MNOPF's website (see contact details elsewhere in this report).

The next full Actuarial Valuations will be carried out as at 31 March 2009 although it is not expected that the results will be available until 2010. However, regulations require the Actuary to undertake annual financial updates. The update for 31 March 2007 has been completed and the results are contained in the enclosed Summary Funding Statement.

Financial Report – Year to 31 March 2008

The financial statements of the Fund have been prepared and audited in accordance with United Kingdom auditing standards issued by the Auditing Practices Board.

A summary of the financial statements for the Old and New Sections is set out alongside comparative information for the total Fund for the previous year. A copy of the full Annual Report for the year ended 31 March 2008, including the financial statements, is available on request.

It is to be expected that the amount of normal contributions received each year will tend to reduce and the benefits paid will increase. This is because the number of contributors reduces each year (as the Fund is closed to new members) and both the number of pensioners and the total amount of their benefits tend to increase.

Overall, the value of the Fund reduced over the year, the reason being that the benefits paid exceeded the growth in the value of the investments and contributions receivable. Fluctuations in the value of the Fund are expected from one year to the next as a result of changing investment values and do not have any short-term significance for the Fund. It is the long-term progress of the Fund, as measured by the triennial actuarial valuations which is the more significant measure of the Fund's financial position.

* For technical reasons the whole of the deficit contributions invoiced in September 2007 (in relation to the deficit disclosed by the 2006 actuarial valuation) has been included in contributions receivable for the year ended 31 March 2008. The deficit contributions invoiced in September 2005 (in relation to the deficit disclosed by the 2003 actuarial valuation) were taken into account in the same way in the year ended 31 March 2006.

** Includes provision for deficit contributions that might not be collected.

***Deficit contributions not yet received or instalments not yet due are included in the figures for Net current assets/liabilities and Debtors.

Fund Account	2008			2007
	Old Section £m	New Section £m	Total £m	Total £m
Contributions and Benefits				
Normal contributions plus AVCs	–	13.6	13.6	13.7
Deficit contributions and interest*	–	176.3	176.3	8.7
Transfers In	–	0.2	0.2	0.3
	–	190.1	190.1	22.7
Benefits payable	86.3	84.8	171.1	167.2
Transfers out	1.4	3.3	4.7	4.6
Administrative expenses	2.2	3.4	5.6	5.9
Other expenses and provisions**	1.1	23.6	24.7	1.3
	91.0	115.1	206.1	179.0
Net (withdrawals) / additions from dealings with members	(91.0)	75.0	(16.0)	(156.3)
Returns on investments				
Investment income	59.0	47.6	106.6	113.1
Change in market value of investments	(82.0)	(79.0)	(161.0)	37.3
Investment management expenses	(3.4)	(13.2)	(16.6)	(16.5)
Net (loss) / return on investments	(26.4)	(44.6)	(71.0)	133.9
Net (decrease) / increase in the Fund during the year	(117.4)	30.4	(87.0)	(22.4)
Net assets of the Fund at the beginning of the year	1,412.6	1,968.8	3,381.4	3,403.8
Net assets of the Fund at the end of the year	1,295.2	1,999.2	3,294.4	3,381.4






Net Assets Statement	2008			2007
	Old Section £m	New Section £m	Total £m	Total £m
Investments				
Fixed interest securities	727.6	185.4	913.0	1,106.6
Equities	139.5	740.2	879.7	1,104.9
Index-linked securities	1.8	–	1.8	4.4
Pooled Investment vehicles	300.7	674.0	974.7	617.2
Properties	114.9	140.3	255.2	292.6
AVC Investments	–	3.2	3.2	3.2
Cash deposits and other outstanding income entitlements	16.5	49.3	65.8	119.4
	1,301.0	1,792.4	3,093.4	3,248.3
Net current assets / (liabilities)***	(5.8)	23.8	18.0	23.1
Debtors: Amounts falling due after more than one year***	–	183.0	183.0	110.0
Net assets of the Fund at the end of the year	1,295.2	1,999.2	3,294.4	3,381.4

Investment Portfolio

During the year the Trustee implemented changes to the investment managers and asset allocation structures whereby investments in equities and fixed income securities were restructured in favour of holdings in liability hedging assets.






The following two charts reflect the asset allocation of the Old and New Sections as at 31 March 2008.

Old Section

Fixed Interest Securities		56.1%
Equities		10.7%
Pooled investment vehicles		23.1%
Property		8.9%
Cash and other		1.2%

The Old Section chart illustrates the higher proportion of assets invested in fixed income investments to generate a reliable income and to preserve capital, whereas the New Section chart shows the higher proportion invested in equity-type investments intended to generate future capital growth. The Old Section is a more mature fund and a greater proportion of its liabilities is represented by pensions in payment whereas the New Section is a less mature fund where a significant proportion of its liabilities will not be paid for some years into the future.

New Section

Fixed Interest Securities		10.3%
Equities		41.3%
Pooled investment vehicles		37.6%
Property		7.8%
Cash and other		3.0%

Investment Performance

The investment performance of the Old and New Sections is measured independently by the WM Company. The Investment Committee monitors the performance of each specialist investment manager on a quarterly and annual basis.

The WM Company compares the investment performance results of each Section against a specific benchmark which reflects the asset allocation of each Section and its expected investment performance.

Within each Section of the Fund there are different proportions of equity and fixed interest investments and consequently the investment performance of each Section differs.

The investment returns achieved in the calendar year 2007 underperformed their respective benchmarks. However, over the past five years, the returns have either matched or exceeded the benchmarks as shown in the following table.

