Annual Report 1998

Sea Containers Ltd.

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Grand Cru

Sea Containers Ltd.
Annual Report 1998

Contents

Pictured Left: The atrium deck of the *Silja Serenade*, one of two sister ships operating nightly on the Stockholm-Helsinki route. Each ship has 986 cabins accommodating a total of 2,852 passengers. Extensive conference facilities are provided, along with seven restaurants, a nightclub, five pubs/bars and duty free shops. Each ship makes a 36 hour round trip, making it into a mini-cruise while at the same time offering fast overnight crossings for passengers, their cars and freight vehicles.

Front cover: The *Silja Serenade* and her sister ship *Silja Symphony* operate nightly between Helsinki and Stockholm departing at 6pm and arriving at 9am. From July 1, 1999 there will be a short stop in each direction in the Åland Islands which will qualify passengers for duty free allowances. The withdrawal of duty free allowances on other intra-European routes from July 1st should stimulate demand for the Silja services.

Sea Containers Ltd.

Sea Containers Ltd. is a Bermuda registered company with regional operating offices in London, Genoa, New York City, Rio de Janeiro, Singapore and Sydney. The company is owned almost entirely by U.S. shareholders and its primary listing is on the New York Stock Exchange. The company is engaged in three main businesses: passenger transport, leisure and marine container leasing.

Passenger transport includes Hoverspeed (a fast car and passenger ferry service between ports on the south coast of England, northern France and Belgium), SeaCat Scotland and SeaCat Scandinavia (fast car and passenger ferry services between Northern Ireland, Scotland and England and between Sweden and Denmark, respectively), The Isle of Man Steam Packet Company (fast and conventional car, passenger and freight ferry service between the Isle of Man and ports in England and Ireland, and a fast car and passenger ferry service between England and the Republic of Ireland) and AA Line which operates a seasonal conventional ferry service between Scotland and Northern Ireland. A 51% shareholding in Neptun Maritime Oyj, operating under the brand name Silja Line, was acquired in late April, 1999. Neptun owns a fleet of nine ferries and three cruise ships. The ferries operate primarily between ports in Finland and Sweden and between Finland and Estonia and Finland and Germany. The cruise vessels are bareboat chartered to other operators. SeaStreak provides fast ferry services between Wall St. in Manhattan, Brooklyn and New Jersey, employing three vessels. The Great North Eastern Railway provides high speed passenger train services between London, England, and Scotland and major cities in between. The passenger transport division also includes the ports of Heysham, Newhaven and Folkestone in England, a joint venture container shipping service between Western Australia and Singapore and two containerships and two roll-on, roll-off cargoships which are employed in the charter market. Pacifica Ship Management in Singapore and Hart, Fenton & Co. (naval architects) in England are units of this division.

Leisure includes 23 hotels in Southern Africa, South America, North America, Europe, Australia and the South Pacific, two restaurants (‘21’ Club in New York City and Harry’s Bar in London), five tourist trains in Europe, the U.K., Southeast Asia and Australia and a river cruise ship in Myanmar. Retailing and publishing activities support these properties.

Marine container leasing is largely conducted through GE SeaCo SRL, a 50/50 joint venture with GE Capital Corporation of Stamford, Connecticut. The container fleets of Sea Containers and GE Capital have been combined on the basis that 30% of the profits from containers in their fleets effective May, 1998 and 50% from containers acquired by both companies and by GE SeaCo after January 1, 1998 go to Sea Containers. GE SeaCo engages only in the operating lease business, i.e. it and its partners retain ownership of the assets at the end of the lease.
Sea Containers conducts a separate business of leasing marine containers to lessees in countries where GE Capital does not wish to conduct business and also engages to a limited extent in finance leases. Sea Containers owns or part-owns container repair and storage depots in Houston, Charleston, S.C., Singapore, Santos, Melbourne and Auckland which service the GE SeaCo and Sea Containers’ container fleets and containers owned by others. Sea Containers also owns marine container manufacturing facilities in England, Charleston, S.C., Singapore and Brazil. The Singapore and Brazilian factories are currently mothballed or partially leased out.

Other activities. Sea Containers also engages in property development, fruit farming in the Ivory Coast and Brazil, publishing and a business travel agency in the U.K. These activities are related to the company’s main operations. For example, property includes port development and company offices, fruit farming is linked to refrigerated container transport and the publishing unit produces magazines for the many customers of ferry, rail and hotel services as well as print for GE SeaCo and this annual report.

Financial highlights

	1998 $000	1997 $000	Change %
Revenue	**1,266,566**	1,157,153	9.5
Earnings before corporate and finance costs			
Passenger transport operations	**61,919**	46,412	33.4
Leisure operations	**49,465**	46,162	7.2
Container operations	**75,386**	66,757	12.9
Other operations	**76**	1,234	(93.8)
Total	**186,846**	160,565	16.4
Net earnings	**58,684**	42,018	39.7
Total assets	**2,314,455**	2,126,100	8.9
Long-term obligations	**1,510,278**	1,365,565	10.6

	$	$	%
Net earnings per class A and class B common share			
- basic	**3.34**	2.07	61.4
- diluted	**3.11**	2.07	50.2
Cash dividends per class A common share	**0.885**	0.77	14.9
Cash dividends per class B common share	**0.8045**	0.70	14.9

’98 in brief

- **Net income up 40% to $58.7 million.**
- **Earnings per common share (diluted) up 50% to $3.11.**
- **GE SeaCo SRL became operational in May.**
- **Hoverspeed Holyman Ltd. commenced fast car and passenger ferry services between Dover, England and Ostend, Belgium in March.**
- **Commenced SuperSeaCat service on Liverpool, England to Dublin, Ireland route in March.**
- **GNER carried 14.2 million passengers, up 9.4%; revenue up 12.8% to $517 million.**
- **Acquired Hotel Quinta do Lago in Faro, Portugal in June; acquired Lapa Palace Hotel in Lisbon, Portugal in July; opened Westcliff Hotel in Johannesburg, South Africa in March; opened Splendido Mare in Portofino, Italy in June.**
- **Tourist trains reported record operating profits of $3.1 million.**

Directors and Officers

Ian Hilton
Consultant to Appleby, Spurling & Kempe (attorneys)

Michael J. L. Stracey
Executive Vice President (retired) and Consultant to the Company

Robert M. Riggs
Member of Carter, Ledyard & Milburn (attorneys)

James B. Sherwood
President of the Company

John D. Campbell
Senior Counsel of Appleby, Spurling & Kempe (attorneys)

W. Murray Grindrod
Chairman of Grindrod Unicorn Group Ltd. (a shipping and transportation company)

Philip J. R. Schlee
Chairman of Robert Anderson & Co. Ltd. (a private investment firm)

Charles N.C. Sherwood
Partner of Schroder Ventures (a private equity investment firm)

Photographed in the main banquet room of the Lapa Palace Hotel, Lisbon, Portugal.

Officers *other than the President, left to right*

Edwin S. Hetherington *Vice President, General Counsel and Secretary*

Michael V. Scawn *Vice President, Funding*

Stephen O. Whittam *Vice President, Management Information Systems*

Nicholas J. Novasic *Vice President, Funding, North America*

David G. Benson *Senior Vice President, Passenger Transport*

Simon M.C. Sherwood *Senior Vice President, Leisure*

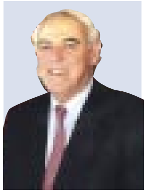
Robert S. Ward *Senior Vice President, Containers*

Christopher W. M. Garnett *Vice President, Rail*

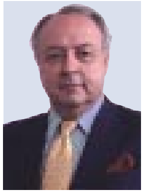
James A. Beveridge *Vice President, Administration and Property*

Daniel J. O'Sullivan *Senior Vice President, Finance and Chief Financial Officer*

Regional Managers



Franco delle Piane
Regional Manager, Mediterranean



Chresten A. Bjerrum
Regional Manager, Asia

Ian Routledge
Regional Manager, Australasia

Robin Lynch
Regional Manager, North America

Toby G. Grey
Regional Manager, South America

President’s letter to shareholders

James B. Sherwood
President

May 1, 1999

Dear Shareholder,

1998 was a satisfactory year for your company. Revenue increased 9% to $1.27 billion, net income increased 40% to $58.7 million and earnings per common share (diluted) increased 50% to $3.11, compared with 1997. There were no exceptional gains in 1998.

Our three major operating units, Passenger Transport, Leisure and Marine Container Leasing, all contributed significantly to the improved results. Passenger transport (primarily ferries, rail and ports) had operating profits (earnings before interest, corporate overhead and taxes) of $61.9 million, up 33% over 1997. Leisure (hotels, restaurants, tourist trains and river cruising) had operating profits of $49.5 million, up 7% (the previous year had a $5 million exceptional gain). Marine container leasing (GE SeaCo SRL, depots and factories) had operating profits of $75.4 million, up 13%.

Due to prolonged weakness in the marine container leasing industry your company has followed a strategy in recent years of changing its business mix to the more profitable passenger transport and hotels businesses. In 1998 60% of the company’s operating profits came from passenger transport and leisure and this percentage should rise in 1999 and later years.

Improvement in passenger transport profitability has come in part from strong performance of the Great North Eastern Railway where passenger carryings increased 9.4% in 1998 over 1997 to 14.2 million. Both The Isle of Man Steam Packet Company and Hoverspeed Ltd., our English Channel ferry operator, also had excellent results. The new Hoverspeed-Holyman joint venture on the Dover to Ostend Belgium route had a satisfactory first year. Port profits were up over 1997, although profits from other Irish Sea ferry services were down. Our Sweden-Denmark fast ferry service had improved results.

The leisure division reported strong gains from its Italian properties, Portuguese hotels, North American properties, its South American hotel and from tourist trains. Southern Africa hotels were weaker due to start-up losses of the new Westcliff in Johannesburg. Our French hotel which was under reconstruction for much of the year, showed a small improvement. River cruising was weak due to political problems in the country of operation.

Marine container leasing’s improved results were due to savings achieved through the GE SeaCo joint venture with GE Capital Corporation which became effective in May, 1998. Rental rates declined throughout the year, as well as container utilization.

In 1999 passenger transport should become the company’s largest profit segment. We have acquired 51% of Neptun Maritime Oyj, a major ferry operator in the Baltic, for approximately $105 million. We intend to sell down 1% at the same price per share to a Swedish ferry operator not in competition with Neptun. Neptun operates a 12 ship fleet under the brand name Silja Line and in 1998 Neptun

Left: The new Cip’s restaurant at the Hotel Cipriani in Venice has the best view in the city of the Doge’s Palace and St. Mark’s Square. This restaurant opened in April, 1998 and every seat was taken for dinner until the end of the season. The restaurant will be extended onto a floating pontoon in 1999.

had revenue of $647 million. Three of Neptun's vessels are pure cruise ships under profitable charter to other operators. Two of the cruise ships are Caribbean based and one is Hong Kong based.

Silja's nine ship cruise ferry fleet will continue to benefit from duty free privileges after July 1, 1999 when duty free is stopped within the European Union, because Finland obtained an exemption when it joined the E.U. and, in addition, several of Silja's ships operate to Tallinn in Estonia, a country outside the E.U., where duty free privileges remain. The loss of duty free will impact ferries of other companies operating out of Sweden to Germany and Denmark and it is believed many of the Swedish passengers who previously travelled on those ships will be attracted to the Baltic.

Earnings from Sea Containers' investment in Neptun will flow from the second quarter of 1999, thus avoiding traditional winter losses. Silja will take over our passenger transport division's Gothenburg-Frederikshavn ferry service, thus reducing overhead costs and opening the route to Silja's large customer base.

Your company has carefully planned its other ferry operations to avoid adverse impact from the loss of duty free. The Isle of Man Steam Packet Company and the routes between Scotland and Northern Ireland have always been excluded from duty free as they are U.K. domestic routes. English Channel routes should

show no downturn in volumes because France and Belgium have little or no excise taxes on alcoholic beverages, tobacco and other products while the U.K. has enormous such taxes. In addition, due to informal cartels and highly restrictive land development policies, prices in the United Kingdom for most consumer goods, particularly groceries, are about one third higher than in France and Belgium. The ferry companies and the Channel Tunnel will be increasing their fares to recover loss of profits from duty free sales, but the extra ticket cost is small compared to savings from continental shopping.

The passenger transport division acquired in January, 1999 Express Navigation Inc., a three ship ferry service in New York City, offering departures between the north shore of New Jersey and Brooklyn to Manhattan. The investment, $5 million, was small and it was made to acquire a position in the market which can be built upon. We do not expect this business to make any contribution to the division's profits in 1999 while we build new parking facilities and charter better vessels but we think it should make a profit from 2000. The name of the service has been changed to SeaStreak.

The other exciting prospect for the division is the extension of the GNER rail franchise for 10 years from delivery of new trains (it currently comes up for renewal on April 28, 2003). The U.K. government has indicated its willingness to negotiate such an extension and talks are expected to start shortly. The track authority, Railtrack, has also announced a $1.6 billion upgrade of the track and signalling on the East Coast Main Line, which will enable GNER to run more trains (it currently operates 112 trains daily). As a condition of the extension GNER will offer to invest $200 million in new trains and parkway stations. It will take about three years for delivery of the trains and construction of the stations (the stations may be delayed due to resistance from environmental groups).

Turning to hotels, our strategy is to acquire smaller properties with unique characteristics which have expansion potential. We are not in the market for overpriced city center hotels where room count cannot be increased and occupancies and rates are already high. Many

Left: A GNER train crosses the Welwyn Viaduct 20 miles north of London. The tracks reduce from four to two over this viaduct, creating a bottleneck since GNER trains must compete with local commuter trains for track space in this area. The track authority plans to build a second viaduct as part of a $1.6 billion improvement to Britain's East Coast Main Line over which GNER's trains operate.

Above: The original main entrance for Charleston Place in Charleston, S.C. proved to be too small for the traffic volume so a new entrance was built in 1998, together with a fountain depicting Charleston horses. A new sports and health center was also completed in 1998.

of such properties have changed hands at astronomical prices on the assumption that they are less than replacement cost and increased demand will allow greatly increased room rates to be charged. Our view is that such assumptions are unrealistic and we think it is better to concentrate on low capital cost per key. Our owned hotels have a book value per key at the end of 1998 of $236,000 (the Savoy Hotels Group recently changed hands at $1.2 million per key).

In 1998 we acquired the 141 room Quinta do Lago Hotel in Faro, Portugal for $197,000 per key and the 94 room Lapa Palace Hotel in Lisbon for $263,000 per key. We opened the 16 room Splendido Mare in Portofino, Italy (complementing our Hotel Splendido nearby) at a cost of $197,000 per key and the 120 room Westcliff Hotel in Johannesburg at a cost of $233,000 per key.

In 1999 we have recently announced our investment in 50% of the Monasterio Hotel in Cusco, Peru and the Machu Picchu Ruinas Hotel at the Machu Picchu Sanctuary based on a value of $129,000 per key excluding the cost of development sites next to both hotels. We will manage these properties. We have also agreed to acquire from Ashley Hotels their 48 room Keswick Hall property at Monticello, Virginia and the 41 room Inn at Perry Cabin at St. Michael's, Maryland at a cost of $250,000 per key and $244,000 per key, respectively, again excluding the cost of development land. In both cases we have acquired considerable land on which to build additional rooms.

We are currently in negotiation to acquire two further European hotels, again small but with expansion potential.

Our tourist trains enjoyed record earnings in 1998 and we have just started a new service, the Great South Pacific Express, owned by Queensland Rail and managed by us, operating primarily between Brisbane and Cairns on Australia's Queensland coast. We have recently acquired a second British tourist train for operation in the North of England (our British Pullman train operates primarily out of London and has been over-subscribed). We are in negotiation to acquire further tourist train operations.

In the marine container leasing sector, the industry has been badly hit by consolidations of ocean carriers (our customers) and extraordinarily low new container prices in China. These events have primarily impacted demand for standard dry cargo containers in that lessees temporarily need less containers due to the consolidations and they want new containers for long lease instead of existing containers which have the same or greater book value as new units. This has meant that long lease rates for existing containers have had to be cut, to the point where GE SeaCo hardly participates in the re-lease of such units, preferring instead to put the equipment into the higher margin master agreement market. The implication of more master agreement leasing, however, is the heavy cost of positioning containers to locations of demand which will impact 1999 results.

Above: The *SeaCell* container is a dry cargo unit with 40 cubic feet more volume in the 20' length and 80 cubic feet in the 40' length than ordinary such units, yet it fits into the same ship cells. GE SeaCo holds patents on the design. Over 10,000 units were in service in 1998 and improvements in design have enabled manufacturing costs to be reduced to within 10% of those of ordinary standard dry cargo containers.

Despite this problem, GE SeaCo has a lot going for it. Half of its fleet in value terms is specialized containers which continue to enjoy satisfactory utilization and rates. New container purchases are confined to specialized types and long term leases of new standard dry cargo containers where the profit margin is satisfactory. The patented *SeaCell* container is enjoying increased demand and is seen by many as the substitute longer term for the standard dry cargo container (it fits in the same space as a standard dry cargo container yet has more cubic capacity).

GE SeaCo's strategy for 1999 is to sell off older standard dry cargo containers even at a loss to the owners and to incur the positioning cost of moving younger such units into the master agreement system. The cost of these two steps, despite further savings being achieved through the merger of GE Capital's container division with that of Sea Containers, may mean somewhat lower profits in 1999 than in 1998 but in 2000 and thereafter GE SeaCo should be a stronger company than today.

I have asked our divisional vice presidents to explain in greater detail the development of their activities, but the message I want to convey is that we expect excellent earnings growth in our passenger transport and hotels activities in 1999, outstripping any weakness in marine container leasing.

Our capital investment in passenger transport will be about $150 million in 1999 and our leisure division will invest about $100 million. GE SeaCo (50% owned by Sea Containers) is budgeting $120 million of container purchases but part of this may carry over into 2000.

Retirements of senior employees in 1998 were few. Michael Tham, Production Director of GNER, retired with a splendid service record and was replaced by Richard McLean. Rob Ward, Danny O'Sullivan and Ned Hetherington deserve a special vote of thanks for putting together the GE SeaCo joint venture. Including Silja Line our staff now numbers 13,000 dedicated men and women in 29 countries.

In closing, I want to mention that your board is considering a name change for the company to make it less container specific, reflecting the current nature of the business rather than its historic one. We think it is important for investors to view the company as being primarily engaged in the passenger transport and hotels sectors, rather than in marine container leasing

Sincerely,

James B. Sherwood
President and Founder

Analysis of divisions:

Passenger Transport

David G. Benson
Senior Vice President,
Passenger Transport

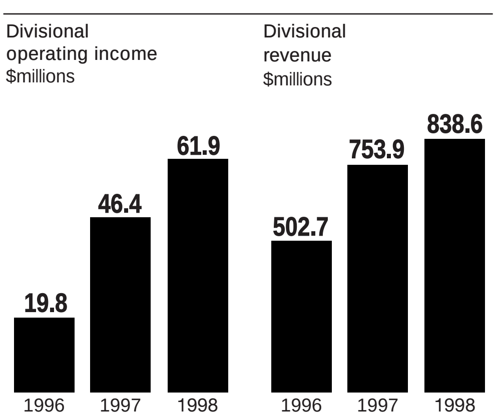
Great North Eastern Railway
Silja Line
The Isle of Man Steam Packet Company
Hoverspeed
SeaStreak
Ports of Heysham, Newhaven and Folkestone
Cargoships
Hart, Fenton & Co.
Maersk West Australia Line

Ferry operations. Hoverspeed benefited from the joint venture with Holyman Ltd. on the Dover-Ostend route and carried 3.9 million passengers (1997 3.1 million) and 710,000 vehicles (1997 508,000) on all its services. Revenue from Hoverspeed including retail sales was $111 million. Most encouraging was the strengthening of average fare yields by 10% for foot passengers and 11.5% for vehicles as cross-Channel operators (including Eurotunnel) started to raise prices to compensate for the loss of duty free income in July, 1999.

Between Gothenburg in Sweden and Frederikshavn in Denmark, *SuperSeaCat One* carried 615,000 passengers (1997 585,000) and 111,000 vehicles (1997 99,000). Revenue totalled $27.5 million.

On the Irish Sea, our new ro-pax ship *Ben-My-Chree* was delivered in July and commenced service on the Douglas-Heysham route. Her additional freight capacity triggered a growth in freight traffic to and from the Isle of Man with 326,000 lane meters of freight carried in 1998 (1997 308,000). Passenger and vehicle carryings to the island were also buoyant with 502,000 passengers (1997 471,000) and 123,000 vehicles (1997 94,000) carried. Revenue from Isle of Man routes totalled $51.2 million.

Our Belfast to Stranraer (Scotland)



Below: Hoverspeed Ltd. established a 50/50 joint venture with Holyman Ltd. of Australia to operate two high speed car and passenger carrying catamarans chartered by Holyman on the Dover, England to Ostend, Belgium route. This route is especially important as it is the most popular one for visitors to the U.K. from Belgium, Germany, Switzerland and Italy as Ostend is at the end of a major north/south motorway network through these countries.

Above: One of the commuter ferries of SeaStreak en route from Highlands, New Jersey to Wall Street, Manhattan. Sea Containers acquired Express Navigation Inc. in January, 1999 which charters three such ships for operation on three routes to and from Wall Street and Brooklyn, N.Y. and Highlands and Atlantic Highlands, N.J. The ships have been rebranded "SeaStreak" and over the coming months the service and shore facilities will be extended and improved, combined with a vigorous marketing program to increase profitability.

route suffered once again from civil disturbances in Northern Ireland in the peak season, and this and aggressive fast ferry competition on parallel routes produced disappointing carryings of 403,000 passengers (1997 444,000) and 108,000 vehicles (1997 126,000). For similar reasons carryings on the Argyll and Antrim route were also flat with 6,000 vehicles and 28,000 passengers. Revenue from these two routes totalled $16.9 million.

SuperSeaCat Two commenced service on the Liverpool-Dublin route during March, replacing the conventional ferry *Lady of Mann*. During the year she carried 308,000 passengers (1997 105,000) and 56,000 cars (1997 26,000). Revenue totalled $17.7 million but her performance was marred by technical problems in the peak season and a high number of service cancellations due to adverse weather in the autumn.

SeaCat Atlantic II was returned from long term charter on the River Plate in September and is being refitted for service with Hoverspeed on the Dover-Calais route.

Ports. Port revenue grew strongly during the year. At Heysham, vehicle traffic across the Irish Sea remained steady with 341,000 vehicles passing through the port (1997 342,000). We took back the general cargo handling facility from a tenant in July and the port revenue grew to $12.8 million from $11.6 million in 1997. At Newhaven, revenue grew to $7.7 million compared with $5.8 million the previous year. At Folkestone, a trucking company commenced a freight service to Boulogne using chartered tonnage and we terminated the loss making freighter operation on this route previously undertaken in 1997 by Hoverspeed. Revenue at Folkestone was $2.7 million (1997 $3.1 million).

Cargoships. The *Puerto Cortes* ceased trading during the latter part of the year and she and our remaining containership, the *Boxer Captain Cook*, are now both laid up in the Far East. We have two small ro-ro ships deployed in the charter market in Europe.

Below: The *Ben-My-Chree* entered service on the Isle of Man-Heysham route in July, 1998. This new "ro-pax" ship makes two round trips daily, carrying primarily freight but it also has the capability of carrying 350 passengers and their cars. The Isle of Man Steam Packet Company, a wholly-owned subsidiary of Sea Containers, also provides frequent fast car and passenger ferry services between Douglas, the capital of the Isle of Man, and two ports in England and two ports in Ireland.

GNER. In 1998 GNER increased its number of services to 112 per day – an increase of 12% since the commencement of the franchise. One new service was introduced running from Skipton in North Yorkshire to London, the others being enhancements of the existing main line services between London Kings Cross and Edinburgh. GNER now runs one of the most heavily utilized main line passenger networks with 92% of the fleet in service on six days of the week.

