

P&O PENSION FUNDS INVESTMENTS LIMITED

DIRECTORS' REPORT

AND

BALANCE SHEET

31 DECEMBER 1998

REGISTERED NUMBER: 382817



REPORT OF THE DIRECTORS TO THE MEMBERS OF

P&O PENSION FUNDS INVESTMENTS LIMITED

The directors have pleasure in submitting their annual report and the accounts of the Company for the year ended 31 December 1998.

The Company acts as Trustee of the P&O Pension Scheme and to hold investments for the benefit of the Scheme. The Company has not traded on its own account during the year. All transactions entered into by the Company are for the benefit of the scheme and accordingly subsumed into the accounts of the Scheme. No change in the Company's activities is intended in the foreseeable future.

The following directors served throughout the year ended 31 December 1998:

I G H Barnett	Sir Bruce MacPhail
Sir Peter Cazalet	J T Marden
J M Clay	K W Moore
J M Crossman	D E A Morris
Miss J A Fraser	J D Stirling Gallacher
D P Harrison	G B Whitehead
J M M Kane	

R R Hope was appointed on 12 January 1998

According to the notifications received by the Company the directors who are not also directors of the holding company had interest in the deferred stock of the Peninsular and Oriental Steam Navigation Company as shown overleaf.

	DEFERRED STOCK		DEFERRED STOCK UNDER OPTION			
	31.12.1998	31.12.1997	31.12.1998	Granted During Year	Exercised During Year	31.12.1997
I G H Barnett	7,089	7,198	19,726	5,500	-	14,226
J M Clay	Nil	961	Nil	-	-	Nil
J M Crossman	30,118	27,523	Nil	-	25,000	25,000
Miss J A Fraser	1,024	944	Nil	-	-	Nil
D P Harrison	2,525	2,430	Nil	-	-	Nil
R R Hope	1,143	1,744	23,475	2,800	-	20,675
J M M Kane	11,838	10,563	19,127	-	2,982	22,109
J T Marden	2,774	2,353	27,191	7,400	-	19,791
J D Stirling-Gallacher	27,760	27,442	Nil	-	14,002	14,002
G B Whitehead	2,145	6,039	Nil	-	-	Nil

The interest of those directors who are also directors of the holding company are detailed in the P&O Report and Accounts for the year ended 31 December 1998.

By order of the Board



J E T Morris
Secretary

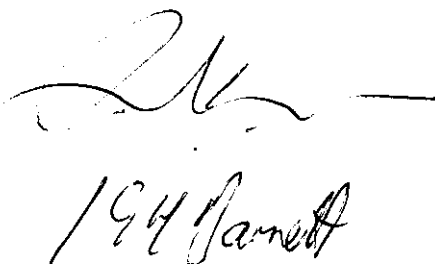
Dorland House
14-16 Regent Street
London
SW1Y 4PH

BALANCE SHEET AT 31 DECEMBER 1998

	<u>Note</u>	<u>1998</u>	<u>1997</u>
CURRENT ASSETS			
Debtors – Amount owed by ultimate holding company	2	£100	£100
CAPITAL AND RESERVE			
Called-up Share Capital. Authorised, allotted, called-up and fully paid 100 Ordinary shares of £1 each		£100	£100

Within the meaning of Section 250 of the Companies Act 1985 the Company was dormant throughout the year.

The financial statements were approved by the Board on 17 March 1999 and were signed on its behalf by:



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) Director
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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

1. Accounting Policy.

The accounts have been prepared on the historical cost basis of accounting.

2. Ultimate Holding Company

The ultimate holding company is The Peninsular and Oriental Steam Navigation Company, a company incorporated by Royal Charter in Great Britain and therefore not registered. Its accounts are available to the public from the Registrar of Companies, Companies House, Crown Way, Cardiff CF4 3UZ.

3. Activities and Profit and Loss Account

The Company has not traded during either the current or previous year. Accordingly, no profit and loss account has been prepared. No directors remuneration is payable.

Certain securities are registered in the name of the Company on behalf of the P&O Pension Scheme. These have not been included in the balance sheet.