To 31 December 2007	1 year (%)	5 years (Annualised % p.a.)
Old Section		
Actual performance	1.7	6.9
Benchmark	2.5	6.9
New Section		
Actual performance	5.1	12.1
Benchmark	6.7	11.7

Fund Management

The Fund is managed by MNOFP Trustees Limited. There is provision for fourteen directors, with employers and members being equally represented.

The Trustee Board (the “Board”) met six times during the year to review the management of the Fund.

The Board has appointed a number of committees to undertake various tasks relating to the management of the Fund. All such committees reflect the principle of equal representation between employers and members and operate within terms of reference agreed by the Board.

Management Committee

The Management Committee met five times during the year and consists of six members, supported by the Scheme Actuary, legal advisers and Executive. Its role is to make recommendations to the Board on matters such as the strategy relating to the management and future structure of the Fund, consideration of actuarial reports and the monitoring of legal and administration issues.

In order to maintain close control over the recovery of deficit contributions, there is a Sub-Committee which met eight times during the year.

Investment Committee

Investment matters are reviewed by the Investment Committee of six members, supported by investment advisers and the Executive. It met five times during the year.

This Committee has responsibility for the implementation of the Trustee’s Statement of Investment Principles, strategic asset allocation and for considering the investment performance achieved by the investment managers. The Investment Committee also sets investment performance objectives for the investment managers who are given specific mandates and targets.

Audit Committee

The Audit Committee consists of four members and met five times during the year to receive reports from the independent auditors, review matters relating to the Fund’s financial statements and to consider any updates that may be required to be made to the risk register.

MNOFP Executive

The Board is supported by the Fund’s Executive consisting of a small number of staff who implement decisions made by the Board and supervise the day-to-day affairs of the Fund. This team is entirely separate from MNPA Ltd.

The Board has delegated certain authorities and discretions to the Executive.

Late Contributions

As required by legislation, the Trustee has put in place a Schedule of Contributions stating the level of normal contributions payable and the dates by which they are due to be paid. As in previous years there were a number of employers who paid contributions after the due date and they have been reminded of their legal obligations regarding the timing of remitting contributions to the Trustee.

Those employers who made payments late on more than one occasion during the year are listed opposite.

The Trustee is also collecting deficit contributions from employers and under its contribution collection policy interest is charged on deficit contributions not paid by the due date.

Acergy Singapore Pte
Adsteam (Guernsey) Limited
C-Mar Services Limited
Columbia Shipmanagement Limited
Euroship Services (Guernsey) Limited
GMSG Limited
Guernsey Ship Management Limited
Hebridean (Guernsey) Limited
G Heyn & Sons Limited
Irish Ferries Limited
Klyne Tugs (Guernsey) Limited
Manx Sea Transport (Guernsey) Limited
Meridian Shipping Services Pte Limited
Northern Marine Management Limited
Northlink Services (Guernsey) Limited
Solent Towage Limited
Stena Drilling Limited
Stena Drilling Pte Limited
Whitship Management (Jersey) Limited

Membership

	31 March 2008 Old Section	31 March 2008 New Section	31 March 2008 Combined	31 March 2007 Combined
Actives	-	1,635	1,635	1,833
Deferreds	20,900	12,980	27,382	28,383
Pensioners	21,750	13,614	24,150	23,772
Totals	42,650	28,229	53,167	53,988

Note: Some members have both Old and New Section benefits and the combined membership is therefore less than the sum of the separate Old Section membership and New Section membership.

Early Retirement

If you are under 61 (the Fund's normal pension age) and are considering retiring early and taking benefits from the Fund, you are reminded that with effect from 6 April 2010, it will not be possible to draw any benefits unless you have attained age 55. Up to 5 April 2010 benefits may be drawn at any age from 50 onwards. These arrangements arose as a result of the Finance Act 2004 and the Fund has to comply with them.

However, these age restrictions do not apply to retirement on account of ill health; in these circumstances there is no minimum age requirement but it is necessary for appropriate medical evidence to be provided.

If you require any estimates of your benefits from the MNOFF, you should contact MNPA Ltd.

Administration of the Fund

MNPA Ltd is a wholly-owned trading subsidiary of the Fund and provides administration, financial accounting and pension payroll services to the Trustee, for which it receives a fee.

MNPA Ltd provides similar services to an increasing number of external clients and this business is intended to provide a return on the investment made in it by the Fund.

Contacts for further information

Members may contact MNPA Ltd if they have any queries about their benefits. Although general enquiries may be made by telephone or by e-mail, changes of address or pensioners' bank details have to be notified in writing for security reasons.

The contact details are as follows:

- Telephone number: 01372 200200
- e-mail: mnopf@mnpa.co.uk
- Address: MNPA Ltd, Leatherhead House, Station Road, Leatherhead, Surrey KT22 7ET

Any requests for copies of Fund documentation should be made in writing to MNOFF Trustees Limited, Ashcombe House, The Crescent, Leatherhead, Surrey KT22 8LQ. Alternatively, Fund documentation can be found on the MNOFF website (www.mnopf.co.uk) which is also a useful source of general information on the MNOFF.

State Benefits

Members wishing to obtain a forecast of their State Pension are advised to contact the Department for Work and Pensions ("DWP"). The application form may be accessed on their website (www.dwp.gov.uk) or they can be contacted by telephone on 0845 300 168.

Personal Financial Planning

A financial planning service is available to members through Pensions and Wealth Planning Limited (previously known as The Pensions Partnership). The contacts are Russell Warman and Mike Buckley; telephone 01252 861380 or e-mail to russell.warman@penwp.co.uk or mike.buckley@penwp.co.uk.