GNER completed its on-train staff restructuring during 1998 which has led to improved levels of customer service with the appointment of managers on each train. This has been accompanied by the rollout of an electronic point of sale system to improve revenue recording and profitability. GNER continued to invest in car parks, automatic ticketing machines and a further expansion of its telesales operation which prior to Christmas was achieving sales of $1.6 million per week.

1999 has commenced successfully with continuing emphasis on improving train punctuality and reliability. Major investment is being made improving station facilities for passengers. Additionally two new style booking offices are being built and GNER has commenced internet ticket sales.

Left: GNER is in the process of expanding car parks and increasing security throughout its station network. Shown here is the car park at Newark where the number of spaces has been increased by 63% to 433. Many car parks are full on business days so by expanding them more travellers can be attracted to the railway from road and air.

David G. Benson Senior Vice President

Simon M.C. Sherwood
Senior Vice President, Leisure

Orient-Express Hotels
Restaurants
Tourist trains
River cruising

Right: The Lapa Palace Hotel in the fashionable Embassy district of downtown Lisbon, Portugal was acquired in July, 1998. This hotel has 94 deluxe rooms and extensive conference and banqueting facilities, as well as gardens and outdoor and indoor pools. The hotel enjoys a very high occupancy rate and construction is expected to start shortly on 15 additional rooms.

Analysis of divisions:

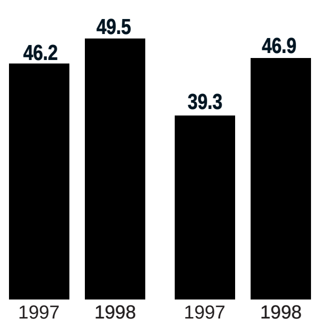
Leisure

Profitability at our Italian properties increased by over 25%. Owning three of the most prestigious hotels in the country, we enjoy a strong market presence. It is very hard for competitors (or us) to expand as there are tight restrictions on new construction in historic areas so the outlook is very promising. In 1998, we opened the Splendido Mare, a small hotel in the heart of Portofino, effectively adding 16 rooms to our Splendido operation.

Your company is developing a similar strategy in Portugal. We acquired the 94 room Lapa Palace Hotel which is the finest in Lisbon, set in the elegant Embassy district with beautiful gardens and stunning views. There is space to add another 70 rooms. We also bought the 141 room Quinta do Lago in the Algarve (which we previously managed). The area is very much in demand, particularly for those who love golf, and operating profits at the hotel have increased by over 60% this year. Including Reid's in Madeira we now own arguably the three finest hotels in Portugal, all acquired at reasonable prices and all with potential for expansion.

Operating income
Total
$millions

Comparable (1)
$millions



Hotel statistics (2)

	Total		Comparable	
	1998	1997	1998	1997
Occupancy	67.8%	67.2%	70.3%	67.8%
ADR	262.89	255.08	263.39	254.08
REVPAR	178.32	171.39	185.22	172.37

(1) Comparable figures exclude any properties not owned or managed by the company for all of 1997 and 1998.

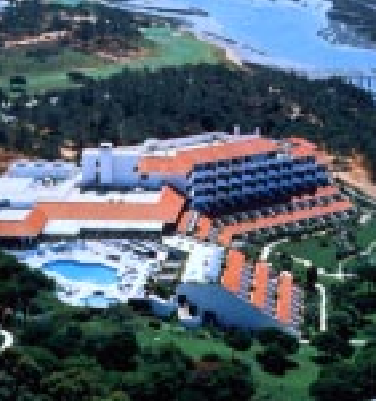
(2) Hotels represent over 85% of total leisure assets.

North American properties continued to perform well. The Windsor Court Hotel becomes ever more popular and was recently voted best hotel in the world by the influential Condé Nast survey. We plan to build a conference center next to the property to help us cope with demand. '21' Club, our New York restaurant, has also won numerous accolades and our refurbishment of Charleston Place has been well received (operating profits increased over 30% in 1998). Our Caribbean resort La Samanna is very profitable and we hope to add 40 new rooms in time for the 2000/2001 season.

1998 was a difficult year in South Africa. Numerous new hotels have been built while demand has slowed. In March, we opened the 120 room Westcliff Hotel in Johannesburg. The first year is always difficult and we were not helped by market conditions. Rates at the Mount Nelson Hotel, Cape Town have also suffered. However, these are clearly the two best hotels in the country, so we expect demand (and profitability) to recover over the next few years. Our recently refurbished Gametrackers Safari Lodges in Botswana had a good year.

Profitability of our Trains & Cruise operations increased by over $3 million, in spite of lackluster performance from our operations in Asia. The improvement was fuelled by strong demand for our European trains. In Australia, the Great South Pacific Express tourist train, owned by Queensland Rail and managed by us, has successfully started operations with over AUS$2 million of revenue already booked for 1999.


HOTEL DA Lapa
CE-23-36



Above: The 141 room Quinta do Lago Hotel near Faro, Portugal, was acquired in June, 1998. This property had been managed by Orient-Express Hotels since it was opened in 1988. The Algarve coast of Portugal has beautiful weather year round. There are nine golf courses within minutes of the hotel. Applications are in progress for construction of additional rooms.

Above right: One of the new suites at Reid's Palace Hotel in Madeira. A major upgrade of this historic property is nearing completion. Madeira's airport is being enlarged with the runway being extended and the addition of a new terminal building, which should facilitate easier access to the island from 2000.

The Copacabana Palace Hotel in Rio enjoyed another year of spectacular improvement with profits up 75%. We have been looking for further opportunities in Latin America and recently acquired a 50% stake in two Peruvian properties. The Monasterio Hotel (a converted monastery) is the leading hotel in Cusco and the Machu Picchu Ruinas Hotel is the only hotel located beside the famous ruins. This investment positions us as the dominant luxury tourist hotel operator in Peru.

We are also buying two small U.S. hotels, Keswick Hall at Monticello in Virginia and the Inn at Perry Cabin at St. Michaels, Maryland, both of which have considerable potential for expansion.

Our portfolio is well balanced as we have a number of highly profitable properties while we have others (more recently acquired) in need of development. This gives us scope to increase profits substantially over the next few years. The activity of many aggressive hotel buyers (e.g., real estate investment trusts, and Asian investors) has slowed and some are now sellers. A market with fewer buyers and more sellers may create some interesting opportunities for us.

Simon M.C. Sherwood

Simon M.C. Sherwood Senior Vice President

Below: The Great South Pacific Express tourist train, operating between Cairns and Brisbane in Queensland, Australia, was inaugurated on April 23, 1999. This train is owned by Queensland Rail and is managed by Orient-Express Hotels for a fee plus a profit participation. The two night trip along the coast includes stops in the Kuranda Rain Forest and a visit to the Great Barrier Reef.

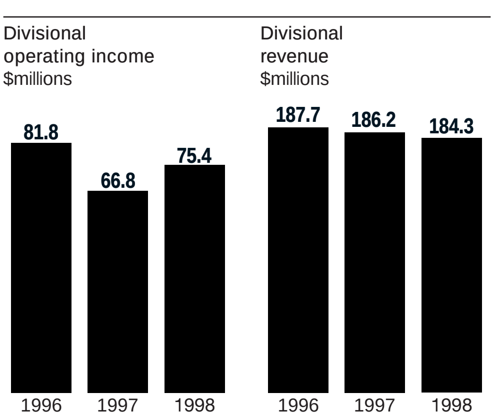
Analysis of divisions:

Containers

Robert S. Ward
Senior Vice President,
Containers

GE SeaCo
Container manufacturing
Container depots

Right: A new GE SeaCo 40' high cube refrigerated container is loaded aboard a DSR Senator Line ship in the port of Singapore. The refrigerated container leasing business has remained strong despite weakness in standard dry cargo container leasing. There is a substantial shift underway from shipment of perishable cargoes in conventional palletships to integrated refrigerated containers such as this one.



The notable event of 1998 in our container leasing business was, of course, the formation in May of GE SeaCo SRL, the 50/50 joint venture between Sea Containers and General Electric Capital Corporation, combining the container fleets of Sea Containers and Genstar. GE SeaCo is now one of the biggest marine container operating lessors in the world with a fleet of over 1.1 million 20 foot equivalent container units (TEU's).

We had set ourselves clear aims to cut both overhead and operating costs of the joint fleet and by the end of the year had exceeded the overhead target and were very near on operating costs. Combining two different systems was a challenging task. Transition problems are now behind us and our operations are flowing smoothly.

Certainly the economic downturn in Asia, together with low new container prices and the combination of several large shipping lines, has impacted both rates and utilization of standard dry freight units. Prices have now stabilized and, encouragingly, imports into Asia are improving. Lease-outs from both North America and Europe are also showing signs of revival. Of particular interest is the situation in Brazil, where the realignment of the Brazilian real in relation to the dollar is already starting to reverse the trade balance making Brazil once again a substantial net exporter of containerized goods. We expect this country to become an important factor in absorbing excess stocks on the U.S. east coast from where they can be moved easily and cheaply.

Take-up in the Genstar fleet of our SeaCover damage protection plan, under which for an additional charge lessees cover the cost of repairs of containers on return to us, has been satisfactory. Nearly 300,000 units are now in the program.

The second biggest sector of our business is refrigerated containers of which we are the largest lessor with over 80,000 units. Conversion of reefer cargo from conventional reefer vessels to containers is reported as being a constant 9% per year. That, and the general growth in demand for fresh food in most parts of the world, are producing an increasingly profitable business. Utilization of all lengths, particularly of 40ft high cube units which comprise 45% of our fleet, is rising steadily and rates are satisfactory.

In addition we are now leasing nearly 1,000 older refrigerated units to shipping ventures in which we take a share of freight profits, which is showing good returns. This is a part of our business which we expect to show considerable growth over the next few years.

The much feared spectre of the banning of the ozone depleting traditional refrigerant used before 1992 for almost all refrigerated containers is now behind us with the development of an alternative compound which can be used with no modification to the reefer machinery.

Our dry freight specials business remains healthy with the use of our patented SeaDeck flatrack dominating. This unit, built in our own factories


GEseaco
UASC
UASC
UASC
UASC
CRONOS
TRITON
40TONNES
10


GE seaco

and sold to both GE SeaCo and its customers, has become a standard in the industry.

Tank container leasing is rather different from the rest of our business and has not been affected to any substantial degree by the woes of the general container shipping market. Leases are made mostly with food and chemical producers and forwarding companies specializing in carriage of liquids. Replacement of drums by tank containers is increasingly seen as a safer and more environmentally friendly method of carriage and storage, and we expect strong growth in this market. Our fleet of over 4,000 units consists of 40 different variations and our emphasis continues to be on units for high margin specialized commodities.

Our patented SeaCell container is now starting to show clear penetration into the dry box market. This unit has 40 extra cubic feet in a 20 foot length and 80 in a 40 foot, and allows between 11% and 27% of additional pallets to be carried. It can be loaded into ordinary containership cells and will, we believe, become a standard in the industry, in time replacing the ordinary dry box to a large degree.

We have made engineering improvements to the SeaCell in the last year which have considerably reduced manufacturing hours and therefore the cost, and we have nearly reached our price target which, with increased volume, we will achieve. We already have over 10,000 SeaCell units in service and look forward to more growth over the next few years.

We operate container repair depots in five key locations. With the advent of GE SeaCo, extra volume has come their way and although this did not happen immediately, by the fourth quarter of 1998 revenue was 18% higher than the year before and further growth will come.

Our three factories in Yorkshire, England continued to prosper with full order books. In 1998, 35% of their revenue was derived from third party buyers and the 1999 proportion looks as if it will be similar or greater. These factories are a key factor in the development of GE SeaCo's European swapbody business – another promising sector of GE SeaCo's business as European governments legislate road transport onto rail – and in SeaDeck flatrack manufacture.

Our factory in Charleston has been slow to get off the ground and particularly disappointing is the failure to procure major U.S. government contracts with awards being made instead to factories in Mexico and Turkey in 1998. However, we have just obtained a multi-million dollar award from U.S. government agencies and are in the running for a very large order, award of which is expected shortly.

Robert S. Ward Senior Vice President

Above: Collapsible end frame flatracks are used to accomodate a variety of cargoes which cannot be containerized for carriage on containerships. GE SeaCo is the world leader in the supply of such units which are manufactured by Yorkshire Marine Containers Ltd. in the United Kingdom, a wholly owned subsidiary of Sea Containers.

Left: Loading vegetable oils into a new GE SeaCo swapbody 30,000 liter tank in Rotterdam, Holland. GE SeaCo's tank fleet numbered over 4,000 units at December 31, 1998. Tank containers are leased to different customers than other container types which are primarily leased to ocean carriers. The transport of liquids, often hazardous, requires specialist training and skills, maintained by "tank operators" who handle the door to door movements of the cargoes and who are normally the container lessees.

Analysis of divisions:

Property, Publishing and Plantations

James A. Beveridge
Vice President,
Administration and
Property

Plantations
Property development
Publishing
Corporate relations
Fairways & Swinford Travel

My division encompasses fruit farming in the tropics, property management and development, publishing, corporate public relations and a business travel agency.

Our plantations produce bananas in the Ivory Coast, West Africa and table grapes in northeast Brazil. In the Ivory Coast we have a 750-acre banana plantation producing annually around 10,000 tons mainly for the European market. This business continues to be very profitable with excellent sales prices being obtained. Consumption of bananas remains strong with new markets emerging in Eastern Europe. The World Trade Organization is still examining the operation of the European Union banana market and the final outcome is awaited.

Our table grape plantation in northeast Brazil produces two crops annually from the same vines. The hot, dry climate enables production to be timed for the two European market windows when virtually no other countries can produce grapes. All of our production is now aimed at those windows. The learning curve has been steep, but the business is moving into profit. We are in the process of expanding the area under cultivation from 160 acres to 270 acres with the additional 110 acres currently undergoing soil preparation before planting. Using the latest farming techniques from California, we will have one of the most modern and efficient vineyards in Brazil. The recent construction of packing and cold storage facilities will greatly improve plantation efficiency and the quality of our grapes arriving in the European market. Current production is 1,300 tons annually and rising.

The housing market in the United Kingdom remains steady. Good progress continues to be made with our housing development at Bradford-on-Avon and more than half the units are now sold or reserved at prices ahead of 1997. We have recently acquired a country house style property near Arundel in southern England and consent from the local authority has just been received to create 58 townhouses and apartments. Situated approximately one hour from London by train, this development will appeal to many London-based executives. Views over the historic Arundel Castle are spectacular. In conjunction with our port activities at Newhaven in East Sussex, we will

Left: The Illustrated London News Partnership now publishes 18 titles annually largely to support Sea Containers' rapidly expanding consumer services businesses. It also publishes magazines for others under contract, prepares this annual report and promotional materials for all divisions, and maintains photo and historic magazine libraries.

shortly commence construction of 64 town-houses and apartments on part of the land owned by our port. We will also take the opportunity to improve some port infrastructure. These developments will significantly add to the value of our investment in Newhaven.

Elsewhere in the property division, we are designing an office building on the Isle of Man on a site owned by The Isle of Man Steam Packet Company and are looking at the disposition of land owned near Harwich, Essex. In Houston, Texas, we have installed roads and other infrastructure on 65 acres of land adjoining our container depot. The improved land is being sold off in various sized lots to owner-occupiers and "build to suit" developers. Demand is good. We will continue to manage Sea Containers House, London (our subsidiaries occupy about 20% of the building) until 2011.

Publishing significantly improved its 1998 results compared with 1997. Eighteen titles are now produced mainly allied to Sea Containers' principal business activities. Magazines are also published for others under contract including the recently acquired contract to produce *Interval* magazine quarterly for a large international timeshare organization. We have also been awarded a major contract to publish quarterly the Sheaffer magazine worldwide. The publishing unit also produced this annual report and other group print items at much less cost than using third parties.

Fairways & Swinford provides corporate travel agency services to Sea Containers and third party clients, the latter now accounting for 75% of revenue. Profitability in 1998 was maintained in this highly competitive industry.

James A. Beveridge Vice President

Opposite left: The Brasiluvas table grape plantation near Petrolina, Brazil. Two crops per year are

Daniel J. O'Sullivan
Senior Vice President,
Finance and
Chief Financial Officer

Corporate finance
Information systems
Insurance

Analysis of divisions:

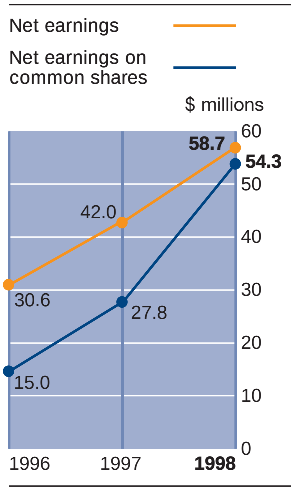
Finance

Cash flow from operations in 1998 was $154.4 million of which $73.8 million was invested in capital expenditure (net of finance), $53.2 million repaid on long-term debt and $18.7 million paid in dividends on common and preferred shares, leaving a surplus of $8.7 million. The issuance of new senior notes, common and preferred shares raised $194.8 million of which $46.5 million was used to redeem preferred shares and subordinated debentures and $142.9 million to repay redrawable facilities, leaving a surplus of $5.4 million which when added to the $8.7 million above represents the $14.1 million increase in cash on the 1998 balance sheet.

On the financing side, the Company issued $150 million principal amount of unsecured 10-year 7 7/8% senior notes in February, 1998. The Company's floating rate container securitization facility was increased in July, from $200 million to $350 million and the overall interest rate spread on the facility was reduced to between 0.5% and 0.7% above LIBOR depending on how much is borrowed. The balance of our container financing is now primarily through a $270 million floating rate revolving credit with a group of banks. New container purchases by GE SeaCo are being financed under its own $200 million floating rate revolving credit put in place in June, at a spread of 0.5% over LIBOR. The Company called the $109.7 million outstanding $4.00 convertible cumulative preferred shares in June, which reduces convertible preferred share dividends by $8.8million in a full year. The Company also redeemed in May the balance of the outstanding $2.10 and $1.4625 cumulative preferred shares in the amounts of $20.7 million and $15 million, respectively, with a reduction in preferred dividends of $4.4 million in a full year. In addition, the Company issued a total of $48 million of common and preferred shares during 1998, of which $25 million was sold to General Electric Capital Corporation.

Under the terms of the Company's loan facilities the most restrictive covenants are the leverage and interest coverage tests. However, at December 31, 1998, we had the ability to borrow under these covenants a further $400 million. Bank finance has largely been arranged for the capital expenditure planned for 1999 including the two new SuperSeaCats and the hotel investments in Peru and the U.S. The purchase of a 51% shareholding in Neptun Maritime Oyj (to be reduced to 50%) has been financed by a one year bank bridging loan which will be refinanced in 1999 or 2000 by an issue of senior notes.

The Company's tax charge in 1998 of almost $5 million primarily related to the leisure division since most of our hotels operate in high tax jurisdictions. Our passenger transport division profits are mainly taxable in the United Kingdom, where, although a high tax jurisdiction, we still have available tax shelter which has kept taxes to a minimum in 1998.



The tax charge will increase in the next few years but will still remain at a low percentage of pre-tax earnings.

Significant effort has been required in 1998 from our management information systems department led by Steve Whittam to ensure that the Company's systems will be year 2000 compliant. The work is almost complete and I am satisfied that there will be no material adverse effects on the Company's business as a result of year 2000, although GNER is significantly dependent on Railtrack which owns the rail system on which GNER operates. The GE SeaCo joint venture required a worldwide expansion of the data communications network in 1998 and an enhancement of the hardware used to enable it to cope with the greatly enlarged container fleet.

Our insurance cover is primarily controlled centrally and Company-wide policies are used wherever possible for both marine and non-marine assets to maximize our cover and minimize our costs.

Daniel J. O'Sullivan Senior Vice President

Above: In April, 1999 Orient-Express Hotels acquired a 50% interest in two Peruvian hotels and two development properties plus a management contract. Shown here is one of the cloisters of the 122 room Monasterio Hotel in Cusco, considered to be Peru's most luxurious hotel in the famous Inca capital. The other is the 32 room Machu Picchu Ruinas Hotel, the only hotel in the famous Machu Picchu sanctuary. A development site has been acquired in the valley immediately below the sanctuary where up to 120 additional deluxe rooms will be built.

This report contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. These include statements regarding future earnings, capital expenditure and investment plans, market expectations and similar matters that are not historical facts. Such statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Factors that may cause such a difference include, but are not limited to, those mentioned in the report, customer demand and competitive considerations, inability to increase prices, changes in tourism levels and travel patterns, seasonality of the North European ferry industry and weather conditions, successful implementation of plans relating to retailing opportunities and the unknown effects of cessation of duty free shopping privileges in the European Union, unforeseen difficulties in achieving cost savings, interest rate and currency value fluctuations, shifting patterns of world trade, reductions in new container prices, changes in capital expenditure and investment proposals or their terms, adequate sources of capital and acceptability of finance terms, global and regional economic conditions, legislative, regulatory and political developments, and the uncertainty of a GNER franchise extension and acceptability of proposed terms. Additional information regarding these and other factors is included in the company's reports filed with the U.S. Securities and Exchange Commission including the 1998 Form 10-K annual report beginning on page 29 of this report.

Financial Review

SEC Form 10-K

Contents

Form 10-K*

(Mark One)
(X) Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended **December 31, 1998**
or
( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number 1-7560

Sea Containers Ltd.

(Exact name of registrant as specified in its charter)

BERMUDA	98-0038412
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

41 CEDAR AVENUE, P.O. BOX HM 1179
HAMILTON HM EX, BERMUDA
(Address of principal executive offices)
Registrant's telephone number, including area code: (441) 295-2244

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	*Name of each exchange on which registered*
9½% Senior Notes Due 2003	New York Stock Exchange
10½% Senior Notes Due 2003	New York Stock Exchange
12½% Senior Subordinated Debentures Due 2004, Series A and B	New York Stock Exchange
Class A and Class B Common Shares, $0.01 par value each	New York Stock Exchange
	Pacific Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (Not applicable. See Preliminary Notes on following page.)

As of March 15, 1999, 16,158,218 Class A common shares and 15,057,096 Class B common shares of Sea Containers Ltd. were outstanding (including 12,900,500 Class B shares owned by subsidiaries (see Note 14(e) to the Financial Statements (Item 8)), and the aggregate market value of the Class A and B common shares held by non-affiliates was approximately $450,000,000.

DOCUMENTS INCORPORATED BY REFERENCE: None.*

* Items 11, 12 and 13, portions of Items 10 and 14, the Exhibits and the Financial Statement Schedule have been included in full in the registrant's Form 10-K report filed with the Securities and Exchange Commission, and are omitted from this copy of the Form 10-K although information comparable to that omitted from Items 10, 11, 12 and 13 is included in the registrant's Proxy Statement for the 1999 annual general meeting. A copy of the Form 10-K as filed with the Securities and Exchange Commission is available upon request to Sea Containers America Inc., 1155 Avenue of the Americas, New York, New York 10036 (telephone ++212-302-5066, fax ++212-302-5073).

Preliminary Notes: Sea Containers Ltd. is incorporated in the Islands of Bermuda and is a "foreign private issuer" as defined in Rule 3b-4 under the Securities Exchange Act of 1934 (the "1934 Act") and in Rule 405 under the Securities Act of 1933. It is eligible to file its annual report pursuant to Section 13 of the 1934 Act on Form 20-F (in lieu of Form 10-K) and to file interim reports on Form 6-K (in lieu of Forms 10-Q and 8-K), but elects to file its annual and interim reports on Forms 10-K, 10-Q and 8-K.

As a foreign private issuer, Sea Containers Ltd. is not required to make its Commission filings electronically under Regulation S-T, nor does it do so. Its filings, therefore, are not available on the Commission's internet website.

