

P&O PENSION FUNDS INVESTMENTS LIMITED

DIRECTORS' REPORT

AND

BALANCE SHEET

31 DECEMBER 2005
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 2005.

The Company has as it objects to act 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 2005:

J H Bell	N L Luff
J M Crossman	Sir Bruce MacPhail
P Donnelly	C A Mowatt
S J Edsall	D M Newton
T J R Harding	C J Winkley
P I Hedley	P A Walker

N L Luff stood down from the Board in November 2005 and was reappointed in May 2006.
R D Galpin and P J Smith resigned on 1 April 2005.

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			
	31.12.2005	31.12.2004	31.12.2005	Granted During Year	Exercised During Year	31.12.2004
J H Bell	Nil	Nil	2,953	Nil	Nil	2,953
J M Crossman	35,168	Nil	Nil	Nil	Nil	Nil
P Donnelly	Nil	Nil	Nil	Nil	Nil	Nil
S J Edsall	15,675	4,914	233,890	Nil	23,926	257,816
T J R Harding	45,189	270,991	Nil	Nil	Nil	Nil
P I Hedley	12,764	1,288	109,865	Nil	13,223	123,088
Sir Bruce MacPhail	333,638	873,675	1,835,308	Nil	Nil	1,835,308
C A Mowatt	9	9	47,576	Nil	Nil	47,576
D M Newton	2,008	2,008	3,768	Nil	Nil	3,768
P A Walker	55,359	27,026	160,560	Nil	Nil	160,560
C J Winkley	6,479	6,479	16,055	Nil	23,356	39,411

The interests 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 2005.

Mr Harding and Mr Newton each held 600 £1 units of 5.5% concessionary stock during the year.

In addition, during the year, the following directors were granted awards under the P&O Performance Share Plan of units of £1 nominal deferred stock, contingent on future performance.

	Units
S J Edsall	37,130
P I Hedley	36,416
C A Mowatt	12,565
P A Walker	41,700

By order of the Board



Ms R Powell
Secretary
6 October 2006

16 Palace Street
London
SW1E 5JQ

BALANCE SHEET AT 31 DECEMBER 2005

	<u>Note</u>	<u>2005</u>	<u>2004</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

- a) For the year ended 31 December 2005 the Company was entitled to exemption under section 249AA (1) of the Companies Act 1985.
- b) Members have not required the Company to obtain an audit in accordance with Section 249B(2) of the Companies Act 1985.
- c) The Directors acknowledge their responsibility for:
 - i) ensuring the Company keeps accounting records which comply with Section 221; and
 - ii) preparing accounts which give a true and fair view of the state of affairs of the Company as at the end of the financial year, and of its profit or loss for the financial year, in accordance with the requirements of the Companies Act relating to accounts, so far as applicable to the Company.

The financial statements were approved by the Board on 6 October 2006 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 2005

1. Accounting Policy.

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

2. Ultimate Holding Company

The ultimate UK 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.

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.