Pursuant to Rule 3a12-3 regarding foreign private issuers, the proxy solicitations of Sea Containers Ltd. are not subject to the disclosure and procedural requirements of Regulation 14A under the 1934 Act, and transactions in its equity securities by its officers and directors are exempt from Section 16 of the 1934 Act.

Forward-looking statements concerning the operations, performance and financial condition of Sea Containers Ltd. and its subsidiaries are based on management's concurrent expectations and are subject to various risks and uncertainties. Actual results could differ materially from those anticipated in the statements due to a number of factors, including those described in Item 1 - Business, Item 7 - Management's Discussion and Analysis, Item 7A – Quantitative and Qualitative Disclosures about Market Risk, and Item 12 - Security Ownership of Certain Beneficial Owners and Management below and substantially repeated in Exhibit 99(b) to this report.

Part I

Item 1. **Business**

Sea Containers Ltd. (the "Company") and its subsidiaries (collectively with the Company referred to as "SCL") are engaged in three main businesses. The first is the leasing of cargo containers principally through its GE SeaCo SRL joint venture to a diversified customer base of liner ship operators and others throughout the world, and the manufacture and repair of container equipment. The second is passenger transport, mainly passenger and vehicle ferry services in the English Channel, Irish Sea and Scandinavia, operation of three ports in Great Britain, and passenger rail services in Britain between London and Scotland. In March 1999, SCL agreed to acquire a substantial interest in a large ferry company trading in the northern Baltic Sea. The third is ownership and/or management of 16 hotels and resort properties located in the United States, Caribbean, Europe, Southern Africa, Brazil, Australia and South Pacific, five tourist trains in Europe, Southeast Asia and Australia, a river cruiseship in Burma (Myanmar), and two restaurants in London and New York. In addition, SCL engages in property development, perishable commodity production and trading, and publishing. Revenue, operating earnings and identifiable assets of SCL in 1996, 1997 and 1998 for its business segments are presented in Note 18 to the Financial Statements (Item 8 below). SCL employed a total of approximately 9,000 persons in its various activities at December 31, 1998.

Container Leasing

SCL conducts its container leasing activities principally through GE SeaCo SRL ("GE SeaCo"), a joint venture company established May 1, 1998 with General Electric Capital Corporation ("GE Capital") on effectively a 50/50 basis. GE SeaCo was formed to combine the separate marine container leasing activities of SCL and GE Capital and thereby to save overhead and operating costs and to acquire new equipment jointly. See Note 2 to the Financial Statements regarding initial capitalization of GE SeaCo. SCL and GE Capital have each appointed four persons to the governing board of GE SeaCo, and SCL personnel serve as most of GE SeaCo's officers including President and Chief Financial Officer.

Substantially all of the existing container fleets of SCL and GE Capital on May 1, 1998 are being leased-in to GE SeaCo on an operating basis, and GE SeaCo in turn leases the units out to customers. Profits from the existing fleets after lease payments to the owners are distributed 70% to GE Capital and 30% to SCL, reflecting the larger size of GE Capital's fleet. Once the containers reach certain ages, they are thereafter managed by GE SeaCo for the owners, sold at the owner's request or purchased by GE SeaCo. GE SeaCo itself purchases new additions to the combined fleet. Profits from the containers owned and managed by GE SeaCo are divided 50/50 in proportion to each participant's interest in GE SeaCo.

GE SeaCo Container Activities

At December 31, 1998, GE SeaCo had approximately 1,122,000 TEU of containers in its fleet, comprising 217,000 TEU leased-in from SCL, 818,000 TEU leased-in from GE Capital and 87,000 TEU either owned or managed by GE SeaCo. "TEU" means Twenty-foot Equivalent Unit and is the standard measurement in the container industry; thus, a 40-foot container constitutes two TEU. Generally increasing with growth in world trade in containerizable goods, cargo containers number approximately 12,500,000 TEU worldwide, about 45% of which is owned by leasing companies. GE SeaCo is one of the largest container lessors in the world, and GE SeaCo management believes it offers the widest variety of containers for lease, more than 50 different types.

GE SeaCo's containers freely interchange among different modes of transport. The same container, without intransit repacking of its contents, may be carried successively on ships, railroad cars and road trailers. Containers are registered with various government authorities to permit crossing international frontiers with minimum customs formalities. They are constructed primarily of steel and are built to the recommendations of the International Standardization Organization ("ISO") and other international regulatory authorities. Substantially all of GE SeaCo's containers have been built to comply with the International Convention for Safe Containers ("CSC"), which requires container owners to obtain type approvals of their equipment from independent agencies.

The basic container type is the standard dry freight cargo container having dimensions of 20 ft. or 40 ft. x 8 ft. x 8 ft. 6 in. Refrigerated containers carrying perishables, tank containers for liquid, powder or gaseous substances, and platforms and flatracks for oversized, awkward or heavy cargoes are examples of containers built for specialized uses. GE SeaCo also leases non-ISO intermodal containers principally to inland transport operators such as railroads and truckers, as well as wheeled chassis for road haulage of containers. GE SeaCo routinely sells older containers no longer suitable for its leasing activities.

Leasing Terms

Equipment is leased for periods ranging from a few months to several years. Substantially all of the leases are operating leases where the owner retains the residual value of the containers at the end of the term. GE SeaCo also engages to a limited degree in finance leasing where the lessee pays the full cost of the equipment during the term and obtains title at the end of the lease.

Operating leases are in four basic forms: long-term leases, short-term leases, master agreements and rate agreements. These require customers to pay rent monthly and to return the equipment at agreed locations. The first two types cover specified containers for a definite term. Master agreements set forth the rental rate and other terms and permit customers to pick up and return equipment at their option and in minimum or maximum quantities up to the end of the lease. Master agreements impose handling, pick-up and drop-off charges for each delivery and return. Rate agreements are similar to master agreements except that on-hire and off-hire terms are agreed at each equipment delivery.

Purchasing

Most of the containers in GE SeaCo's fleet were purchased new from manufacturers. GE SeaCo also acquires existing containers from customers or other lessors from time to time. The cost of equipment is typically financed by banks or other financial institutions. GE SeaCo has arranged its own $200,000,000 container finance facility, guaranteed 50% by SCL and 50% by GE Capital, to fund its initial container purchases. See also Notes 5 and 7 to the Financial Statements, and "Certain Financial Requirements" in Management's Discussion and Analysis (Item 7 below).

During 1998, GE SeaCo took delivery of newly manufactured containers and related equipment at an aggregate cost of approximately $70,000,000. At year end, GE SeaCo had approximately $51,000,000 of outstanding purchase orders for new container equipment, substantially all of which was available for delivery in 1999. It is GE SeaCo's practice to order equipment when indicative lease rates and other terms justify purchase and appropriate financing is in place.

Maintenance and Engineering

GE SeaCo's leases require customers to maintain equipment properly while on lease, including periodic inspection and safety maintenance in compliance with CSC, and upon return to pay the cost of repairs to GE SeaCo's "SeaWorthy" repair standard. GE SeaCo offers a container damage program (called "SeaCover") under which a lessee pays a supplemental charge during the lease in return for GE SeaCo's assuming repair responsibility at the end of the term. GE SeaCo contracts with approximately 300 depots worldwide for container repair and storage services including those owned by SCL. See "Other Container Activities" below.

GE SeaCo's engineers oversee the repair and storage depots and the factories from which new containers are sourced. They are also responsible for developing new container designs, most recently the "SeaCell", a dry cargo container in which pallets can be loaded side by side unlike conventional containers. GE SeaCo's engineers consult regularly with lessees on equipment matters and have produced many operating and technical manuals regarding the specialized containers in GE SeaCo's fleet.

Customers and Marketing

GE SeaCo leased its equipment to over 500 customers at December 31, 1998. Principal lessees are ocean carriers based outside the United States which may also own large parts of their container fleets. Substantially all of GE SeaCo's container leasing revenue and operating profit is derived from non-U.S. operations. See Note 18 to the Financial Statements.

GE SeaCo markets its equipment for lease or sale through a network of 44 agents covering more than 80 different countries. GE SeaCo owns 18 of these agents located in primary areas of container activity worldwide. Agents are compensated through commissions based on rental or sale revenue they generate and are guided by GE SeaCo marketing staff.

GE SeaCo maintains computerized records of every unit, whether on lease or off hire. Equipment on lease is checked regularly through rent billing and collection procedures. Agents and repair/storage depots are responsible for the safekeeping and maintenance of equipment when off hire. Customers are able to access GE SeaCo's computerized records for informational purposes directly through its internet website.

Competition

The container leasing business is highly competitive. GE SeaCo competes with nine major leasing companies and several other smaller lessors, as well as manufacturers of container equipment, companies offering finance leases (as distinct from operating leases), promoters of container ownership and leasing as a tax shelter investment, container shipping lines (which lease out their excess stocks of containers from time to time) and suppliers of alternative types of equipment for freight transport. Competition among container lessors depends upon several factors, including lease rates, the availability and quality of equipment, and customer service. See "Certain Trading Factors" below. GE SeaCo considers its ability to offer a wide range of standard and specialized container equipment, its technical expertise in tailoring specialized containers to customers' needs, and its strong container management controls to be important advantages in this competitive environment.

Other Container Activities

SCL manufactures, assembles and refurbishes containers at three locations near York in Great Britain and a fourth location in Charleston, South Carolina. Former factories in Singapore and Santos, Brazil, are being used principally for depot purposes. Collectively, SCL built approximately 6,000 TEU of containers in 1998. SCL also owns and operates depots for repairing, servicing and storing containers in Singapore, Santos, Brazil, Charleston, South Carolina and Houston, Texas, owns a minority interest in a depot in Auckland, New Zealand, and operates a refrigerated container servicing business in five locations in Brazil, Singapore, New Zealand and Australia (two). Each of these facilities conducts business with both GE SeaCo and third parties on arm's length terms.

In addition, SCL owns a small number of containers (13,000 TEU at December 31, 1998) which are not part of the GE SeaCo joint venture but which SCL continues to lease out directly to customers.

Certain Trading Factors

Demand for leased containers depends largely on levels of world trade and economic growth. Cyclical recessions can negatively affect lessors' operating results because, during economic downturns, ocean carriers tend to lease fewer containers and rely instead on their owned fleets to satisfy a greater percentage of their requirements. Thus, a decrease in the volume of world trade may adversely affect the results of GE SeaCo's and SCL's container activities. There can be no assurance that such cyclical downturns will not occur in the leasing industry in the future.

Other factors affecting demand for leased containers include the available supply and prices of new and used containers (including the market acceptance of new container types and overbuying by competitors), economic conditions and competitive pressures in the shipping industry (including freight rates and expansion, consolidation or withdrawal of individual customers in the industry), shifting trends and patterns of cargo traffic, the availability and terms of equipment financing, fluctuations in interest rates and foreign currency values, import/export tariffs and restrictions, foreign exchange controls, other governmental regulations and political or economic factors that are inherently unpredictable and may be beyond GE SeaCo's and SCL's control.

Defaults by lessees may result in containers being lost or returned at locations where GE SeaCo or SCL cannot efficiently re-lease or sell the equipment. In that event, GE SeaCo or SCL may lose lease revenue and incur additional operating expenses in repossessing, repairing and repositioning the equipment. In recent years, defaults by lessees as measured by allowances for specific doubtful accounts have not been material as a percentage of annual container leasing revenue.

If lessees return equipment to locations where supply exceeds demand, GE SeaCo routinely repositions containers to higher demand areas. Repositioning expenses vary depending on geographic location, distance and other factors, and may not be fully covered by the drop-off charges collected from the last lessees of the equipment.

Container leasing revenue is variable and is largely a function of lease rates, equipment utilization and available containers. Rates depend on the type and length of the lease, the type and age of equipment, and the application of the SeaWorthy and SeaCover programs to equipment maintenance obligations under the lease. Future lease rates may increase or decrease depending on competition, economic conditions and the other factors described above. In recent years, rates generally in the leasing industry have tended to decline and may continue to do so. Utilization is the ratio of containers on lease to the total container fleet and may also fluctuate due to these same factors. Since the time GE SeaCo was formed, for example, overall fleet utilization has declined principally because of the trade imbalance with Asia resulting in high equipment returns in Europe and North America. In order to meet anticipated demand promptly, GE SeaCo maintains inventories of available containers at various depots worldwide. Because demand is difficult to estimate, however, these inventories may not be sufficient, and repositioning equipment in a timely manner to meet demand may not be economically feasible. Also, container supply from various manufacturers, including SCL's factories, involves a time delay between order placement and equipment delivery, as a result of which revenue may be restrained when demand is strong or may not be realized by the time equipment is delivered.

From time to time, GE SeaCo and SCL sell equipment that was previously leased. The decision whether to sell depends on the equipment's book value, condition, remaining useful life and suitability for continued leasing or for other uses, as well as prevailing local market sale prices and an assessment of the economic benefits of repairing and continuing to lease the equipment compared to the benefits of selling. Because these factors vary, gains or losses on sale of equipment will also fluctuate and may be significant if the decision is made to sell large quantities of units.

In certain countries like the United States, the owner of a leased container may be liable for the costs of environmental damage from discharge of container contents even though the owner is not at fault. GE SeaCo and SCL maintain insurance against property damage and third party liability and require lessees to obtain similar insurance and to provide indemnity against loss. There can be no assurance, however, that such insurance or indemnity will protect GE SeaCo or SCL fully against damages stemming from this risk.

Chlorofluorocarbon ("CFC") refrigerants have historically been used in refrigerated containers, including many in the GE SeaCo fleet. In recent years, countries have imposed limitations on the production of CFCs because of their ozone depleting and global warming effects. As a result, substantially all new refrigerated containers in the GE SeaCo fleet acquired since 1992 have been charged with non-CFC refrigerant gas, and GE SeaCo is converting older units over time to non-CFC gas. Although not currently required or expected in the near term, the possibility exists that future regulation may require refrigerated containers using CFCs to be retrofitted with non-CFC refrigerants. In that event, SCL would have to bear all or a large portion of the cost to convert its units on lease to GE SeaCo. While no assurance can be given in this regard, SCL management does not believe that this expense would be material in relation to its financial position.

Passenger Transport

SCL provides passenger transport services principally in and around Great Britain. It operates seagoing ferries between mainland Britain and France, Belgium, Ireland and the Isle of Man and between Sweden and Denmark and owns three ports in Britain. In addition, SCL operates high speed passenger train services in Britain between London and Scotland. It also engages to a limited degree in ship chartering and other shipowning activities. In 1999, SCL acquired a small commuter ferry company operating in New York harbor and contracted to make a substantial investment in a large multipurpose ferry company operating in the northern Baltic Sea.

Ferry and Port Operations

SCL's present ferry and port operations are shown on the map (below). Ferry services involve the deployment of roll-on, roll-off ("ro-ro") vessels carrying passengers and accompanied vehicles (cars, coaches and trucks) and the provision of catering, retail and other services both on board and in the terminals. SCL transports cars, small coaches and light trucks on all of its routes and heavier freight traffic on some of them. Linkspans at the ports connect to the ships and allow drive-through loading and unloading, while the amphibious hovercraft load and unload on land. Passengers travel with their vehicles or on foot, some connecting by rail or coach service.

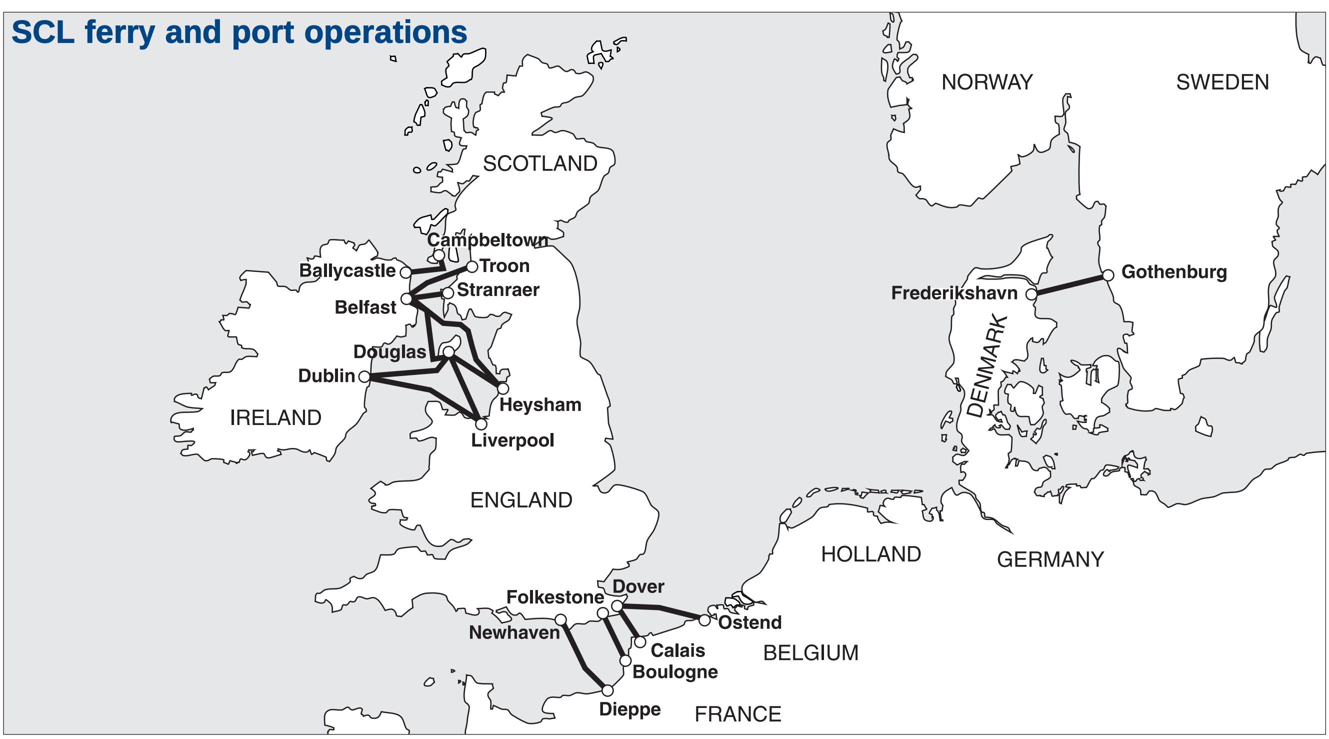
In 1998, SCL's ferry services operated on 11 routes with 16 vessels and hovercraft and transported 5.8 million passengers and 1.1 million vehicles. A 17th ferry was on charter in South America under a long-term lease/purchase agreement which terminated in late 1998 and the ship was redeployed to North Europe.

Fast Ferries

Most of SCL's ferries operate at high speed, often double the operating speed of conventional ferries. SCL's oldest fast ferries are two hovercraft built in 1968. These are designed on aviation principles, made of lightweight materials and powered by engines driving both overhead propulsion propellers and lift fans mounted underneath. They ride on a cushion of air above the water at an operating speed of 50 knots and, being amphibious, land on a concrete pad area in front of the terminals. Each hovercraft carries up to 380 passengers and 55 cars or other light vehicles. Passengers sit in cabins configured like airplanes and are attended by cabin staff.

SCL owns five high speed catamarans called "SeaCats" built in 1990 and 1991 and, through its English Channel joint venture, charters in two larger SeaCats built in 1996. These are similar to conventional catamarans except that the hulls are designed to pierce the waves rather than ride over them. Constructed largely of aluminum, the SeaCats have normal operating speeds of about 35 knots. Each of the smaller ones carries between 430 and 580 passengers and 80 to 90 cars, while the larger ones carry up to 650 passengers and 150 cars. They feature spacious passenger areas, shopping on board, an aft passenger deck and lounge with buffet serving light meals, and an observation deck behind the bridge. The SeaCats have relatively low capital cost, operate with fuel efficient waterjets and require smaller crews compared to conventional ferries of similar capacity.

In mid-1997, SCL took delivery of two monohull fast



ferries from an Italian shipbuilder and in March 1999 took delivery of a third one, with a fourth to be delivered in April. Each transports up to 700 passengers and 160 cars at an operating speed of 38 knots. Because of their larger size and capacity, the ships are called "SuperSeaCats" and have passenger seating on two decks, a business class lounge, a separate duty-free shop and larger food service and bar areas compared to the SeaCats.

English Channel Services

Through its Hoverspeed Ltd. subsidiary ("Hoverspeed"), SCL operates two hovercraft and two SeaCats on the shortest routes to France across the English Channel from Dover to Calais and from Folkestone to Boulogne. Frequency ranges from 20 round trips daily in the summer to 11 round trips daily in the winter on the Dover-Calais route, and four round trips daily on the Folkestone-Boulogne route. Crossings take 35 to 55 minutes compared to approximately 75 to 100 minutes for the conventional ferry competition.

In March 1998, Hoverspeed acquired a 50% shareholding in a former fast ferry competitor in the English Channel operating from Ramsgate on the southeast coast to Ostend, Belgium. Hoverspeed manages the service and has relocated it to originate from Hoverspeed's terminal in Dover. The two larger SeaCats are deployed on the Dover-Ostend route. Between four and seven daily round trips operate with a crossing time of two hours. On board duty-free shopping is available as on the Dover-Calais and Folkestone-Boulogne routes.

Hoverspeed has exclusive use of its five terminals. These offer passengers extensive duty-free shopping, restaurants and bars and other travel amenities. SCL owns the port of Folkestone while the terminals in Dover, Calais, Boulogne and Ostend are either leased from the local port authority or occupied under operating agreements.

In April 1999, Hoverspeed plans to open a SuperSeaCat service between Newhaven, a port owned by SCL, and Dieppe, France. A former operator withdrew from this route in early 1999. The SuperSeaCat will make up to three daily round trips with a crossing time of two hours.

Irish Sea Services

SCL's principal ferry operation in the Irish Sea is its Isle of Man Steam Packet Co. Ltd. subsidiary ("IOMSPC") serving Douglas on the Isle of Man from four locations in Britain and Ireland. These are a once or twice daily ferry service between Douglas and either Heysham or Liverpool in England (with additional Liverpool sailings in the spring and summer), and seasonal ferry services up to four times per week from Douglas to Belfast and Dublin during the spring and summer. The transit times on the most frequent routes, Douglas-Heysham and Douglas-Liverpool, are about four hours with a conventional ferry and two and a half hours by SeaCat.

IOMSPC employs on its routes a SeaCat and two conventional vessels owned by IOMSPC. The latter are a new multipurpose ferry built in 1998 carrying up to 500 passengers and 1,200 lane-meters of cars and ro-ro freight, and a passenger and car ferry built in 1976 carrying 900 passengers and 135 cars. These are larger vessels in terms of deadweight capacity than SCL's fast ferries, and offer cabins with sleeping berths and more extensive bar/cafeteria and shopping areas. IOMSPC also owns a freight vessel built in 1971 carrying 42 ro-ro vehicles.

IOMSPC occupies its berths in Douglas under a long-term user agreement with the Isle of Man government. This agreement allows IOMSPC to be the exclusive ferry operator to the Isle of Man, in return for a limitation on fare increases at a rate below inflation and undertakings by IOMSPC to provide minimum service levels and to spend certain minimum amounts for ship improvements and sales and marketing. IOMSPC contracts for port access in Liverpool, Belfast and Dublin with the local port authorities, while Heysham is a port owned by SCL.

Elsewhere in the Irish Sea, SCL operates a SuperSeaCat directly between Liverpool and Dublin. Round trip sailings are once or twice daily, with a crossing time of under four hours compared to six hours by conventional ferry. Also, SCL provides a SeaCat service between Belfast and Stranraer, Scotland. Transit time is 90 minutes compared to over three hours by conventional ferry. Four or five daily round trips were provided in 1998 depending on the time of year. In April 1999, SCL plans to reduce the number of Belfast-Stranraer sailings, introduce a second SeaCat based in Belfast and operate both ships on new services to Heysham and to Troon, Scotland (near Glasgow), as well as continuing the service to Stranraer. One or two daily round trips are planned with a Belfast-Heysham crossing time of four hours and a Belfast-Troon crossing time of two and a half hours. The berths and terminal facilities for these other Irish Sea services are leased from the local port authorities (except Heysham) and are used exclusively by the SeaCats in Stranraer and Troon and shared with IOMSPC in Liverpool, Dublin and Belfast.

Through its Argyll and Antrim Steam Packet Co. Ltd. subsidiary ("AASPC"), SCL runs a seasonal ferry service between Campbeltown, Scotland and Ballycastle, Northern Ireland. The local port authorities own the berths and terminal buildings which AASPC occupies under operating agreements. SCL operates a small conventional ferry built in 1978 having capacity of 300 passengers and 50 cars (or a mixture of cars and ro-ro freight). With a crossing time of under three hours, AASPC makes two daily round trips from May through October each year. In the off season, the ship is chartered out.

Scandinavian Service

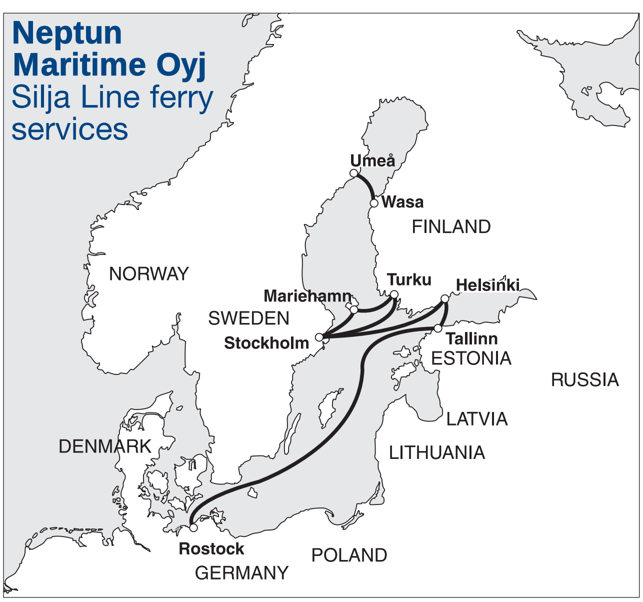
SCL operates a SuperSeaCat service between Gothenburg, Sweden and Frederikshavn, Denmark, across the Kattegat Strait in the spring, summer and fall, with three round trips daily. SCL owns the terminal building in Frederikshavn, has leased terminal facilities in Gothenburg and is the exclusive user of both. The crossing takes less than two hours compared with the transit time of more than three hours by conventional ferry. Duty-free shopping is available on board.

New Ferry Services in 1999

In January 1999, SCL acquired Express Navigation Inc. ("ENI") which for many years has provided commuter ferry services across New York harbor to a public pier in lower Manhattan from two locations near Sandy Hook, New Jersey and from the Brooklyn Army Terminal. Two high speed passenger-only catamarans built in 1989 and 1990 transport up to 300 passengers on the Manhattan-New Jersey route, with a crossing time of 45 minutes, while the Manhattan-Brooklyn service uses a smaller high speed monohull craft built in 1980 carrying up to 150 passengers on a short 15 minute ride. ENI charters in its three vessels under long-term charterparties. It owns one of its New Jersey berths and leases the other one and its Brooklyn berth, at all of which there is extensive car parking space for commuters. Between rush hours and on weekends, ENI operates special excursions with the vessels.

Express Navigation Inc.
New York Harbor commuter ferry services

Neptun Maritime Oyj
Silja Line ferry services



In March 1999, SCL contracted to purchase from certain existing shareholders a substantial investment in Neptun Maritime Oyj, a large Finnish ferry company listed on the Helsinki Stock Exchange ("Neptun"). See Note 20 to the Financial Statements. The cash purchase price will be about $105,000,000, and completion is subject to approval by relevant competition authorities, currently expected in April or May 1999. SCL is arranging debt financing to fund the purchase.

Through its Silja Line subsidiary, Neptun operates a fleet of nine large multipurpose ferry and freight vessels in the northern Baltic Sea. Six are deployed on routes from Helsinki and Turku, Finland to Stockholm, Sweden, two between Helsinki and Tallinn, Estonia (one of which continues to Rostock, Germany, in the summer) and one between Wasa, Finland, and Umea, Sweden. In 1998, Neptun carried 5.8 million passengers and 123,000 freight units on these routes, which produced revenue of $590,000,000. Neptun also charters out to third parties three modern cruiseships operating in the Caribbean and Asia. Some or all of these cruiseships may be sold.

The Neptun and ENI ferry routes are shown on the maps on the previous page

Port Operations

In addition to the third-party owned ports from which SCL's ferry services operate, SCL owns three ports in Britain located at Newhaven and Folkestone on the English Channel and Heysham on the Irish Sea, providing berthing, traffic handling, warehousing, storage and ancillary port facilities. They have multiple ship berths for both oceangoing and smaller vessels, passenger and freight terminal buildings and freight/vehicle standing areas and are fitted with ship-to-shore linkspans. Industrial buildings at Newhaven and Heysham are leased to third parties. All three ports have good connections to the main road and rail networks in Britain.

About three-quarters of port operations revenue in 1998 derived from shipping, stevedoring and handling charges paid by IOMSPC and three freight operators at Heysham, by Hoverspeed and a freight operator at Folkestone, and by one ferry operator at Newhaven, with other customers accounting for the balance of revenue. Altogether, these ports occupy approximately 350 acres of land. See "Other SCL Activities" below regarding possible development of surplus land.

Sales and Marketing

Ferry fares vary depending on the route, type of traffic, degree of competition and seasonality of demand. For fast ferry services, SCL generally seeks to charge a premium over competing conventional ferry operators. The cheapest fares usually apply during seasonally low operating periods to encourage demand. Special promotional fares are available throughout the year on certain sailings even during peak travel periods. Fares are not government regulated, except in the case of IOMSPC as noted under "Irish Sea Services" above.

Tickets for passengers and cars are sold through telephone and mail order, via each service's internet website, at the ports, through commercial travel agents and at certain railway stations and travel centers in Britain. SCL's marketing staff works closely with sales agents, coach and rail operators, hotel groups, tour operators and government tourist authorities to promote SCL's ferry services. Annual brochures describe the services, schedules, fares and inclusive holiday packages. These are distributed in quantity by travel agents, which SCL regards as the most important sales and marketing channel because a majority of bookings and inclusive holidays is sold through them.

Promotional activities consist principally of local television, radio and print advertising. Each of the ferry services (other than ENI) targets motorist traffic, and foot passengers connecting by train or coach service. Compared to conventional ferry operators, SCL projects the benefits of its fast ferries offering high speed, frequent departures, fast connection times, exclusive terminal facilities, and superior customer care at booking, check-in and on board. On routes where SCL's fast ferries compete directly with conventional ferries, SCL has established market share in part by creating new demand in the form of day trips and business travel by sea.

IOMSPC's and Neptun's freight services are marketed through their own sales personnel, who regularly call on major customers. These are principally trucking companies and freight forwarders which transport goods door-to-door. Most sales are on a volume discount basis.

Competition

The ferry industry is highly competitive. Hoverspeed competes with five conventional ferry companies between southern Britain and the European Continent, two of which cross the Dover Straits, and also with Eurotunnel under the English Channel. There are five competing conventional ferry operators between Britain and Ireland, including three running fast ferries, and six competing conventional ferry operators between Sweden and Denmark, including three with fast ferries. ENI competes with two commuter ferry services from New Jersey to Manhattan as well as road and rail commuter services, and Neptun competes with four ferry companies in the northern Baltic Sea. IOMSPC is the only ferry service to the Isle of Man, although it competes with other freight carriers. SCL's high speed car ferries, short routes and crossing times and superior customer service are important factors in this competitive environment. Airlines compete for passenger traffic on the longer routes.

Eurotunnel has captured a significant share of cross-Channel traffic since it opened in 1995, including from

Hoverspeed, although this has been partially offset by growth in the market sector generally. Hoverspeed has been able to compete on the basis of speed, price, product quality and duty-free sales.

Certain Trading Factors

SCL owns 15 of its ferry ships and hovercraft, most of which are financed under mortgage loans or lease financings. See Notes 5 and 7 to the Financial Statements. Five others are chartered in. Neptun owns ten of its ships and charters in two others. The ships and craft are maintained in good condition in compliance with regulatory requirements, operated in compliance with applicable safety/environmental standards and procedures, and insured against usual risks for such amounts as management deems adequate. Their operating certificates and licenses are renewed periodically during each vessel's required annual survey.

Recent regulations of the International Maritime Organization and other government authorities impose improved stability requirements on existing conventional ro-ro passenger ferries operating in North Europe in case water floods the vehicle deck. These do not apply to SCL's SeaCats and hovercraft, in which the car decks are not integral to their stability, while SCL's SuperSeaCats and IOMSPC's new ferry are in compliance. The regulations will require the AASPC ferry, one of the IOMSPC ferries and Neptun's seven owned ferries to be modified by 2001 to bring them into compliance or replaced. SCL does not expect the net capital expenditure for this purpose will be material. There can be no assurance, however, that future governmental mandates will not obligate SCL to incur large capital cost either to modify its vessels or replace them.

Retail sales of duty-free goods to passengers are an important component of ferry revenue on SCL's routes across the English Channel, to the Republic of Ireland and between Sweden and Denmark and on Neptun's routes in the Baltic Sea. Under current European Union legislation, duty-free sales to ferry and airline travellers between European countries must end by July 1999. Many participants in the duty-free market, including SCL, are lobbying to have this deadline postponed, although there can be no assurance this will be accomplished. In an effort to compensate for reduced profits on its affected routes, SCL plans to encourage duty-paid shopping for certain goods which is expected to remain attractive to travellers because local prices and taxes on many goods differ greatly in various European countries, and to raise fares if competition allows. There can be no assurance, however, that this strategy will succeed. While abolition of the duty-free exemption will apply to Neptun, all of its sailings to and from Stockholm will call at the nearby Aland Islands of Finland where duty-free sales will be allowed to continue indefinitely. Also Neptun's Helsinki-Tallinn route will remain duty-free because Estonia is outside the European Union.

A particular characteristic of the ferry market in North Europe is the seasonality of demand, principally because volumes are linked to tourism. Approximately half of the passengers using ferry services to and from Britain, for example, travel during the June-September period. The freight market tends not to be seasonal. The historical and expected pattern of operating results from SCL's ferry and port activities collectively is a loss in the first and fourth quarters each year.

Other factors affecting the trading performance of SCL's ferry services are principally competitive pressure on ticket prices, travel convenience of departure timings, adverse weather conditions disrupting service schedules, regional economic and political conditions (including recession and actual or threatened terrorism), foreign exchange rate fluctuations in countries served by SCL's ferries, variable fuel costs, and industrial relations and strike activity at the ports and regions served by the ferries. The interaction of these factors differs on each route and the profitability of individual routes may change from year to year.

SCL plans to open new ferry services and to deploy its new fast ferries on existing and new routes. Profitability of new services is subject to many of the foregoing factors as well as achieving a sufficient level of sustained market acceptance by customers. High-speed car ferries are a relatively recent development, and a newly-built vessel may not perform to its technical specifications under the shipbuilding contract. In addition, the hull forms and technology of the ships to ensure the comfort of passengers on board in different sea conditions are still evolving.

Other Ship-Related Activities

Related to its ferry activities, SCL owns three cargoships for chartering out. Two are containerships built in 1979 and 1981 carrying up to 576 TEU and 1,291 TEU of containers, respectively, and the third is a small ro-ro ship built in 1977 with capacity for 35 trailers. The ships are maintained in good condition in compliance with relevant government regulations and are insured against usual risks for amounts SCL deems adequate. They are owned by SCL under mortgage or lease financings. See Notes 5 and 7 to the Financial Statements. SCL also owns a 50%

interest in a small shipping company with two cargoships trading between Western Australia and Southeast Asia.

Hart, Fenton & Co. Ltd., an SCL subsidiary, provides naval architect and marine engineering services to SCL and other shipowners. This firm assisted in the design of many of SCL's ferries and cargoships.

Rail Operations

Under a seven-year franchise awarded by the British government in April 1996, SCL operates high speed passenger trains between London and Scotland along the east coast of Britain. Called Great North Eastern Railway ("GNER"), this is one of 25 former British Rail passenger operations privatized by the government. By improving service, increasing ridership and reducing costs, GNER is seeking to eliminate its government subsidy by the end of the franchise period and to fund capital investment largely from cash flow.

GNER's customers are mainly leisure and business passengers and some commuters, travelling between London (from Kings Cross station), parts of the East Midlands and East Anglia, Yorkshire, northeast England and Scotland. Covering 935 route miles and calling at 50 stations, in 1998 GNER transported over 14 million passengers, a 19% increase over annual ridership when the franchise began. The map (right) indicates the principal destinations. Some of the core routes are as follows:

Route	*Distance (miles)*	*Typical No. of One-Way Weekday Trains*	*Typical Journey Time (hours)*
London - Leeds	186	22	2-2½
London - Newcastle	268	31	2¾-3
London - Edinburgh	393	19	4-4½
London - Glasgow	450	6	5½

Connections with other passenger trains are available at most stations. Timetables vary between weekdays and weekends/holidays to meet different patterns of demand and to allow infrastructure engineering works. The summer and winter timetables also vary because more services are offered in the summer targeted at the leisure market. Frequency is up to 112 weekday services, 90 Saturday services and 76 Sunday services, of which 95% originate or terminate at Kings Cross in London.

Rolling Stock

GNER currently operates a fleet of 40 trains totalling 440 cars and locomotives. Thirty-one are electric, drawing power from overhead lines. Built between 1987 and 1990, they provide about 79% of GNER's timetabled

Great North Eastern Railway routes
linking England & Scotland

services. They can operate up to a speed of 140 mph but are currently restricted to 125 mph because of track and signalling limitations. A typical electric train configuration is a locomotive and driving van trailer, two first class coaches, six standard class coaches and a kitchen/catering car, having total capacity of about 550 passengers. On board catering is typically an over-the-counter buffet, supplemented by at-seat trolley service, with full restaurant service on selected trains.

The rest of GNER's fleet consists of nine diesel trains, substantially all of which were built between 1975 and 1980 and travel at a maximum speed of 125 mph. These operate approximately 21% of GNER's timetabled services, principally to Aberdeen, Inverness and Hull because the routes are not electrified. The interiors of these trains were completely refurbished in 1997 and 1998. A typical configuration is a power car at each end, two first class coaches, five standard class coaches and a kitchen/catering car, having total capacity of about 480 passengers.

GNER leases substantially all its rolling stock from two leasing companies for the seven-year term of the franchise. Rental charges include components relating to maintenance and insurance provided by the lessor, and are largely fixed. In order to supplement its leased rolling stock and improve service, GNER acquired an existing electric locomotive and ten passenger coaches, the latter to be refurbished and added to the nine diesel trains. In addition, GNER has reached agreement in principle with a train manufacturer to buy up to eight new 11-car tilting electric trains for delivery in three years. Travelling at higher speeds than GNER's existing rolling stock because they lean into track curves, tilting trains would reduce travel times (London-Edinburgh in as little as 3½ hours, for example) and add capacity (up to 28 additional daily services). GNER has applied to the British government to extend its franchise period before committing to this purchase. See "Franchise Extension" below.

GNER operates and maintains its rolling stock in compliance with government-supervised safety standards and the lease requirements. Maintenance work is performed at four depots leased by GNER in London, Edinburgh and Aberdeen where GNER also performs maintenance for other train operators. In addition, GNER contracts for regular maintenance at four other depots. Consistent with these safety and maintenance requirements, GNER carries property and third party liability insurance in amounts which management believes are adequate.

Track and Station Access

Substantially all of the railway infrastructure in Britain (track, signalling, stations and depots) is owned and maintained by Railtrack Plc ("Railtrack"). GNER has contracted with Railtrack for track access based on the level of services GNER has undertaken in its franchise agreement, including those added since the contract began. Other train operators run on parts of GNER's routes, requiring Railtrack's coordination of timetables and train paths. Track access charges are fixed in large part but include variable components for actual utilization of track and electric power consumed. To encourage train punctuality and reliability, the track access agreement includes a system of variable payments between GNER and Railtrack under which each party must compensate the other if prescribed performance standards are or are not achieved. Payments by or to GNER vary under this performance regime and may be significant in amount if unforeseen events occur affecting either party.

Of the 50 stations along its routes, GNER shares access with other train operators to four central stations owned and operated by Railtrack (London Kings Cross, Leeds, Edinburgh and Glasgow). GNER leases from Railtrack 12 other main stations, including Newcastle and York, and provides access and common station services to other train operators calling at these stations, such as ticket sales, train information, car parking, and station cleaning and maintenance. The remaining 34 stations where GNER stops are leased from Railtrack by three other train operators which provide GNER with similar services at these stations.

Sales and Marketing

Passengers may purchase tickets on GNER at all major train stations in Britain. Railtrack publishes the national system timetables, and a trade association of operators in Britain publishes their basic fares and provides telephone information about all operators' services. GNER is the lead ticket seller at London Kings Cross, Edinburgh, Stevenage and the 12 stations it leases, obligating GNER to sell tickets on a commission basis for other operators as well as itself. Similarly at GNER's other 35 stations, the lead ticket seller must sell tickets on behalf of GNER. GNER also sells tickets through automated ticket machines at many of its larger stations, and through its own telephone sales, enquiry and business travel center in Newcastle handling up to 50,000 calls per week. Most remaining sales are made by other train operators and independent travel agents in Britain.

Previously part of the government-owned British Rail network, GNER services were separately marketed only to a limited degree before SCL acquired the franchise in 1996. GNER has embarked on a marketing program based on its separate brand identity. New print and other media advertising and promotions project the high speed and comfort of GNER's trains. To attract ridership, GNER has upgraded station services and car parking (part of which has been funded by Railtrack) and the technical reliability of its rolling stock. On board service, appearance and cleanliness have all been improved. Flexible fare structures have been introduced to attract passengers through price incentives.

Competition

Six other passenger train operators run on parts of GNER's routes. Until September 1999, they may increase the frequency of services they operate but are not allowed to introduce new services in competition with GNER. Thereafter, operators may negotiate with Railtrack for new services and additional train paths and times, representing up to 20% of an existing operator's revenue, but awards will continue to be government-regulated to ensure passenger benefits are achieved (such as better frequencies, lower fares or new journey opportunities) and to avoid competition which might adversely affect each operator's ability to satisfy the minimum service requirements under its franchise. Aggressive bidding by GNER's rail competitors, however, may limit GNER's expansion plans.

GNER also competes with cars, coaches and airlines in Britain as well as other train operators which do not share routes with GNER. The choice of transport mode is governed by many factors including frequency, time, reliability, convenience, comfort and cost. The relative importance of these depends on the leisure or business purpose of the journey. GNER believes its fast, frequent and high quality services directly into city centers are an important competitive advantage.

Franchise Extension

SCL has applied to the British government to extend the term of the GNER franchise from 2003 to 2013. The longer period is necessary in order to invest in additional rolling stock and park-and-ride stations. Because of the success of GNER's service improvements and marketing to date, ridership is increasing above the level which can be satisfactorily accommodated with the trains and station facilities originally provided with the franchise award. GNER is prepared to make the necessary capital investment to lessen overcrowding and to continue service improvements, but believes a longer franchise period is required in order to earn a satisfactory investment return. The British government has indicated in principle its willingness to negotiate franchise extensions if passengers will benefit and franchisees will commit to added investment and performance improvements. There can be no assurance, however, that an extension will be granted to GNER, or on what terms, and whether any investments made will enhance GNER's profitability.

Certain Trading Factors

GNER services may be disrupted, with consequent loss of revenue, because of infrastructure problems for which Railtrack is responsible, or problems for which GNER is responsible such as rolling stock breakdowns or employee strike activity. In June 1998, for example, GNER suffered a derailment due to a fractured wheel. There were no injuries from this incident, and lost earnings following it are expected to be covered by insurance. Third party actions may also cause disruption, among them being actual or threatened acts of terrorism in mainland Britain.

Under the GNER franchise award, the British government must pay an average annual subsidy of £24,000,000 ($38,000,000), starting at a higher level in the early years and incrementally declining to zero by 2003. See Note 1(f) to the Financial Statements. Except in unusual circumstances, this subsidy is fixed. The largest part of GNER's costs are payments for track, station and depot access and rolling stock rental which, as noted above, are also largely fixed during the franchise term. Therefore, as the government subsidy decreases, GNER must increase its revenue and reduce its variable operating costs if it is to maintain profitability, although no assurance can be given that GNER will accomplish these goals.

Efforts to increase ridership are described above under "Sales and Marketing". Approximately 20% of GNER's fares are subject to capped increases below the rate of inflation. Other fares are not regulated but are subject to the competitive pricing of alternative rail, airline and other transport services. In addition, GNER must pay passenger rebates of varying percentages of its fares if it fails to meet prescribed punctuality standards.

Of GNER's variable costs, the largest component is labor. GNER's workforce numbers about 2,600 employees, about two-thirds of which are unionized. Since 1992 there has been no dispute involving withdrawal of labor solely related to GNER, although nationwide strikes against British Rail disrupted GNER's services for short periods in 1994 and 1995. Consistent with upgrading service standards and continued safe operation, GNER management is working with the unions gradually to change work practices to increase efficiency. There can be no assurance, however, that these steps will not result in labor disruption of GNER's services, or that larger labor disputes broadly involving the British rail industry will not adversely affect GNER.

Hotels and Leisure

SCL owns and/or manages 16 deluxe hotels and resorts located in the United States, Caribbean, Europe, Southern Africa, Brazil, Australia and South Pacific, five tourist trains in Europe, Southeast Asia and Australia, a river cruiseship in Burma (Myanmar), and two restaurants in London and New York. It also engages in merchandising related to its properties. SCL management focuses on identifying and acquiring unique properties with potential for operating and marketing improvements through expansion and renovation.

Hotels and Resorts

United States

The Windsor Court Hotel owned and operated by SCL opened in 1984 and is located in the central business district of New Orleans, Louisiana near the French Quarter and the Mississippi River front. The only land-based casino in Louisiana is being built across the street from the hotel. There are 322 guest rooms and suites, each with panoramic views over the river or the city. Facilities include three restaurants and lounges, a rooftop ballroom, several other banquet and meeting rooms, an outdoor swimming pool and a health club. The hotel's interior decor features a collection of historic European art and antique furniture.

SCL owns a minority interest in Charleston Place Hotel in the historic center of Charleston, South Carolina, and manages the property under an exclusive long-term contract. Originally opened in 1986, the hotel has 440 guest rooms and suites, two restaurants, extensive banqueting and conference space including a grand ballroom, a health club with swimming pool, and 27 retail shops leased to third parties. The hotel also owns the adjacent historic Riviera Theater recently remodelled as an additional conference facility and five retail shops.

Caribbean

SCL owns and operates La Samanna resort hotel on St. Martin in the French West Indies. Built in 1973, the hotel has 83 rooms, suites and villas and two restaurants spread in 17 buildings on ten acres of land along a 4,000-foot beach. Leisure amenities include a freshwater swimming pool, three tennis courts, a fitness center, boating and ocean water sports. The hotel is open most of the year, seasonally closing during the fall months. The hotel owns an adjacent 45 acres of land available for future development.

Italy

The Hotel Cipriani and Palazzo Vendramin property owned and operated by SCL in Venice was built for the most part in the 1950's and is located on three acres of land on Giudecca Island opposite the Piazza San Marco. It has 106 guest rooms and suites, most with views over the Venetian lagoon, and is fully open about nine months each year commencing in March. Features include fine cuisine in both indoor and outdoor restaurants, gardens and terraces encompassing an Olympic-sized swimming pool, a tennis court and a private launch service to the Piazza San Marco.

SCL owns and operates the Villa San Michele located in Fiesole on ten acres overlooking Florence and the Arno River valley. Originally built as a monastery in the 15th century with a façade attributed to Michelangelo, it was converted to a hotel in the 1950s. SCL has remodelled the guest accommodation to luxury standards, added rooms on the hotel grounds, and built a swimming pool on the hillside above the hotel. Currently there are 41 rooms and suites. A courtesy shuttle bus service is provided to the center of Florence. The hotel closes during the winter each year.

On the Italian Riviera, SCL owns and operates the Hotel Splendido overlooking the picturesque seaside village of Portofino. Set on four acres, this resort was built in 1901 and has 69 guest rooms and suites surrounded by gardens and terraces which include a swimming pool and tennis court. It is open ten months annually. SCL also leases on a long-term basis (with purchase option) a small hotel ten minutes walk away in the village square. After remodelling, it reopened in 1998 as the Splendido Mare with 16 guest rooms and a restaurant and is operated as part of the Hotel Splendido.

Portugal

SCL owns and operates Reid's Palace Hotel on the island of Madeira off the coast of Morocco. This resort is situated on ten acres of semitropical gardens on a cliff top above the sea overlooking the bay of Funchal, the main port city. Opened in 1891, the hotel has 162 rooms and suites, four restaurants and spacious conference facilities. Leisure and sports amenities include two swimming pools, a third tide-filled pool, two tennis courts, ocean water sports and access to two championship golf courses. During 1998, SCL began a phased refurbishment of many of the guest rooms and public areas.

In June 1998, SCL bought the Hotel Quinta do Lago which it previously managed under a long-term contract with an unaffiliated party. Opened in 1988, this is a modern resort hotel located on the 1,680-acre Quinta do Lago golf and property development near Faro in the Algarve region. The hotel occupies eight acres and features 141 rooms and suites with ocean views, two restaurants, a health club, indoor and outdoor swimming pools, two tennis courts and extensive gardens, as well as access to ocean beaches and nearby championship golf courses.

In July 1998, SCL acquired the 94-room Lapa Palace Hotel located in the embassy district of Lisbon, near the city center and overlooking the Tagus River. The main part of the hotel was originally built in the 1870's as the home of a Portuguese noble family. It opened as a luxury hotel in 1992 after extensive conversion and expansion including the addition of conference facilities and underground car parking. The hotel is set amid gardens with ornamental fountains and both indoor and outdoor swimming pools, occupying a total of three acres. During 1999, SCL plans to add 15 guest rooms.

France

SCL owns and operates Hotel de la Cité in the medieval fortified town of Carcassonne in southwest France. The hotel is situated on the square of Basilica Saint-Nazaire, the town's main architectural attraction, and incorporates one of the 50 watch towers in Carcassonne's ancient fortifications. Opened in 1909, it features 60 rooms, two restaurants, gardens with a swimming pool and a conference center. SCL acquired the hotel in April 1997 and has closed it during the past two winters for extensive refurbishment.

Southern Africa

The Mount Nelson Hotel owned and operated by SCL in Cape Town was originally opened in 1899 and has long enjoyed a reputation as one of the foremost hotels on the African continent. It stands just below Table Mountain and is within walking distance of the main business, civic and cultural center of the city. The hotel has 226 guest rooms and suites, three large dining and function rooms and a ballroom, two swimming pools, and tennis and squash courts, all situated on ten acres of grounds and gardens.

In Johannesburg, SCL acquired in 1996 a newly built but unoccupied residential complex on six hillside acres (including unused expansion land) overlooking the city's zoological gardens in the northern suburbs. SCL redeveloped and extended the buildings into a deluxe 120-room hotel called The Westcliff which opened in March 1998. While the hotel has many resort features such as two swimming pools, tennis court and health club, it also attracts business guests because of its proximity to the city center.

Elsewhere in Southern Africa, SCL owns and operates the Gametrackers photo-safari camps in Botswana. Established in 1971, these comprise leases of three lodge and camp sites in the Okavango River delta and nearby game reserves where some of the best game and wildlife in Africa can be observed from open safari vehicles or boats. Up to 72 guests are accommodated, travelling between the camps by light aircraft. Boating, fishing, hiking and swimming are offered at the various sites.

Brazil

SCL owns and operates the 226-room Copacabana Palace Hotel in Rio de Janeiro. Built in the 1920's on a three-acre site facing Copacabana Beach near the central business district of Rio, this luxury hotel is one of the most famous in South America and features two gourmet restaurants, several spacious function and meeting rooms including a 500-seat theater, a large swimming pool and a roof-top tennis court. SCL recently completed an extensive refurbishment of most parts of the hotel.

Managed and Other Properties

In Sydney, Australia, SCL manages The Observatory Hotel under an exclusive long-term contract with an unaffiliated party. Within walking distance of the central business district, this hotel opened in 1993 and has 100 guest rooms and suites, two restaurants, extensive meeting and banquet rooms, a health club with a 20-meter indoor swimming pool, a tennis court and a large parking garage.

SCL also manages the Bora Bora Lagoon Resort in French Polynesia in the South Pacific under an exclusive long-term contract with the owner of The Observatory Hotel. This resort opened in 1993 and has 50 bungalows situated over the lagoon water plus 30 additional beach and garden bungalows, all built in traditional Tahitian style. Guests dine in two restaurants and enjoy extensive water sports and tennis. The hotel is normally open year round, although it was closed early in 1998 due to cyclone damage.

SCL owns the former Windermere Island Club in Eleuthera, Bahamas. Situated on 14 acres of beach-front land including ten acres available for development, the Club comprises 21 guest rooms and facilities for tennis and water sports. Because of recurring operating losses, the Club closed in 1992 and is being held for sale.

Tourist Trains

SCL's principal European tourist trains, called the "Venice Simplon-Orient-Express" ("VSOE"), operate in two parts in a regularly scheduled overnight service between London and Venice and on short excursions in southern England. SCL owns 30 railway cars originally used on historic "Orient-Express" and other famous European trains. All have been refurbished in original 1920/1930's decor and meet modern safety standards. The trains (one based in Great Britain composed entirely of Pullman cars and the other on the Continent made up of Wagons-Lits sleeping cars and day coaches) carry 190 passengers and operate once or twice weekly between London and Venice from March to November each year via Paris, Zurich and Innsbruck on a scenic route through the Alps.

Passengers travel across the English Channel by Hoverspeed ferry. Occasional trips are also made to Monte Carlo, Rome, Prague and Istanbul. Haulage is provided by local railways under contract. The British Pullman cars are operated all year, once or twice weekly, originating out of London on short excursions to places of historic or scenic interest in southern England including some overnight trips when passengers stay at local hotels. Both the British and Continental trains are available for private charter.

In October 1998, SCL acquired Regency Rail Cruises ("RRC") in Britain. Like the British Pullman train of VSOE, RRC operates one, two or three day rail excursions throughout the year on a variety of scenic and historic itineraries in northern England, Scotland and Wales. It owns five saloon and service carriages, some dating from the 1930's, and can carry up to 160 passengers. Full course meals are served on board and passengers stay overnight in local hotels along the routes. SCL plans to add carriages to RRC in the future.

SCL's Southeast Asian tourist train operates in a regularly scheduled service between Singapore, Kuala Lumpur and Bangkok. Called the "Eastern & Oriental Express" ("E&O"), it makes up to one round trip each week. The journey lasts about 48 hours each way and includes two nights on board and side trips to Penang in Malaysia and the River Kwai in Thailand. Some overnight trips are also made from Bangkok to Chiang Mai in northern Thailand. Haulage is provided by the Malaysian and Thai railways under contract. SCL has a 25% ownership interest in E&O but manages and markets the train exclusively under a long-term contract. Originally built in 1970, the 24 E&O cars were substantially rebuilt to an elegant oriental style of decor and fitted with modern facilities such as air-conditioning and private bathrooms. The train is made up of sleeping cars with three types of berths, three restaurant cars, a bar car and an open air observation car and can carry 125 passengers. Like VSOE, the E&O is available for charter by private groups.

In Australia, SCL manages and markets under an exclusive long-term contract the "Great South Pacific Express" luxury tourist train ("GSPE") being built by Queensland Rail, the state railway company in Queensland. GSPE began a limited service at the end of 1998, and when it is completed (expected by mid-1999), GSPE will comprise 20 sleeping, restaurant, bar and observation cars decorated in a late 19th century style with capacity for 92 passengers. Like the E&O tourist train, GSPE is fully air-conditioned and the three types of passenger compartments are well appointed with private bathrooms. Regularly scheduled one or two night itineraries originating out of Brisbane operate north to Cairns in Queensland and south to Sydney in New South Wales. The northern route includes stopovers for passengers to visit the Great Barrier Reef at Proserpine and the rainforest at Kuranda. SCL owns a small minority interest in the train operating company.

Other Leisure Activities

SCL operates a deluxe cruiseship on the Irrawaddy River in central Burma (Myanmar) called the 'Road To Mandalay'. The ship was a Rhine River cruiser built in 1964 which SCL bought and substantially refurbished. It features 66 air-conditioned cabins with private bathrooms, spacious restaurant and lounge areas and a canopied sun deck with swimming pool. The ship travels between Mandalay and Pagan up to eight times each month and carries 126 passengers who enjoy sightseeing along the river and during guided shore excursions to places of historic interest. Five to eight night itineraries are offered including airfare to and from the ship and hotel accommodation in Rangoon (Yangon). The ship does not operate in the rainy summer season.

SCL owns a 49% minority interest in Harry's Bar, a popular 72-seat private dining club located in the fashionable Mayfair area of London. The majority partner manages the restaurant with assistance from SCL's Italian hotels. Its menu features gourmet Italian cuisine.

SCL also owns the '21' Club in New York City. Originally a speakeasy in the 1920's, this famous restaurant is open to the public, occupies three brownstone buildings in midtown Manhattan and features gourmet American cuisine. The main dining and bar room on the ground floor seats 150 guests, and ten banquet and function rooms upstairs seat up to an additional 600 diners.

SCL procures and sells high quality gifts and souvenirs branded with the names of its tourist trains, hotels and cruiseship. This merchandise is sold principally on board the trains and cruiseship, in SCL's hotels and through mail order catalogues and limited third party retail outlets.

Sales and Marketing

SCL's hotels, tourist trains and other leisure industry activities provide a high quality of service, cuisine, furnishings and decor appealing to first class travellers. Management believes SCL's unique leisure properties appeal to the premium traveller market which is less apt to be influenced by pricing considerations. The principal markets for guests are the United States, Europe and Asia. Using the "Orient-Express Hotels" name, SCL promotes and sells its hotels and resorts through its own staff located in New York, London and Frankfurt and independent hotel sales representatives and organizations worldwide (including membership of 13 of the hotels in The Leading Hotels of the World and three in Preferred Hotels and Resorts Worldwide). The tourist trains and cruiseship are sold through sales and reservations offices in New York, London, Paris, Cologne, Tokyo, Singapore and Brisbane, and through independent general sales agents worldwide. SCL develops and markets inclusive holiday packages for all of its travel products. In addition, each hotel conducts its own sales, marketing and public relations activities and participates in computerized reservation systems, such as Sabre and Amadeus, facilitating travel agent reservations. As noted above, train and hotel branded merchandise is sold through limited retail channels.

Certain Trading Factors

SCL's hotels, resorts, tourist trains, cruiseship and restaurants are subject to operating conditions common to the hospitality industry. These include the cyclical nature of the industry and its dependence on varying levels of tourism and business/commercial travel and entertainment, disposable income of consumers and the travelling public, changes in travel patterns, competition from other hotels and travel products (including competitors with greater financial or other resources than SCL), periodic local oversupply of guest accommodation which may adversely affect occupancy rates and achieved room rates, increases in operating costs due to inflation and other factors which may not be offset by increased revenues, regional and local economic and political conditions affecting market demand (including recessions, civil disorder and terrorism), foreign exchange rate movements, weather, and seasonality in that many of SCL's hotels and tourist trains are located in the northern hemisphere where they operate at low revenue or close during the winter months. The effect of these factors varies among SCL's hotels and other leisure industry activities because of their geographic diversity.

SCL competes for hotel acquisition opportunities with others who have substantially greater financial resources than SCL. They may be prepared to accept a higher level of financial risk than SCL can prudently manage. This competition may have the effect of reducing the number of suitable investment opportunities offered to SCL and increasing the bargaining power of property owners seeking to sell or to enter into management agreements. Similarly, SCL's new hotel and tourist train acquisitions may not perform to SCL management's expectations.

SCL's owned hotels are also subject to conditions generally incident to the ownership of commercial real estate and often beyond SCL's control, such as changes in national, regional and local economic and political conditions, local real estate market fluctuations, changes in interest rates and in the availability, cost and terms of mortgage financing, the impact of present or future governmental legislation and regulations (including environmental laws), the ongoing need for capital improvements to maintain or upgrade properties, changes in property taxes and operating expenses, and the potential for uninsured or underinsured losses.

Other SCL Activities

As noted above under "Passenger Transport", SCL owns three ports in Great Britain occupying approximately 350 acres, substantial parts of which are undeveloped. In addition, SCL owns approximately 300 acres of land (including reclaimable tidal areas) adjoining the port of Harwich, England. Because most of this property is located in the prosperous southeastern region of Britain within 80 miles of London and near good road and railway connections, management believes it could be developed in stages over time for commercial and residential purposes. Appropriate cost, engineering and marketing studies have been performed relating to the development potential of Newhaven and Harwich, and outline planning permission has been granted by the local government authorities. Each project could encompass residential units and supporting services as well as commercial, office or light industrial buildings. No significant construction is planned in 1999. Parts of these sites may be sold to third party developers.

On a smaller scale, SCL completed in 1998 the four-year construction and sale of 64 medium-priced residential units on 2.4 waterside acres in Portsmouth, England. SCL acquired in 1996 a 3.5-acre riverside site in Bradford-on-Avon near Bath, England, and is developing in stages approximately 60 medium-priced residential units, the first 15 of which were sold in 1998. Work on the next phase is progressing. Also in 1998, SCL acquired a 19-acre former college estate near Arundel Castle on the south coast of England and plans to convert the buildings as 58 residential units in various price categories. First sales are planned in 2000.

SCL manages a 420,000 net square foot modern office building in London, England called "Sea Containers House" fronting the south bank of the Thames. SCL formerly owned and developed the building and sold it in

1988. SCL retained a lease of part of the space for occupancy by London-based employees of subsidiaries.

SCL also owns undeveloped commercial land in Houston, Texas adjoining its container repair depot at that location. It sold five acres to developers in 1998 and 65 acres remain for sale.

In fruit farming, SCL owns a 70% interest in a 750-acre banana plantation located near Abidjan, Ivory Coast which produces about 10,000 tons annually for export principally to Europe. Production has been expanded in recent years through introduction of a new banana type grown extensively in Central America and better farming techniques. Capital expenditure is funded from the plantation's profits. SCL also owns a 650-acre table grape farm in northeastern Brazil near Petrolina. It produces two crops each year for sale on the domestic and export markets. Current output is about 1,300 tons annually and the farm includes substantial unused acreage for future cultivation.

SCL owns a 75% interest in a British magazine called 'The Illustrated London News' ("ILN") which has been published continuously since 1842. At present, two editions of the magazine are produced annually with about one-half of the circulation in Britain and one-half abroad. In addition, ILN publishes the on board magazines for SCL's ferries and GNER and the guest magazines for SCL's hotels and tourist trains, as well as other limited circulation publications for third parties under contract.

SCL owns Fairways and Swinford Travel Ltd., a small licensed travel agency and tour operator based in London, which supports SCL's leisure industry activities and corporate travel requirements.

Item 2. Properties

SCL owns cargo containers and container factories and depots (except the Singapore facilities and the Charleston, South Carolina factory which are located on leased premises) as described in Item 1 - Business above. In addition, SCL leases regional offices in the following locations in connection with its container and other business activities: New York, New York; Washington, D.C.; San Francisco, California; London, England; Genoa, Italy; and Sydney, Australia.

The ships, hovercraft, ports and harbor facilities of SCL (including development land) are described in Item 1. The SCL subsidiaries engaged in the ferry business own or lease small operating offices and sales outlets at various locations in Britain and elsewhere in Europe. SCL leases substantially all of its GNER rolling stock, stations and depots as described in Item 1.

SCL owns 13 hotels, three European tourist trains, a cruiseship, a restaurant and two fruit farms as described in Item 1. The small regional sales and marketing offices of the hotels, tourist trains and cruiseship are occupied under lease.

Item 3. Legal Proceedings

SCL is not a party to any material pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

The Company submitted no matter during the fourth quarter of 1998 to a vote of security holders.

Part II

Item 5. **Market for Registrant's Common Equity and Related Stockholder Matters**

The principal market on which the Class A and B common shares of the Company are traded is the New York Stock Exchange. Both classes are also listed on the Pacific and London Stock Exchanges. The following table presents the quarterly high and low sales prices of the common shares in 1997 and 1998 in U.S. dollars as reported for New York Stock Exchange composite transactions:

	1997		**1998**	
	High $	Low $	**High $**	**Low $**
Class A Common Shares				
First quarter	18 ¾	15 ⅜	**39**	**27**
Second quarter	23 ¾	15 ⅛	**44 ¾**	**35 1/16**
Third quarter	28 ¾	21 ¼	**41 5/16**	**22 ½**
Fourth quarter	32 ½	26 ¼	**32 ⅝**	**19**
Class B Common Shares				
First quarter	18 ¾	15 ¾	**38 11/16**	**27**
Second quarter	23 ½	15 ⅞	**44 ½**	**35**
Third quarter	28 9/16	21 1/16	**41 5/16**	**23**
Fourth quarter	32 1/16	27 ⅝	**32 ⅜**	**20 ¾**

The Company paid cash dividends on its Class A and B common shares during each quarter in 1997 and during the first and second quarters of 1998 at the quarterly rates of $0.1925 per Class A share and $0.175 per Class B share, and during the third and fourth quarters of 1998 at the quarterly rates of $0.25 per Class A share and $0.22725 per Class B share.

The Company is party to certain credit facilities which restrict the Company's ability to pay dividends on its Class A and B common shares and which also impose debt/equity ratio, minimum shareholders' equity and other financial requirements which may restrict payment of dividends. The Company is in compliance with all of these restrictions. See Note 14(f) to the Financial Statements, and "Certain Financial Requirements" in Management's Discussion and Analysis (Item 7 below).

In addition, the terms of the Company's preferred shares contain restrictions on the payment of dividends on its Class A and B common shares if accrued dividends or the mandatory redemption of the preferred shares have not been paid. The Company is current in the payment of all amounts due on its preferred shares. See Note 12 to the Financial Statements.

The Islands of Bermuda where the Company is incorporated have no applicable governmental laws, decrees or regulations which restrict the export or import of capital or affect the payment of dividends or other distributions to nonresident holders of the Class A and B common shares of the Company or which subject United States holders to taxes.

At March 15, 1999, the number of record holders of the Class A and B common shares of the Company was approximately 1,700 and 350, respectively.

Item 6. **Selected Financial Data**

Year ended December 31,	**1998 $000**	1997 $000	1996 $000	1995 $000	1994 $000
Revenue	**1,266,566**	1,157,153	871,651	497,420 (1)	467,253
Net earnings on Class A and Class B common shares	**54,265**	27,773	15,032	91,659	15,930
	$	$	$	$	$
Net earnings per Class A and Class B common share:					
Basic	**3.34**	2.07	1.20	8.27	1.50
Diluted	**3.11**	2.07	1.20	6.54	1.50
Cash dividends per Class A common share	**0.885**	0.77	0.77	0.77	0.77
Cash dividends per Class B common share	**0.8045**	0.70	0.70	0.70	0.70
	$000	$000	$000	$000	$000
Total assets	**2,314,455**	2,126,100	2,026,220	1,711,360	1,689,309
Long-term obligations	**1,510,278**	1,365,565	1,270,288	1,091,142	1,179,988
Redeemable preferred shares	**15,000**	35,700	44,100	55,224	56,724
Shareholders' equity	**459,555**	387,578	386,626	341,621	260,614

(1) Does not include $100,000,000 gain on sale of ferry assets.

See notes to consolidated financial statements (Item 8).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

At December 31, 1998, SCL's cash balances totalled $104,728,000. Additionally, there were undrawn working capital bank lines amounting to approximately $140,000,000, of which $88,000,000 was undrawn under secured revolving credit facilities. Changes in the cash position over the last three years can be summarized as follows:

	1998 $000	1997 $000	1996 $000
Cash provided from operations after interest	**154,367**	152,197	112,452
Proceeds from sale of fixed assets and other	**6,868**	15,140	7,822
Proceeds from issuance of long-term debt	**118,714**	225,537	157,662
Issuance of shares	**48,049**	423	18,205
Proceeds from issuance of senior notes	**146,762**	-	63,433
	474,760	393,297	359,574
Capital expenditures	**(153,666)**	(234,486)	(153,647)
Acquisitions and investments, net of cash acquired and finance	**(45,593)**	(9,533)	1,772
Repayment of long-term debt	**(53,234)**	(57,875)	(73,770)
Debentures redeemed	**(10,000)**	(3,000)	(3,000)
Redemption of preferred shares	**(36,497)**	(8,400)	(11,124)
Dividends on shares	**(18,715)**	(24,441)	(24,982)
	157,055	55,562	94,823
Repayment of working capital facilities and redrawable loans	**(142,880)**	(64,868)	(58,502)
Effect of exchange rate on cash	**(88)**	(3,014)	3,073
Increase / (decrease) in cash	**14,087**	(12,320)	39,394

In 1998, SCL had a positive cash flow from operations (after interest) of $154,367,000 (1997 - $152,197,000, 1996 - $112,452,000) and proceeds from the sale of fixed assets and other of $6,868,000 (1997 - $15,140,000, 1996 - $7,822,000), all of which were principally utilized to make loan repayments and fund capital expenditures and dividends, as was the case in 1997 and 1996. Cash flow from operations increased in 1998 from 1997 mainly due to increased earnings from passenger transport operations, leisure operations including acquisitions in 1997 and 1998, and increased earnings from container operations, offset in part by increases in net finance costs and working capital requirements. Cash flow from operations increased in 1997 from 1996 mainly due to increased earnings from passenger transport operations, leisure operations and other operations, offset in part by reduced earnings from container operations and an increase in net finance costs.

Proceeds from bank borrowings in 1998 amounted to approximately $119,000,000, of which $24,000,000 (1997

- $105,000,000, 1996 - $68,000,000) was drawn under loans secured by containers and related factory and depot assets, repayable mainly over five to ten years, $43,000,000 (1997 - $75,000,000, 1996 - $48,000,000) was drawn under loans secured by passenger transport assets, repayable over five to ten years, and $52,000,000 (1997 - $45,000,000, 1996 - $41,000,000) was drawn under term loans mainly secured by leisure and other assets, repayable over five to seven years.

In February 1998, SCL issued and sold at par $150,000,000 principal amount of unsecured 7⅞% senior notes due 2008 of the Company and, in connection with the completion of the GE SeaCo joint venture, SCL issued and sold to GE Capital in May 1998 391,200 class A common shares of the Company for $10,000,000 cash, and 150,000 $7.25 convertible cumulative preferred shares of the Company for $15,000,000 cash. During the first five months of 1998, SCL also issued and sold 672,000 class A common shares pursuant to an SEC registered shelf offering realizing cash proceeds of $23,000,000. In 1996, SCL issued and sold at par $65,000,000 principal amount of unsecured 10½% senior notes due 2003 of the Company in an underwritten public offering, and 960,000 class A common shares pursuant to an SEC registered shelf offering.

In the second quarter of 1998, SCL voluntarily redeemed all of the outstanding $1.4625 cumulative preferred shares, $2.10 cumulative preferred shares, series 1982, and $4.00 convertible cumulative preferred shares of the Company at an aggregate cash cost of $36,497,000. Substantially all of these convertible preferred shares were converted into class A or B common shares of the Company. These 1998 redemptions resulted in preferred share dividend savings of $10,537,000 in 1998 and $13,132,000 in future years. On December 31, 1997, SCL voluntarily redeemed 460,000 $2.10 preferred shares at a cost of $6,900,000, and on December 31, 1996, it voluntarily redeemed all of the previously outstanding $4.125 convertible cumulative preferred shares and 460,000 $2.10 preferred shares at an aggregate cost of $9,688,000.

In 1998, SCL made capital expenditures totalling approximately $154,000,000 relating primarily to the purchase and improvement of passenger transport assets and leisure assets. SCL also acquired two hotels at a total price of $52,200,000. The majority of these expenditures was financed from medium or long-term bank borrowings. SCL's investment in GE SeaCo of $23,800,000 was funded by Company shares sold to GE Capital as described above.

Capital expenditures in 1999 are expected to be at a higher level than 1998 due to the purchase of two SuperSeaCats which did not occur in 1998, offset in part by the absence of container fleet additions in 1999. SCL management believes these will be adequately financed from debt and lease financings, operating cash flows and other sources. Also, in March 1999, SCL agreed to purchase a substantial shareholding in Neptun Maritime Oyj for approximately $105,000,000 and plans to fund this purchase initially through a bank bridging facility, followed by long-term financing to be arranged later in the year.

Certain Financial Requirements

SCL is party to material credit/financing agreements which impose certain financial requirements.

One is a $270,000,000 revolving credit facility secured by container equipment entered into in 1994 with a group of banks. SCL may borrow on a revolving basis during a commitment period ending October 25, 2003 when any outstanding loans are repayable. This facility is the successor to substantially similar ones secured by containers which have been in place since 1982 and under which the revolving loan commitment period has been regularly extended, most recently in July 1998 (when the agreement was amended and restated) to the present 2003 date. Consistent with past practice, SCL expects this date to be further extended, although no assurances can be given in this respect. The facility imposes financial covenants on SCL, including (i) a requirement to maintain a minimum consolidated tangible net worth, as defined (including preferred shares), (ii) a requirement not to exceed a specified leverage ratio, as defined, (iii) requirements to maintain a minimum debt service coverage ratio and minimum interest coverage ratios, as defined, (iv) a requirement that a minimum ratio of fixed assets employed in the container, passenger transport and related businesses to total fixed assets be maintained, (v) a requirement that SCL not suffer losses in any two consecutive years, and (vi) limitations on the payment of dividends, redemption of capital stock or subordinated indebtedness, and investments in third parties, which limitations are calculated by reference to the sum of a base amount, one-half of cumulative net earnings from 1992, and the net proceeds from certain capital stock offerings, less the cumulative amounts of certain restricted payments and repurchases of preferred shares and subordinated debt, and less certain investments in unrelated parties. The rate of interest payable ranges from 1.25% to 1.70% over LIBOR.

The $125,000,000 principal amount of 12½% senior subordinated debentures due 2004 issued in 1992 and 1993 are unsecured, rank subordinate to senior indebtedness of SCL (but senior to certain other subordinated debt), bear interest at the rate of 12½% per annum payable semi-annually and become due in one payment on December 1, 2004. As amended by majority consent of the holders in April 1998, these debentures contain covenants restricting (i) the incurrence by SCL of indebtedness unless SCL meets a minimum cash flow coverage ratio, as defined, (ii) the payment of dividends, redemption of capital stock or subordinated indebtedness, and investments in third parties (which restriction is similar to the equivalent one in the container facility described above), (iii) transactions between SCL and its affiliates unless they are on arm's-length terms, (iv) limitations on the ability of certain material subsidiaries of SCL to make payments to SCL, (v) the disposition of proceeds of asset sales by SCL, (vi) any lines of business that are not similar or related to SCL's existing businesses, and (vii) the ability of SCL to amalgamate, consolidate or merge with or into another entity or to dispose of its assets substantially as an entirety. If SCL fails to maintain a specified amount of consolidated tangible net worth, as defined, or if a change of control, as defined, of SCL occurs, SCL is obligated to make an offer to purchase 10% of the debentures at par in the case of the net worth test and 100% of the debentures at 101% of the principal amount in the case of the change of control test.

The $100,000,000 principal amount of 9½% senior notes due 2003 issued in 1993 are unsecured, rank equally with other unsubordinated unsecured indebtedness of SCL and senior to subordinated indebtedness of SCL, bear interest at the rate of 9½% per annum payable semi-annually, and become due in one payment on July 1, 2003. These notes were also amended in April 1998 and contain restrictive covenants substantially the same as those in the 12½% debentures described above. In addition, the notes contain covenants restricting (i) incurrence by SCL of liens on its assets or property unless the notes are secured equally, subject to certain exceptions, and (ii) sale and leaseback transactions by SCL, subject also to certain exceptions.

SCL issued, in 1996, $65,000,000 principal amount of 10½% senior notes due 2003 and, in February 1998, $150,000,000 principal amount of 7⅞% senior notes due 2008. The terms of these notes are very similar to the amended 9½% senior notes described above except that they bear interest at 10½% per annum and 7⅞% per annum, respectively.

In July 1998, an SCL subsidiary completed a $350,000,000 container securitization facility which increased and restructured a similar facility established in December 1996. The subsidiary issued a senior note in the principal amount of $291,700,000, and SCL issued an effectively subordinated revolving credit and term loan note in the principal amount of $58,300,000. The senior note is non-recourse to the Company and its other subsidiaries and is secured by the subsidiary's container equipment and certain cash collateral. The senior note bears interest only until July 20, 2000, and thereafter principal and interest are repayable over eight years. It requires the SCL subsidiary to maintain a minimum interest coverage ratio, as defined, and requires SCL to maintain a minimum cash flow coverage ratio, as defined. Failure to comply with these requirements will result in accelerated amortization, but not default, of the senior note. A change of control, as defined, of SCL will also accelerate the senior note. The SCL note is secured by a subordinated interest in the assets of the SCL subsidiary that issued the senior note, and permits SCL to borrow on a revolving basis during a commitment period ending July 29, 1999. Loans outstanding at the end of the revolving period bear interest only, until July 29, 2000, and are thereafter repayable over eight years. The subordinated note requires that SCL not exceed a specified leverage ratio, as defined, and maintain a minimum interest coverage ratio, as defined. While no assurance can be given, SCL management expects the term of the senior and subordinated notes under this securitization facility will be extended in 1999. The blended rate of interest payable on the securitization ranges from 0.50% to 0.71% above LIBOR, depending on usage.

In May 1998, SCL issued a guaranty of 50% of GE SeaCo's obligations under a $200,000,000 revolving credit and term loan facility that GE SeaCo established with a syndicate of banks to finance the purchase of containers. The guaranty imposes no financial covenants on SCL, but does require it to subordinate its loans to GE SeaCo.

At December 31, 1998, SCL was in full compliance with all of the foregoing credit/financing agreements as well as less material ones to which it is a party. Although management believes that SCL's current operating plans will not be restricted by the various financial convenants described above, changes in economic or business conditions, results of operations or other factors may in the future result in circumstances in which the convenants restrict SCL's plans or business operations.

Leverage; Foreign Currency Fluctuations

At December 31, 1998, SCL's consolidated long-term indebtedness was $1,510,278,000 (1997 - $1,365,565,000, 1996 - $1,270,288,000) and its redeemable preferred shares and consolidated shareholders' equity totalled $474,555,000 (1997 - $423,278,000, 1996 - $430,726,000). Redeemable preferred shares amounted to $15,000,000 (1997 - $35,700,000, 1996 - $44,100,000). The terms of SCL's indebtedness described above permit SCL to incur substantial additional indebtedness from time to time. The degree to which SCL is highly leveraged may affect its ability to obtain additional financing in the future for working capital, capital expenditures, product and service development and general corporate purposes, to utilize cash flow from operations for purposes other than debt service, and to overcome seasonal or cyclical variations in its business. The ability of SCL to satisfy its obligations and to reduce its debt is dependent upon the future performance of SCL, which will be subject to prevailing economic conditions and to financial, business and other factors, including factors beyond the control of SCL.

The acquisition by SCL of new assets and properties, both for growth as well as for replacement, is capital intensive. The availability of new capital to finance these expenditures depends on prevailing market conditions and the acceptability of financing terms offered to SCL. Management believes that capital expected to be available under various lines of credit, financing agreements and other sources, and from dispositions of existing assets and properties, as well as cash generated from operations, should be sufficient to meet SCL's capital requirements for the foreseeable future. No assurance, however, can be given that financing will continue to be available, or available on attractive terms.

Approximately 70% of SCL's consolidated long-term indebtedness at December 31, 1998 (1997 - 77%, 1996 - 75%) accrued interest at rates that fluctuate with prevailing interest rates and, accordingly, increases in such rates may increase SCL's interest payment obligations. From time to time, SCL enters into hedging transactions with financial institutions in order to manage its floating interest rate exposure. No contract is currently outstanding.

Substantial portions of SCL's revenues and expenses are denominated in foreign currencies, especially the British pound sterling because a large part of SCL's passenger transport business operates in and around Great Britain and because certain corporate costs and selling, general and administrative expenses of SCL relate to its London offices. Fluctuations in the values of these currencies in U.S. dollar terms may affect SCL's financial condition and results of operations. The impact of these fluctuations is mitigated to the extent that SCL has both revenue and expenses denominated in the same currencies. If revenue and expense items become imbalanced, SCL may enter into forward foreign exchange contracts from time to time in order to hedge the imbalance. Two contracts were entered into in 1998 to hedge future commitments in Italian lira, and are currently outstanding.

Results of Operations (1998 compared to 1997, and 1997 compared to 1996)

Revenue

The revenue increases of $109,413,000 in 1998 and $285,502,000 in 1997 included increases of $84,668,000 in 1998 and $251,232,000 in 1997 relating to passenger transport operations.

The passenger transport revenue increase in 1998 arose primarily from GNER operations ($57,000,000), the Irish Sea services ($12,000,000) and the Scandinavian service ($4,000,000) and port operations ($2,000,000).

The passenger transport revenue increase in 1997 of $251,232,000 compared to 1996 was primarily due to the beneficial effect of a full year's operation of GNER ($203,000,000) and the Irish Sea services ($23,000,000) and to the consolidation of revenues from the Scandinavian service of $23,000,000 (because revenues from a joint venture with another ferry operator in 1996 including this service (dissolved early in 1997) were not consolidated).

The 1998 revenue increase of $27,364,000 from leisure operations included $21,062,000 relating to SCL's hotels and restaurants and $6,302,000 to tourist train and cruise operations. The increase in hotel operations included $19,548,000 from the Hôtel de la Cité (acquired in 1997), the Westcliff, Hotel Quinta do Lago and Lapa Palace Hotel (acquired in 1998) and $12,964,000 from the other properties, offset by $11,450,000 due to the absence of the revenue and $5,000,000 sale gain from the Lodge at Vail (sold in October 1997). The increase of $12,964,000 on the other hotels included $5,500,000 from the three Italian hotels and $4,000,000 from the Copacabana Palace Hotel, with the balance mainly due to the Windsor Court Hotel and La Samanna.

The 1997 revenue increase of $34,117,000 from leisure operations included $30,022,000 relating to SCL's hotels and restaurants and $4,095,000 to tourist train and cruise operations. The increase in hotel operations included $11,100,000 from Reid's Palace Hotel and La Samanna (both acquired in 1996), and $5,000,000 from the gain on the sale of the Lodge at Vail, with the balance mainly due to increased revenues from the Copacabana Palace Hotel and the '21' Club restaurant.

The container division decrease in 1998 of $1,916,000 partly reflected the method of accounting for the GE SeaCo joint venture which commenced on May 1, 1998. The rental revenue from the joint venture is net of costs incurred at the GE SeaCo level of $17,800,000 for the period, partly offset by $19,400,000 of sales, including to GE SeaCo, from SCL's container manufacturing and depot facilities. Previously such sales were not treated as revenue because SCL's container leasing activities were wholly owned. SCL's leased container fleet averaged 269,000 TEU in 1998 compared with 266,000 TEU in 1997. In 1997, the average utilization rate was 86%. In 1998, substantially all of the SCL fleet was on lease to GE SeaCo.

The container division decrease in 1997 of $1,548,000 comprised $2,133,000 relating to leasing operations, partly offset by increased third party income from SCL's container manufacturing and depot facilities of $585,000. SCL's leased container fleet averaged 266,000 TEU in 1997 compared with 257,000 TEU in 1996, representing an average utilization rate of 86% in both years. The reduction in container leasing revenue mainly was the result of an erosion of leasing rates from leases of older equipment, partly offset by a larger fleet size.

Revenue from other operations decreased by $703,000 in 1998 and increased by $1,701,000 in 1997, with the decrease in 1998 arising mainly from property-related activities and the increase in 1997 mainly relating to both fruit farming and property-related activities.

Depreciation and Operating Expenses

Depreciation and operating expenses increased in the aggregate in 1998 by $85,332,000 (an increase as a percent of revenue from 72% to 73%) and in 1997 by $228,735,000 (an increase as a percent of revenue from 70% to 72%), of which an increase of $57,839,000 in 1998 and $205,160,000 in 1997 related to passenger transport operations. The 1998 increase in passenger transport operations primarily related to GNER ($42,000,000), the Irish Sea services ($8,000,000) and the Scandinavian service ($4,000,000). The 1997 increase in passenger transport operations primarily related to GNER ($167,000,000), the Irish Sea services ($17,000,000) and the Scandinavian service ($17,000,000 from the consolidation of operating costs in 1997).

Leisure expenses increased by $14,111,000 in 1998, of which $11,515,000 related to SCL's hotels and restaurants and $2,596,000 to tourist trains and cruises. The increase in hotel and restaurant costs included $11,785,000 for the Hôtel de la Cité, the Westcliff, Hotel Quinta do Lago and Lapa Palace Hotel, all recently acquired. Leisure expenses increased by $12,617,000 in 1997, of which $9,950,000 related to SCL's hotels and restaurants and $2,667,000 to tourist train and cruise operations. The increase in hotel and restaurant costs included $5,300,000 for Reid's Palace Hotel and La Samanna (acquired in 1996), while the balance mainly related to the Copacabana Palace Hotel and the '21' Club restaurant, partly offset by the effect of the sale of the Lodge at Vail during the year.

The 1998 increase of $12,700,000 in container operations mainly related to increased costs from SCL's container manufacturing and depot facilities as a result of increased sales, including to GE SeaCo, partly offset by cost reductions on leasing operations. The 1997 increase of $11,980,000 in container operations mainly related to increased depreciation and operating costs on net additions to the container fleet.

Depreciation and operating expenses relating to other operations increased by $682,000 in 1998 and decreased by $1,022,000 in 1997.

Selling, General and Administrative Expenses

The decrease in these expenses of $1,126,000 in 1998 (a decrease as a percent of revenue from 15% to 14%) and increase of $30,840,000 in 1997 (a decrease as a percent of revenue from 16% to 15%) included a decrease of $21,997,000 and an increase of $1,554,000, respectively, on container operations, partly offset by increases of $9,930,000 and $22,583,000, respectively, relating to passenger transport operations and $9,753,000 and $5,370,000, respectively, relating to leisure operations.

The increase of $9,930,000 in passenger transport operations in 1998 was primarily due to GNER ($7,200,000) and the Irish Sea services ($3,600,000), partly offset by costs recovered from Hoverspeed's English Channel joint venture. The increase of $22,583,000 in 1997 was primarily due to GNER ($14,600,000) and the Irish Sea services ($2,600,000) together with higher costs from the Scandinavian service ($4,500,000 as the expenses of the former joint venture in 1996 were not consolidated).

The increase of $9,753,000 in leisure expenses in 1998 included $5,628,000 for the Hôtel de la Cité, the Westcliff, Hotel Quinta do Lago and Lapa Palace Hotel, all recently acquired. Leisure expenses increased by $5,370,000 in 1997 mainly due to the full year effect of the acquisition of

Reid's Palace Hotel and La Samanna in 1996.

The decreased container expense of $21,997,000 in 1998 was mainly due to reduced costs on container leasing operations of $22,700,000 (primarily due to costs of the GE SeaCo joint venture previously incurred by SCL). The higher container expense of $1,554,000 in 1997 included $1,446,000 relating to London office costs (including the adverse effect of the strengthening of the British pound against the U.S. dollar).

Other operations increased by $1,188,000 in 1998 and by $1,333,000 in 1997.

Other Expenses

These included equity in the earnings or losses of unconsolidated companies.

Net Finance Costs

The net finance cost increase of $6,043,000 in 1998 included the effect of increases in debt incurred to finance container, passenger transport and leisure asset purchases in 1997 and 1998 and the issue of senior unsecured notes in 1998, partly offset by lower interest rates on existing floating rate debt and an increase in interest and related income of $2,257,000 (including increased foreign exchange gains of $3,468,000).

The net finance cost increase of $16,648,000 in 1997 included the effect of increases in debt relating to the cost of container and passenger transport asset purchases in 1996 and 1997 and the issue of senior unsecured notes in 1996, and a decrease in interest and related income of $2,794,000 (including reduced foreign exchange gains of $1,407,000).

Taxes on Income

The income tax charges in 1998 and 1997 related to subsidiaries in taxpaying jurisdictions. No income taxes are levied in Bermuda which is the Company's place of incorporation.

Net Earnings

Net earnings on common shares in 1998 were $26,492,000 higher than in 1997, and earnings before net finance costs increased by $24,866,000. The increase in earnings before net finance costs would have been $31,316,000 if the 1997 earnings and sale gain from the Lodge at Vail were excluded, made up of $15,507,000 on passenger transport operations, $9,753,000 on leisure activities and $8,629,000 on container operations, partly offset by reduced earnings from other operations of $2,573,000. The increased profitability of the passenger transport division in 1998 compared to 1997 was mainly due to improvements of GNER and Hoverspeed (including earnings from Hoverspeed's English Channel joint venture). The leisure division improvement included $3,221,000 on tourist train and cruise operations, with the balance on the group's hotel and restaurant activities. The improvement from container operations in 1998 included the effect of the GE SeaCo joint venture operations.

Net earnings on common shares in 1997 were $12,741,000 higher than in 1996, and earnings before net finance costs increased by $29,160,000. The increase in earnings before net finance costs was made up of $26,657,000 on passenger transport operations, $16,195,000 on leisure activities and $1,390,000 on other operations, partly offset by reduced earnings from container operations of $15,082,000. The increased profitability of the passenger transport division in 1997 compared to 1996 mainly arose from the acquisition of GNER and IOMSPC in 1996 and an improvement on the Scandinavian service following dissolution early in 1997 of the 1996 joint venture. The leisure division improvement in 1997 was mainly due to better results from SCL's hotel activities including Reid's Palace Hotel and La Samanna (acquired in 1996), as well as the gain of $5,000,000 on the sale of the Lodge at Vail. The reduction from container operations in 1997 compared to 1996 was mainly due to the effect of lower average lease rates.

Recent Accounting Pronouncements

In 1999, SCL adopted Statement of Position No. 98-5, Reporting on the Costs of Start-Up Activities, of the American Institute of Certified Public Accountants. This will require SCL to write-off approximately $12,000,000 in the first quarter of 1999 representing mainly deferred start-up costs of container manufacturing facilities and cruise operations which may no longer be carried forward under this statement.

In 2000, SCL must adopt Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, of the Financial Accounting Standards Board. See Note 1(o) to the Financial Statements. SCL has not yet determined the impact that adoption of this statement will have on its results of operation and financial position.

Year 2000 Compliance

In order to achieve year 2000 ("Y2K") compliance, SCL has formed a steering committee including senior management to oversee and coordinate SCL's Y2K strategy and its implementation. Since 1997, SCL has been identifying which computer systems (both hardware and software) and embedded technology are affected by Y2K issues. Determinations are made which areas can be addressed by SCL's own personnel and which require supplier certification of Y2K compliance. Systems and technology are tested and those that are found non-compliant are upgraded, changed or replaced. Y2K compliance for this purpose means neither the performance nor the functionality of the system or technology is affected by dates prior to, during and after the year 2000.

State of Readiness

The important container leasing computer systems that might be affected by Y2K issues relate to container fleet control, on hire/off hire, repairs and customer billing. These have been tested and are being upgraded as deemed necessary. Embedded technology on certain container types, such as refrigerated containers, has been checked and supplier Y2K compliance certifications are being obtained. These procedures are expected to be completed by mid-1999.

Computer systems and technology relating to ferry reservations, retailing on board the ferries and in the terminals, the navigational, communications and other operating systems on board the ships, and technical equipment used at the ports where the ferries call have all been identified as the main areas requiring Y2K testing. These are being upgraded or supplier-certificated as deemed necessary, a process which is largely completed in the case of reservations and retailing systems and should be completed by mid-1999 in the case of the systems on board the ships and at the ports.

GNER is significantly dependent on Railtrack which owns the rail system on which GNER operates and on certain third-party telecommunications and computer services which also provide their services to other train operating franchisees in Britain. GNER is working closely with Railtrack and these other service providers to ensure they are Y2K compliant in a timely manner. With regard to GNER's leased rolling stock, the lessors and their suppliers are providing Y2K compliance certifications. The Office of the Rail Regulator of the British government and a central body created by various participants in the British rail industry, called the Rail Millennium Programme Office ("RMPO"), are coordinating Y2K compliance. GNER is an active participant in RMPO which currently expects to complete its work by September 1999.

The central reservations systems of SCL's hotels and tourist trains have been identified as the most important to check and test for Y2K issues. This process should be completed by mid-1999. Third-party systems are being checked by obtaining supplier compliance certifications. Systems and technology at the individual properties are currently being inventoried and tested, and a schedule by which Y2K issues will be resolved is being prepared.

Costs

SCL's costs of identifying, testing and rectifying Y2K issues have not been material to date and are not expected to be in the future. The largest anticipated expenditure is approximately $4,000,000 to be incurred by GNER, of which about $560,000 has been spent through December 31, 1998. This relates principally to GNER's share of testing and upgrading systems which are shared among train operating franchisees in Britain who remain obligated for this cost.

Risks and Contingency Plans

SCL is in the process of developing assessments of the potential risks associated with business disruption as a result of Y2K issues experienced by SCL's computer systems and embedded technology and that of its suppliers, including reasonably expected worst case scenarios. Upon completion of this assessment, SCL will determine what contingency plans should be put in place and their cost. At December 31, 1998, SCL had not identified any required contingency plans necessitating material expenditure.

SCL management does not believe that the Y2K matters discussed above will have a material effect on SCL's consolidated business, financial condition or results of operations. No assurance can be given, however, that all of SCL's systems and technology will be Y2K compliant or that compliance costs or the impact of SCL's failure to achieve full Y2K compliance will not have a material adverse effect on SCL. Also, SCL could be adversely affected by failure of one or more of its suppliers or other organizations with which it conducts business to become fully Y2K compliant.

Item 7A. **Quantitative and Qualitative Disclosures About Market Risk**

As noted under "Leverage; Foreign Currency Fluctuations" in Management's Discussion and Analysis (Item 7 above), SCL is exposed to market risk from changes in interest rates and foreign currency exchange rates. These exposures are monitored and managed by SCL as part of its overall risk management program which recognizes the unpredictability of financial markets and seeks to mitigate potentially material adverse effects on SCL's consolidated earnings. As part of this management, SCL enters into interest rate swap contracts and foreign currency forward exchange contracts from time to time. See Note 17 to the Financial Statements. SCL does not use market risk sensitive financial instruments for trading purposes to any material degree.

The market risk relating to interest rates arises mainly from SCL's financing activities. SCL's earnings are affected by changes in interest rates on borrowings, principally based on U.S. dollar LIBOR, and on short-term cash investments. If interest rates increased by ten percent, with all other variables held constant, SCL's annual net finance costs would have increased by approximately $7,000,000 based on borrowings at December 31, 1998. Changes in interest rates also impact the fair value of SCL's fixed rate debt. If interest rates increased by ten percent, with all other variables held constant, the fair value of SCL's fixed rate debt would have decreased by approximately $13,000,000 based on amounts outstanding at December 31, 1998.

The market risk relating to foreign currencies arises from buying, selling and financing in currencies other than the U.S. dollar, principally U.K. sterling, Italian lira, Portuguese escudos and South African rand. Certain non-U.S. subsidiaries of SCL borrow in local foreign currencies, and SCL may enter into forward exchange contracts relating to purchases denominated in foreign currencies. The latter provide hedge coverage, typically maturing within three to six months of origination, consistent with the underlying purchase commitment. If relevant foreign currency exchange rates decreased by ten percent against the U.S. dollar, with all other variables held constant, the fair value of these foreign currency financial instruments of SCL would have decreased by approximately $5,000,000 based on amounts outstanding at December 31, 1998.

Item 8. Financial Statements and Supplementary Data
Independent Auditors' Report

Deloitte & Touche

Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281-1414

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Board of Directors and Shareholders
Sea Containers Ltd.
Hamilton, Bermuda

We have audited the accompanying consolidated balance sheets of Sea Containers Ltd. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in item 14. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly in all material respects, the financial position of Sea Containers Ltd. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP

Deloitte & Touche LLP
March 15, 1999

Deloitte Touche
Tohmatsu

Consolidated Balance Sheets

December 31,	1998 $000	1997 $000
Assets		
Cash	**104,728**	90,641
Accounts receivable, net of allowances of $17,591 and $18,189	**223,037**	188,917
Asset sale receivables	**17,957**	36,914
Advances on asset purchase contracts	**15,273**	10,646
Containers at cost, less accumulated depreciation of $424,346 and $380,020	**743,157**	788,017
Ships at cost, less accumulated depreciation of $87,785 and $77,792	**252,220**	221,867
Assets under capital leases	**17,845**	15,388
Real estate and other fixed assets at cost, less accumulated depreciation of $136,599 and $115,556	**696,659**	561,889
Inventories	**44,613**	40,384
Investments	**67,468**	43,835
Other assets	**131,498**	127,602
	2,314,455	2,126,100
Liabilities and Shareholders' Equity		
Working capital facilities	**39,992**	57,127
Accounts payable and accrued liabilities	**258,898**	248,895
Manufacturer accounts payable, notes payable, bank loans and other purchase obligations in respect of containers	**506,562**	590,210
Mortgage loans in respect of ships	**165,841**	149,567
Obligations under capital leases	**15,961**	12,422
Bank loans in respect of real estate and other fixed assets	**383,129**	314,789
9½% senior notes due 2003	**100,000**	100,000
10½% senior notes due 2003	**65,000**	65,000
7⅞% senior notes due 2008	**150,000**	-
12½% senior subordinated debentures due 2004	**123,785**	123,577
10¼% subordinated debentures due 1998	**-**	10,000
Deferred revenue and taxes	**24,710**	25,320
Minority interest	**6,022**	5,915
	1,839,900	1,702,822
Redeemable preferred shares:		
Preferred shares $.01 par value (15,000,000 shares authorized):		
Issued and outstanding:		
150,000 $7.25 convertible cumulative preferred shares (liquidation value of $100 per share)	**15,000**	-
1,000,000 $1.4625 cumulative preferred shares (liquidation value of $15 per share)	**-**	15,000
1,380,000 $2.10 cumulative preferred shares, series 1982 (liquidation value of $15 per share)	**-**	20,700
Total redeemable preferred shares	**15,000**	35,700
Shareholders' equity:		
2,193,000 $4.00 convertible cumulative preferred shares (liquidation value of $50 per share)	**-**	109,650
Class A common shares $.01 par value (60,000,000 shares authorized): Issued - 15,921,194 shares (1997 - 11,373,501)	**159**	113
Class B common shares $.01 par value (60,000,000 shares authorized): Issued - 15,282,790 shares (1997 - 14,974,070)	**153**	150
Paid-in capital	**318,111**	176,258
Retained earnings	**669,429**	629,460
Accumulated other comprehensive loss	**(137,036)**	(136,792)
Less: reduction due to class B common shares acquired with voting rights by subsidiaries - 12,900,500 shares at cost	**(391,261)**	(391,261)
Total shareholders' equity	**459,555**	387,578
Commitments	**-**	-
	2,314,455	2,126,100

See notes to consolidated financial statements.

Statements of Consolidated Operations

Year ended December 31,	**1998 $000**	1997 $000	1996 $000
Revenue	**1,266,566**	1,157,153	871,651
Expenses:			
Depreciation and amortization	**106,203**	103,623	93,137
Operating	**817,391**	734,639	516,390
Selling, general and administrative	**171,032**	172,158	141,318
Other	**33**	(308)	2,925
Total expenses	**1,094,659**	1,010,112	753,770
Earnings from operations before net finance costs	**171,907**	147,041	117,881
Interest expense (net of capitalized interest)	**(115,065)**	(106,765)	(92,911)
Interest and related income	**6,792**	4,535	7,329
Net finance costs	**(108,273)**	(102,230)	(85,582)
Earnings before income taxes	**63,634**	44,811	32,299
Provision for income taxes	**4,950**	2,793	1,695
Net earnings	**58,684**	42,018	30,604
Preferred share dividends	**4,419**	14,245	15,572
Net earnings on class A and class B common shares	**54,265**	27,773	15,032
	$	$	$
Net earnings per class A and class B common share:			
Basic	**3.34**	2.07	1.20
Diluted	**3.11**	2.07	1.20
Dividends per class A common share	**0.885**	0.77	0.77
Dividends per class B common share	**0.8045**	0.70	0.70

See notes to consolidated financial statements.

Statements of Consolidated Cash Flows

Year ended December 31,	**1998 $000**	1997 $000	1996 $000
Cash flows from operating activities:			
Net earnings on class A and class B common shares	**54,265**	27,773	15,032
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Preferred share dividends	**4,419**	14,245	15,572
Depreciation and amortization	**106,203**	103,623	93,137
Undistributed losses of affiliates	**33**	689	2,925
Other non-cash items	**2,525**	(2,312)	3,499
Change in assets and liabilities net of effects from acquisition of subsidiaries:			
(Increase)/decrease in accounts receivable	**(10,220)**	11,874	(704)
Increase in inventories	**(3,994)**	(6,899)	(1,258)
Increase/(decrease) in accounts payable	**1,136**	3,204	(15,751)
Total adjustments	**100,102**	124,424	97,420
Net cash provided by operating activities	**154,367**	152,197	112,452
Cash flows from investing activities:			
Capital expenditures	**(153,666)**	(234,486)	(153,647)
Acquisitions and investments, net of cash acquired and finance	**(45,593)**	(9,533)	1,772
Proceeds from sale of fixed assets and other	**6,868**	15,140	7,822
Net cash used in investing activities	**(192,391)**	(228,879)	(144,053)
Cash flows from financing activities:			
Issuance of common shares	**33,049**	423	18,205
Issuance of preferred shares	**15,000**	-	-
Issuance of long-term debt	**118,714**	225,537	157,662
Issuance of 10½% senior notes	**-**	-	63,433
Issuance of 7⅞% senior notes	**146,762**	-	-
Principal payments under long-term debt	**(53,234)**	(57,875)	(73,770)
Payment of preferred share dividends	**(4,419)**	(14,245)	(15,572)
Payment of common share dividends	**(14,296)**	(10,196)	(9,410)
Redemption of preferred shares	**(36,497)**	(8,400)	(11,124)
Redemption of debentures	**(10,000)**	(3,000)	(3,000)
	195,079	132,244	126,424
Repayment of working capital facilities and redrawable loans	**(142,880)**	(64,868)	(58,502)
Net cash provided by financing activities	**52,199**	67,376	67,922
Total cash flows	**14,175**	(9,306)	36,321
Effect of exchange rate changes on cash	**(88)**	(3,014)	3,073
Net increase/(decrease) in cash	**14,087**	(12,320)	39,394
Cash at beginning of year	**90,641**	102,961	63,567
Cash at end of year	**104,728**	90,641	102,961

See notes to consolidated financial statements.

Statements of Consolidated Shareholders' Equity

	$4.00 Convertible Cumulative Preferred Shares $000	Class A Common Shares at Par Value $000	Class B Common Shares at Par Value $000	Paid-in Capital $000	Retained Earnings $000	Accumulated Other Comprehensive Income (Loss) $000	Common Shares Held by Subsidiaries $000	Total Comprehensive Income $000
Balance, January 1, 1996	109,650	92	151	137,696	606,261	(120,968)	(391,261)	
Issuance of class A common shares under dividend reinvestment plan	-	-	-	342	-	-	-	
Issuance of common shares under employee stock option plan	-	-	-	22	-	-	-	
Issuance of class A common shares to acquire subsidiaries	-	10	-	19,857	-	-	-	
Issuance of class A common shares in public offering, net of issuance costs	-	10	-	17,831	-	-	-	
Conversion of class A and B common shares	-	1	(1)	-	-	-	-	
Dividends on common shares	-	-	-	-	(9,410)	-	-	
Comprehensive income:								
Net earnings on common shares for the year	-	-	-	-	15,032	-	-	15,032
Other comprehensive income - translation adjustment for the year	-	-	-	-	-	1,311	-	1,311
								16,343
Balance, December 31, 1996	109,650	113	150	175,748	611,883	(119,657)	(391,261)	
Issuance of class A common shares under dividend reinvestment plan	-	-	-	337	-	-	-	
Issuance of common shares under employee stock option plan	-	-	-	86	-	-	-	
Conversion of convertible preferred shares to common shares	-	-	-	87	-	-	-	
Dividends on common shares	-	-	-	-	(10,196)	-	-	
Comprehensive income:								
Net earnings on common shares for the year	-	-	-	-	27,773	-	-	27,773
Other comprehensive loss - translation adjustment for the year	-	-	-	-	-	(17,135)	-	(17,135)
								10,638
Balance, December 31, 1997	109,650	113	150	176,258	629,460	(136,792)	(391,261)	
Issuance of class A common shares under dividend reinvestment plan	-	-	-	274	-	-	-	
Issuance of common shares under employee stock option plan	-	-	-	221	-	-	-	
Issuance of class A common shares in public offering and private placement, net of issuance costs	-	11	-	32,543	-	-	-	
Redemption of convertible preferred shares	(797)	-	-	-	-	-	-	
Conversion of convertible preferred shares to common shares	(108,853)	28	10	108,815	-	-	-	
Conversion of class A and B common shares	-	7	(7)	-	-	-	-	
Dividends on common shares	-	-	-	-	(14,296)	-	-	
Comprehensive income:								
Net earnings on common shares for the year	-	-	-	-	54,265	-	-	54,265
Other comprehensive loss - translation adjustment for the year	-	-	-	-	-	(244)	-	(244)
								54,021
Balance, December 31, 1998	-	159	153	318,111	669,429	(137,036)	(391,261)	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of Sea Containers Ltd. and all majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Unconsolidated companies that are 20 to 50 percent owned are accounted for on an equity basis.

For purposes of these Notes, the "Company" refers to Sea Containers Ltd., "SCL" refers to Sea Containers Ltd. and its subsidiaries, and "GE SeaCo" refers to GE SeaCo SRL.

Certain items in 1997 and 1996 have been reclassified to conform with the current year's presentation. The reclassifications have no effect on net earnings as previously reported.

(b) Containers, ships, real estate and other fixed assets

Containers and ships are recorded at cost and, after allowance for salvage value, are depreciated over their estimated useful lives by the straight-line method. The estimated useful life and salvage value for containers are generally 20 years and 20 percent, and for ships generally 20 to 25 years and 15 to 5 percent.

Substantially all container assets are revenue-earning under operating leases. The financial statements reflect rentals as revenue.

When a gain on the sale of container or ship assets is recognized and payment is deferred, such gain is recorded after applying the present value to any receivables beyond one year's maturity.

Real estate, tourist train and other fixed assets are recorded at cost and are depreciated over their estimated useful lives by the straight-line method. The depreciation rates on freehold buildings and tourist train assets range from 35 to 60 years and on machinery and other remaining assets from 5 to 10 years. Leasehold property is depreciated over the lease periods.

(c) Foreign currency translation

The translation adjustment included in accumulated other comprehensive income (loss) represents principally the effect of changes in the rate of exchange at the beginning and end of each year in translating net assets, excluding certain intercompany liabilities, of foreign subsidiaries. No income taxes are provided on the translation adjustments as SCL management does not expect that such gains or losses will be realized.

(d) Other assets

Other assets include goodwill of $33,474,000 (1997 - $34,007,000) arising upon the purchase of subsidiaries which is written off over periods up to 40 years by the straight-line method.

(e) Revenue recognition

Revenues are recognized when a service is performed or a product is shipped. With respect to sales-type leases, a gain or loss is calculated in accordance with Statement No. 13 of the Financial Accounting Standards Board and included in revenue.

(f) Government subsidy

Included in operating expenses is an amount received from the British government in respect of the passenger rail franchise (see Note 2). In 1998 this amounted to $69,000,000 (1997 - $95,000,000, 1996 - $72,000,000).

(g) Other expenses

Other expenses include equity in the earnings/losses of unconsolidated companies (see Note 2).

(h) Inventories

Inventories are valued at the lower of cost or market value under the first-in, first-out method.

(i) Earnings per share

Basic earnings per class A and class B common share for each year are computed by dividing net earnings on class A and class B common shares by the weighted average number of common shares outstanding (excluding voting shares owned by subsidiaries).

Diluted earnings per class A and class B common share for each year are computed by dividing net earnings reduced for the non-convertible preferred share dividend requirements by the sum of the weighted average number of common shares outstanding (excluding voting shares owned by subsidiaries), the weighted average number of shares reserved for conversion of outstanding convertible preferred shares (if dilutive) and the dilutive effect of stock options. Diluted earnings per class A and class B common share are the same as basic for 1997 and 1996 as the conversion of convertible securities was antidilutive.

The number of shares used in computing basic and diluted earnings per share at December 31 was as follows (in thousands):

	1998	1997	1996
Basic	**16,244**	13,435	12,483
Diluted	**18,384**	17,243	16,285

(j) Capitalized interest

SCL capitalizes interest during the construction of assets. Interest has been capitalized in the amount of $1,392,000 in 1998 (1997 - $1,391,000, 1996 - $2,333,000).

(k) Interest and related income

Interest and related income includes foreign exchange gains of $4,079,000 in 1998 (1997 - $611,000, 1996 -

$2,018,000). Also included is interest on receivables related to sales-type leases.

(l) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Stock-based compensation

Statement No. 123, Accounting for Stock-Based Compensation, of the Financial Accounting Standards Board encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. SCL has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Opinion No. 25, Accounting for Stock Issued to Employees, of the Accounting Principles Board and related interpretations. Accordingly, compensation cost for share options is measured as the excess, if any, of the quoted market price of the Company's shares at the date of the grant over the amount an employee must pay to acquire the shares. Compensation expense for stock appreciation rights is recorded annually based on the quoted market price of the Company's shares at the end of the period. See Note 13.

(n) Impairment of long-lived assets

Long-lived assets and certain identifiable intangible assets are reviewed by SCL whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In the event that an impairment seems likely, the fair value of the related asset is estimated, and SCL records a charge to income calculated by comparing the asset's carrying value to the estimated fair value.

(o) Recent accounting pronouncements

In 1998, SCL adopted Statement No. 130, Reporting Comprehensive Income, Statement No. 131, Disclosure about Segments of an Enterprise and Related Information, and Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits, all issued by the Financial Accounting Standards Board. Prior periods have been restated to conform to these statements. SCL's only component of other comprehensive income is the foreign currency translation adjustment.

Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, of the Financial Accounting Standards Board becomes effective for the year 2000 financial statements. It will require that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. SCL is in the process of determining the impact that the adoption of this statement will have on its results of operation and financial position.

2. Investments and acquisitions

Investments represent equity interests of 20 to 50 percent in any unconsolidated companies.

The GE SeaCo joint venture between SCL and General Electric Capital Corporation ("GE Capital") relating to marine container leasing began operations with effect from May 1, 1998. Of the initial equity capital of GE SeaCo of approximately $27,500,000, SCL contributed approximately $12,300,000 in the form of cash and property and GE Capital contributed the balance. The parties agreed to fund $35,000,000 of loans 30% by SCL and 70% by GE Capital, of which $35,000,000 was outstanding at December 31, 1998. In addition, a syndicate of banks has provided GE SeaCo with a $200,000,000 credit facility to fund new container purchases guaranteed 50% by the Company and 50% by GE Capital. At December 31, 1998, $52,000,000 was borrowed under this facility.

On July 29, 1998, SCL acquired the Lapa Palace Hotel in Lisbon, Portugal at a purchase price of $25,000,000 paid in cash and notes payable to the seller. On June 23, 1998, SCL acquired the Hotel Quinta do Lago near Faro, Portugal at a purchase price of $27,000,000 paid in cash and notes payable to the seller. The latter hotel was previously managed by SCL under an exclusive long-term contract.

On April 30, 1997, SCL acquired Hôtel de la Cité in Carcassonne, France. The purchase price of $6,000,000 was paid in cash and by assumption of existing debt.

On March 29, 1996, SCL acquired a majority of the shares in The Isle of Man Steam Packet Co. Ltd. and shortly thereafter began a public takeover offer for the balance of the shares outstanding. The offer was for cash or a combination of cash and newly issued class A common shares of the Company. As a result of the offer, SCL acquired all outstanding shares for cash of $27,700,000 and 755,867 class A shares.

On April 28, 1996, SCL purchased for a nominal amount the passenger rail franchise called Great North

Eastern Railway. Under the terms of the franchise, the British government will pay an average annual subsidy of $38,000,000, starting at a higher level in the early years and incrementally declining to zero by 2003 (see Note 1(f)). The largest part of the costs is for track, station and depot access and rolling stock rentals (see Note 16) which are largely fixed during the term of the franchise.

On July 2, 1996, SCL acquired Reid's Palace Hotel in Madeira, Portugal. The purchase price of $26,000,000 was paid in cash and the issue of 316,306 new class A common shares of the Company. On October 18, 1996, SCL purchased La Samanna resort hotel in St. Martin, French West Indies. The purchase price of $20,000,000 was paid in cash.

All of the above acquisitions have been accounted for as purchases and, accordingly, the assets and liabilities of the acquired companies have been recorded at their estimated fair values at the dates of acquisition. The operating results have been included in SCL's consolidated statements of operations from the effective dates of acquisition.

3. Real estate and other fixed assets

The major classes of real estate and other fixed assets are as follows:

December 31,	**1998 $000**	1997 $000
Freehold and leased land and buildings	**588,702**	480,876
Machinery and equipment	**155,324**	119,768
Fixtures, fittings and office equipment	**89,232**	76,801
	833,258	677,445
Less: accumulated depreciation	**136,599**	115,556
	696,659	561,889

4. Asset sale receivables

Asset sale receivables of $17,957,000 at December 31, 1998, at present value discounted at an average rate of 11.32 percent per annum, are collectible as follows:

Year ending December 31,	$000
1999	10,502
2000	4,066
2001	1,929
2002	659
2003	264
2004 and thereafter	537
	17,957

5. Capital leases

The following is an analysis of assets leased under capital leases by major classes:

December 31,	**1998 $000**	1997 $000
Containers	**12,940**	12,872
Machinery and equipment	**10,855**	7,103
Real estate and other fixed assets	**14,386**	13,580
	38,181	33,555
Less: accumulated depreciation	**20,336**	18,167
	17,845	15,388

The following is a schedule of future minimum lease payments under capital leases together with the present value of the minimum lease payments at December 31, 1998:

Year ending December 31,	$000
1999	6,040
2000	3,858
2001	2,493
2002	2,342
2003	2,142
2004 and thereafter	1,886
Minimum lease payments	18,761
Less: amount of interest contained in above payments (1)	2,800
Present value of minimum lease payments	15,961

(1) The amount of interest deducted from minimum lease payments to arrive at the present value is the interest contained in each of the leases.

6. Working capital facilities

Working capital facilities at December 31 are comprised of the following:

	1998 $000	1997 $000
Working capital facility secured on certain assets, with an interest rate of 8.00 and 9.00 percent, respectively	**2,060**	2,427
Unsecured working capital facilities, with a weighted average interest rate of 7.20 and 7.40 percent, respectively	**37,932**	54,700
	39,992	57,127

All the above facilities are repayable within one year.

There are additional working capital lines of credit, currently in place but not drawn, amounting to $140,000,000 (1997 - $92,000,000), of which $88,000,000 (1997 - $50,000,000) is undrawn under secured revolving credit facilities (see Note 7).

7. Long-term debt

Long-term debt at December 31 consists of the following:

	1998	1997
	$000	$000
Container purchase notes and bank loans payable over periods of 5 to 10 years, with a weighted average interest rate of 6.25 and 7.07 percent, respectively	**506,562**	590,210
Ship mortgage loans payable over periods of 5 to 10 years, with a weighted average interest rate of 7.05 and 7.00 percent, respectively	**165,841**	149,567
Loans from banks secured by real estate and other fixed assets payable over periods of 2 to 14 years, with a weighted average interest rate of 7.24 and 7.87 percent, respectively	**383,129**	314,789
	1,055,532	1,054,566

Most containers are secured to financial institutions as collateral for debt obligations. The ship mortgage loans are secured by first or second mortgages on the vessels and are shown net of cash totalling $5,400,000 (1997 - $5,400,000) which is held as security for, or otherwise allocated to, repayment of obligations in respect of certain cargoships.

Included in long-term debt is a revolving credit facility with a group of banks amounting to $270,000,000 secured by container equipment. SCL may borrow on a revolving basis until October 25, 2003 and must repay the balance outstanding at that date. Interest on the facility ranges from 1.25 to 1.70 percent over LIBOR. At December 31, 1998, $186,500,000 (1997 - $378,000,000) was outstanding under this facility. The amount outstanding at December 31, 1997 included a second revolving credit facility with banks which has been repaid.

Also included in long-term debt is a $350,000,000 securitization facility with a ten-year term secured by container equipment. An SCL subsidiary issued a senior note in the principal amount of $291,700,000 which is non-recourse to the Company and its other subsidiaries, and the Company has issued an effectively subordinated revolving credit note for the balance of the facility. The overall interest rate is approximately 0.50 to 0.71 percent over LIBOR. At December 31, 1998, $291,700,000 (1997 - $178,000,000) was outstanding under this facility.

The following is a summary of the aggregate maturities of long-term debt at December 31, 1998:

Year ending December 31,	$000
1999	62,707
2000	94,893
2001	141,619
2002	110,839
2003	109,905
2004 and thereafter	535,569
	1,055,532

At December 31, 1998 and 1997, the carrying value of long-term debt was approximately its fair value.

8. Senior notes and subordinated debentures

(a) 9½% senior notes due 2003

These notes bear interest at 9½% per annum, payable semi-annually. They are redeemable, in whole or in part, at the option of the Company at an initial price of 104.75 percent of the principal amount commencing on July 1, 1998, and thereafter declining to 100 percent of the principal amount on and after July 1, 2000. The notes may also be redeemed by the Company in the event of certain tax law changes. The notes have no sinking fund requirement and come due on July 1, 2003. In the event a change in control of the Company occurs, it is obligated to make an offer to purchase the notes at a price of 101 percent of the principal amount. The fair value of these notes as of December 31, 1998 was approximately $103,000,000 (1997 - $105,000,000) based upon available market quotes.

(b) 10½% senior notes due 2003

These notes bear interest at 10½% per annum, payable semi-annually. They are redeemable, in whole or in part, at the option of the Company at an initial price of 105.25 percent of the principal amount commencing on July 1, 2000, and thereafter declining to 100 percent of the principal amount on and after July 1, 2002. The notes may also be redeemed by the Company in the event of certain tax law changes. The notes have no sinking fund requirement and come due on July 1, 2003. In the event a change in control of the Company occurs, it is obligated to make an offer to purchase the notes at a price of 101 percent of the principal amount. The fair value of these notes as of December 31, 1998 was approximately $69,000,000 (1997 - $70,000,000) based upon available market quotes.

(c) 7⅞% senior notes due 2008

On February 19, 1998, the Company issued and sold these notes at par. They bear interest (accruing from the date of issue) at 7⅞% per annum, payable semi-annually. They are redeemable, in whole or in part, at the option of the Company at an initial price of 103.938 percent of the principal amount commencing on February 15, 2003, and thereafter declining to 100 percent of the principal amount on and after February 15, 2005. The notes may also be redeemed by the Company in the event of certain tax law changes. The notes have no sinking fund requirement and come due on February 15, 2008. In the event a change in control of the Company occurs, it is obligated to make an offer to purchase the notes at a price of 101 percent of the principal amount. The fair value of these notes at December 31, 1998 was approximately $144,000,000 based upon available market quotes.

(d) 12½% senior subordinated debentures due 2004

These debentures bear interest at 12½% per annum, payable semi-annually. The Company issued these debentures in two tranches. The first tranche ($100,000,000 principal amount designated series A) was sold at a discount while the second ($25,000,000 principal amount designated series B) was sold at a premium, both of which are being amortized over the life of the debentures. The effective annual interest rate on the total $125,000,000 principal amount is 12¾%. The debentures are subordinated to all existing and future superior indebtedness, but rank senior to certain subordinated indebtedness, and are redeemable, in whole or in part, at the option of the Company at an initial price of 106.25 percent of the principal amount commencing on December 1, 1999, and thereafter declining to 100 percent of the principal amount on and after December 1, 2001. The debentures may also be redeemed by the Company in the event of certain tax law changes. The debentures have no sinking fund requirement and come due on December 1, 2004. In the event a change in control of the Company occurs, it is obligated to make an offer to purchase the debentures at a price of 101 percent of the principal amount. The fair value of these debentures as of December 31, 1998 was approximately $137,000,000 (1997 - $142,000,000) based upon available market quotes.

(e) 10¼% subordinated debentures due 1998

These debentures came due in accordance with their terms on September 1, 1998 and were paid on that date at par.

9. Pension plans

SCL has pension plans covering substantially all of its employees. The significant plans are three defined benefit plans in which the benefits are based primarily on years of service and employee compensation near retirement. It is SCL's policy to fund its plans in accordance with applicable laws and income tax regulations. Plan assets consist primarily of common stocks, common trust funds, government securities and corporate debt securities held through separate trustee-administered funds.

The significant weighted-average assumptions for these plans during 1998, 1997 and 1996 consisted of the following:

	1998 **%**	1997 %	1996 %
Discount rate [(1)]	**5.5**	7.0	8.0
Assumed rates of compensation increases	**3.5**	4.5	5.0
Expected long-term rate of return on plan assets	**6.5**	8.0	8.5

(1) Represents the essentially risk-free rate of return at the end of the year in the country in which the assets are held.

The changes in the benefit obligation, the plan assets and the funded status for the three plans during the years ended December 31, 1998 and 1997 were as follows:

	1998 **$000**	1997 $000
Change in benefit obligation:		
Benefit obligation at beginning of year	**114,508**	96,058
Service cost	**3,531**	3,027
Interest cost	**8,023**	7,293
Plan participants' contributions	**1,313**	1,163
Actuarial gain	**11,456**	13,456
Benefits paid	**(4,690)**	(3,793)
Foreign currency translation	**694**	(2,696)
Benefit obligation at end of year	**134,835**	114,508
Change in plan assets:		
Fair value of plan assets at beginning of year	**122,067**	110,578
Actual return on plan assets	**15,159**	13,945
Employer contributions	**4,731**	3,337
Plan participants' contributions	**1,313**	1,163
Benefits paid	**(4,690)**	(3,793)
Foreign currency translation	**740**	(3,163)
Fair value of plan assets at end of year	**139,320**	122,067
Funded status	**4,485**	7,559
Unrecognized net actuarial gain	**(1,056)**	(6,372)
Unrecognized prior service cost	**2,241**	2,612
Unrecognized transition amount	**608**	653
Prepaid benefit cost	**6,278**	4,452

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for a pension plan with accumulated benefit obligations in excess of plan assets were $24,437,000, $23,247,000 and $20,763,000, respectively, as of December 31, 1998 and, for a separate plan, $30,177,000, $29,946,000 and $28,644,000, respectively, as of December 31, 1997.

The components of net periodic benefit cost during 1998, 1997 and 1996 consisted of the following:

	1998 $000	1997 $000	1996 $000
Service cost	**3,531**	3,027	2,812
Interest cost on projected benefit obligation	**8,023**	7,293	6,346
Expected return on assets	**(9,879)**	(8,562)	(7,957)
Net amortization and deferrals	**418**	430	(65)
Net periodic benefit cost	**2,093**	2,188	1,136

10. Income taxes

Income taxes provided by SCL relate principally to its foreign subsidiaries as pre-tax income is primarily foreign. The provision for income taxes consisted of the following:

	Year ended December 31, 1998			Year ended December 31, 1997			Year ended December 31, 1996		
	Current $000	**Deferred $000**	**Total $000**	Current $000	Deferred $000	Total $000	Current $000	Deferred $000	Total $000
United States	**1,068**	**-**	**1,068**	764	-	764	316	-	316
Other foreign	**2,816**	**1,066**	**3,882**	1,650	379	2,029	1,194	185	1,379
	3,884	**1,066**	**4,950**	2,414	379	2,793	1,510	185	1,695

The net deferred tax liabilities recognized in the consolidated balance sheets at December 31, 1998 and 1997 are comprised of the following:

	1998 $000	1997 $000
Gross deferred tax assets (operating loss carryforwards)	**24,567**	29,243
Less: Valuation allowance	**(10,892)**	(14,127)
Net deferred tax assets	**13,675**	15,116
Deferred tax liabilities	**(21,002)**	(21,321)
Net deferred tax liabilities	**(7,327)**	(6,205)

The gross deferred tax assets relate primarily to tax loss carryforwards. The deferred tax liabilities are temporary differences substantially caused by tax depreciation in excess of book depreciation.

The difference in the effective tax rate and the U.S. statutory rate (35%) results principally from different tax rates in other jurisdictions and from earnings outside the U.S. that are not subject to taxation.

Notes to Consolidated Financial Statements *continued*

11. Supplemental cash flow information

Year ended December 31,	**1998**	1997	1996
	$000	$000	$000
Cash paid for:			
Interest	**110,307**	107,407	95,234
Income taxes	**3,498**	1,797	621

Non-cash investing and financing activities:
In conjunction with the acquisitions in 1998, 1997 and 1996 (see Note 2), liabilities were assumed as follows:

Year ended December 31,	**1998**	1997	1996
	$000	$000	$000
Fair value of assets acquired	**57,936**	8,562	234,818
Class A common shares issued and cash paid	**(49,016)**	(594)	(91,822)
Carrying value of existing investment, net of dividends received	**-**	-	(11,630)
Liabilities assumed	**8,920**	7,968	131,366

12. Redeemable preferred shares

Out of authorized preferred shares, 300,000 have been reserved for issuance as series A junior participating preferred shares upon exercise of preferred share purchase rights held by class A and B common shareholders (see Note 14(c)).

(a) $7.25 convertible cumulative preferred shares

These preferred shares were issued on May 6, 1998. They are convertible at the option of the holder at any time, unless previously redeemed, into class B common shares of the Company at a conversion price of $31.34 per share (equivalent to a conversion rate of approximately 3.19 class B common shares for each preferred share), subject to adjustment under certain conditions. They provide for cumulative dividends at the annual rate of $7.25 per share (accruing from date of issue) payable quarterly and are redeemable at the option of the Company, in whole or in part, at any time at a per share redemption price of $102.90 during the 12 months beginning May 6, 2001, $101.45 during the 12 months beginning May 6, 2002, and thereafter at $100.00 per share. Any preferred shares outstanding on May 6, 2005 must be redeemed at $100.00 per share plus any accrued and unpaid dividends.

(b) $1.4625 cumulative preferred shares and $2.10 cumulative preferred shares, series 1982

The Company redeemed all of these outstanding preferred shares for cash at $15 per share on May 29, 1998, plus accrued and unpaid dividends to the redemption date.

13. Employee stock option and stock appreciation rights plans

The Company adopted a 1997 stock option plan in October 1997. Options to purchase up to 500,000 class A or B common shares of the Company may be awarded to employees and directors of SCL at fair market value at the date of grant. Options are exercisable three years after award and must be exercised ten years from the date of grant. At December 31, 1998, 48,000 class A common shares were reserved for issuance pursuant to options awarded to 12 persons. The 1986 stock option plan of the Company terminated in 1996. At December 31, 1998, 22,000 class A common shares and 17,834 class B common shares were reserved for issuance pursuant to options awarded to eight persons.

No charges or credits are made to income with respect to options awarded or exercised under the plans since all options are awarded at market value at date of grant. Transactions under the plans have been as follows:

Year ended December 31, 1998	Shares	Option Price
Outstanding at beginning of period	**59,724**	**$4.50 - $21.75**
Granted	**48,000**	**$25.125- $28.00**
Terminated	**-**	
Exercised	**(19,890)**	**$4.50 - $17.50**
Outstanding at end of period	**87,834**	**$4.50 - $28.00**
Exercisable at end of period	**39,834**	**$4.50 - $21.75**

Year ended December 31, 1997	Shares	Option Price
Outstanding at beginning of period	67,724	$1.00 - $21.75
Granted	-	
Terminated	-	
Exercised	(8,000)	$1.00 - $17.50
Outstanding at end of period	59,724	$4.50 - $21.75
Exercisable at end of period	59,724	$4.50 - $21.75

Year ended December 31, 1996	Shares	Option Price
Outstanding at beginning of period	73,724	$1.00 - $21.75
Granted	-	
Terminated	-	
Exercised	(6,000)	$1.00 - $7.875
Outstanding at end of period	67,724	$1.00 - $21.75
Exercisable at end of period	52,724	$1.00 - $21.75

The options outstanding at December 31, 1998 were as follows:

Dates of Grant	Dates of Expiration	Number of Shares	Average Option Price
February 10, 1989 to October 5, 1998	February 9, 1999 to October 4, 2008	87,834	$21.86

There is no material effect of the options granted after the effective date of Statement No. 123, Accounting for Stock-Based Compensation, of the Financial Accounting Standards Board. Accordingly, disclosure of proforma information is not required.

The 1991 stock appreciation rights plan of the Company, as amended, provides that SCL may grant to its employees stock appreciation rights ("SARs") with respect to up to an aggregate of 600,000 class A common shares. SARs entitle the holder to a cash amount equal in value to the excess of the fair market value of the common shares at the time of exercise of the SARs over the fair market value of the common shares at the time the SARs were granted. SARs become exercisable three years after grant and must be exercised ten years from the date of grant. At December 31, 1998, 156,100 SARs (1997 - 269,200, 1996 - 269,500) were outstanding. In 1998, a net charge to income arising from SARs amounted to $893,000 (1997 - $3,274,000, 1996 - $nil).

14. Shareholders' equity

(a) $4.00 convertible cumulative preferred shares

On June 2, 1998, the Company called for redemption all of its outstanding $4.00 convertible cumulative preferred shares, including dividends accrued and unpaid to the redemption date. Holders of substantially all of the preferred shares elected to convert them prior to the redemption date into class A or class B common shares of the Company in accordance with the terms of the preferred shares. This redemption and the effect of the conversion have been accounted for as at June 30, 1998.

(b) Dual common share capitalization

Effective June 23, 1992, following shareholder approval, the existing common shares of the Company were classified as class B common shares, each of which is convertible at any time into one class A common share of the Company. Cash dividends on the class A common shares must be at least 10 percent higher than any cash dividends on the class B common shares. In general, holders of class A and class B common shares vote together as a single class, with holders of class B shares having one vote per share and holders of class A shares having one-tenth of one vote per share. In all other substantial respects, the class A and B shares are the same.

(c) Shareholder rights agreement

The Company has in place a shareholder rights agreement, as amended and restated as of June 1, 1998, which will be implemented not earlier than the tenth day following the first to occur of (i) the public announcement of the acquisition by a person (other than a subsidiary of the Company) of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company and (ii) the commencement or announcement of a tender offer or exchange offer by a person for shares carrying 30% or more of the total voting rights which may be cast at any general meeting of the Company. At that time, the rights detach from the class A and class B common shares, and the holders of the rights will be entitled to purchase, for each right held, one two-hundredth of a series A junior participating preferred share of the Company at an exercise price of $180 (the "Purchase Price") for each one two-hundredth of such junior preferred share, subject to adjustment in certain events. From and after the date on which any person acquires beneficial ownership of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company, each holder of a right (other than the acquiring person) will be entitled upon exercise to receive, at the then current Purchase Price and in lieu of the junior preferred shares, that number of class A or class B common shares (depending on whether the right was previously attached to a class A or B share) having a market value of twice the Purchase Price. If the Company is acquired or 50% or more of its consolidated assets or earning power is sold, each holder of a right will be entitled to receive, upon exercise at the then current Purchase Price, that amount of common equity of the acquiring company which at the time of such transaction would have a market value of two times the Purchase Price. The rights will expire on June 19, 2008 but may be redeemed at a price of $0.025 per right at any time prior to the tenth day following the date on which a person acquires beneficial ownership of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company.

(d) Reserved shares

At December 31, 1998, in addition to the 539,834 common shares reserved for options granted or available under the 1986 and 1997 stock option plans (see Note 13), a further 478,622 class B common shares were reserved for issuance upon conversion of the $7.25 convertible cumulative preferred shares.

(e) Acquired shares

A total of 12,900,500 class B common shares were owned by certain SCL subsidiaries at December 31, 1998. Under applicable law, these shares are outstanding and may be voted by the subsidiaries, although in computing earnings per share these shares are treated as a reduction to outstanding shares.

(f) Certain restrictions on payment of dividends

SCL is party to certain credit agreements which restrict the payment of dividends and the purchase of common shares. Under these agreements, approximately $63,000,000 was available at December 31, 1998 (1997 - $35,000,000) for the payment of dividends and the purchase of shares.

15. Rental income under operating leases and charters

The following are the minimum future rentals at December 31, 1998 under operating leases of containers and leases of property and other fixed assets:

Year ending December 31,	$000
1999	123,478
2000	116,937
2001	103,874
2002	95,801
2003	83,156
2004 and thereafter	228,215
	751,461

Of the total above, related party rental payments due from GE SeaCo amounted to $691,252,000.

16. Commitments

Outstanding contracts to purchase fixed assets were approximately $74,000,000 at December 31, 1998 (1997 - $150,000,000).

Future rental payments under operating leases in respect of equipment rentals and leased premises are payable as follows:

Year ending December 31,	$000
1999	295,935
2000	315,406
2001	327,743
2002	320,078
2003	81,882
2004 and thereafter	23,780
	1,364,824

Of the total above, $1,296,406,000 relates to rental payments by the passenger rail franchise in respect of leases of rolling stock and access charges for railway infrastructure. These commitments are payable only while the franchise continues.

Where the agreements provide for rental payments calculated on a factor varying with interest rates, the factors applicable to the interest rates ruling at December 31, 1998 have been used. Rental expense for the year ended December 31, 1998 amounted to $262,504,000 (1997 - $254,403,000, 1996 – $168,310,000).

17. Financial instruments with off-balance sheet risk and concentrations of credit risk

(a) Interest rate swap agreements

SCL has outstanding two interest rate swap agreements under which fixed rate debt has been effectively converted to floating rate debt. At December 31, 1998, the aggregate notional amount of the two swap agreements was approximately $20,400,000, both maturing in the first quarter of 2000. The approximate cost to SCL to terminate these agreements at December 31, 1998 would not have been material. The agreements are not held for trading purposes and SCL has no current intention to terminate the agreements. At December 31, 1998, SCL believes that there was no significant credit risk of non-performance by counterparties.

(b) Off-balance sheet risk

From time to time, SCL utilizes foreign currency forward contracts to reduce exposure to exchange rate risks primarily associated with SCL's international transactions. These contracts establish the exchange rates at which SCL will purchase or sell at a future date the contracted amount of currencies for specified foreign currencies. SCL utilizes forward contracts which are short-term in nature and receives or pays the difference between the contracted forward rate and the exchange rate at the settlement date. At December 31, 1998, there were two contracts outstanding relating to the forward purchase of Italian lira in respect of the purchase of ferry assets. The contract amount of the foreign currency at December 31, 1998 was approximately $54,029,000 and the fair value of the foreign currency at that date approximated $53,000,000. No contracts were outstanding at December 31, 1997.

(c) Concentration of credit risk

Concentration of credit risk with respect to trade receivables is limited because of the large number of customers comprising SCL's customer base and their dispersion across different businesses and geographic areas. Also, SCL routinely assesses the financial strength of its customers.

18. Information concerning financial reporting for segments and operations in different geographical areas

SCL's business activities are grouped into three main reporting segments. The first is leasing of cargo containers (principally through its GE SeaCo joint venture) to liner ship operators, road and rail operators, forwarders and exporters located throughout the world and the services which support these activities, including the manufacture and repair of container equipment. This business is referred to as "Container operations". The second is the operation of passenger and vehicle transport services using ferries and trains and the services which support these transport activities. Ferries operate between Great Britain and France, Belgium, Ireland and the Isle of Man and in Scandinavia, trains operate in Britain and three ports are also located in Britain. This business is referred to as "Passenger transport operations". The third is the ownership and/or management of hotels and other leisure activities. Hotels are located in the United States, Caribbean, Europe, Southern Africa, Brazil, Australia and South Pacific, tourist trains operate in Europe, Southeast Asia and Australia, restaurants are located in London and New York and a cruiseship operates in Myanmar. This business is referred to as "Leisure operations". "Other operations" includes SCL's real estate development, perishable commodity production and trading, and publishing activities. Transactions between reportable segments are not material. The main factor SCL uses to identify its three main segments is the similarity of the products and services provided.

Financial information regarding these business segments is as follows:

Year ended December 31,	1998 $000	1997 $000	1996 $000
Revenue:			
Container operations	**184,285**	186,201	187,749
Passenger transport operations	**838,570**	753,902	502,670
Leisure operations	**230,918**	203,554	169,437
Other operations	**12,793**	13,496	11,795
	1,266,566	1,157,153	871,651
Depreciation and amortization:			
Container operations	**63,312**	64,976	61,311
Passenger transport operations	**27,252**	24,123	19,655
Leisure operations	**14,437**	13,427	11,095
Other operations	**1,202**	1,097	1,076
	106,203	103,623	93,137
Earnings from operations before net finance costs:			
Container operations	**75,386**	66,757	81,839
Passenger transport operations	**61,919**	46,412	19,755
Leisure operations	**49,465**	46,162	29,967
Other operations	**76**	1,234	101
	186,846	160,565	131,662
Corporate costs	**(14,939)**	(13,524)	(13,781)
	171,907	147,041	117,881
Net finance costs (1)	**(108,273)**	(102,230)	(85,582)
Earnings before income taxes	**63,634**	44,811	32,299
Provision for income taxes	**4,950**	2,793	1,695
Net earnings	**58,684**	42,018	30,604
Preferred share dividends	**(4,419)**	(14,245)	(15,572)
Net earnings on class A and class B common shares	**54,265**	27,773	15,032
Identifiable assets:			
Container operations	**1,027,147**	1,009,016	1,029,126
Passenger transport operations	**622,803**	630,641	534,563
Leisure operations	**602,485**	422,797	399,789
Other operations	**62,020**	63,646	62,742
	2,314,455	2,126,100	2,026,220
Capital expenditure:			
Container operations	**31,325**	101,884	81,557
Passenger transport operations	**66,884**	80,719	25,050
Leisure operations	**47,056**	50,187	40,778
Other operations	**8,401**	1,696	6,262
	153,666	234,486	153,647

(1) Net of capitalized interest and interest and related income.

Non-U.S. domestic operations accounted for more than 95 percent of revenue and 91 percent of earnings before net finance costs in 1998 (1997 - 94 percent and 85 percent, 1996 - 92 percent and 88 percent). Containers are regularly moving between countries in international commerce over hundreds of trade routes. SCL has no knowledge of, or control over, the movement of containers under lease or the location of leased containers at any moment in time. Based on container leases in force at December 31, 1998, containers may touch ports in more than 100 different countries worldwide. It is therefore impossible to assign revenues or earnings of container operations by geographical areas.

Passenger transport revenue and identifiable assets are earned and held in Europe, principally in and around Great Britain. Leisure operations are spread throughout the world with no one country representing more than 10 percent of the revenue or identifiable assets.

19. Related party transactions

From May 1, 1998 when the GE SeaCo joint venture was established (see Note 2) to December 31, 1998, GE SeaCo paid SCL net amounts of $71,702,000 under the lease and management agreements relating to SCL-owned containers provided to the joint venture, $19,677,000 under the services agreement with GE SeaCo by which SCL provides management and administration services to the joint venture, and $19,152,000 in connection with purchases of containers from SCL's factories, use of SCL's depots for container repair and storage services and employment of an SCL containership to reposition containers.

20. Subsequent event (unaudited)

In March 1999, SCL contracted to purchase from certain existing shareholders a substantial investment in Neptun Maritime Oyj ("Neptun"), a ferry company based in Finland and listed on the Helsinki Stock Exchange. The cash purchase price will be about $105,000,000, and completion is subject to approval by relevant competition authorities. These shareholders will have the right to sell to SCL any remaining balance of their shares in Neptun (a maximum of about 16,000,000 shares) at FIM15 per share (approximately $2.75) on the third anniversary of completion, which SCL may pay for either in cash or newly issued class A common shares (having an equivalent market value at the time of issue) or a combination of both.

Summary of quarterly earnings (unaudited)

	Total	Quarter ended December 31	September 30	June 30	March 31
	$000	$000	$000	$000	$000
1998					
Revenue:					
Container operations	184,285	44,727	44,721	46,616	48,221
Passenger transport operations	838,570	237,233	223,106	212,477	165,754
Leisure operations	230,918	61,969	59,966	64,031	44,952
Other operations	12,793	3,082	3,081	3,409	3,221
	1,266,566	347,011	330,874	326,533	262,148
Earnings/(losses) before net finance costs:					
Container operations	75,386	20,980	19,540	17,940	16,926
Passenger transport operations	61,919	11,215	27,586	16,915	6,203
Leisure operations	49,465	14,899	11,324	14,132	9,110
Other operations	76	53	(62)	241	(156)
	186,846	47,147	58,388	49,228	32,083
Corporate costs	(14,939)	(4,055)	(3,657)	(3,620)	(3,607)
Net finance costs	(108,273)	(26,779)	(26,822)	(27,161)	(27,511)
Earnings before income taxes	63,634	16,313	27,909	18,447	965
Provision for/(benefit from) income taxes	4,950	400	6,850	500	(2,800)
Net earnings	58,684	15,913	21,059	17,947	3,765
Preferred share dividends	4,419	272	276	588	3,283
Net earnings on class A and class B common shares	54,265	15,641	20,783	17,359	482
	$	$	$	$	$
Net earnings per class A and class B common share:					
Basic	3.34	0.85	1.14	1.19	0.04
Diluted	3.11	0.85	1.12	0.95	0.04

Summary of quarterly earnings (unaudited)

	Total $000	Quarter ended December 31 $000	September 30 $000	June 30 $000	March 31 $000
1997					
Revenue:					
Container operations	186,201	46,971	47,225	47,356	44,649
Passenger transport operations	753,902	216,417	205,286	178,180	154,019
Leisure operations	203,554	49,250	55,013	52,316	46,975
Other operations	13,496	3,559	3,615	3,926	2,396
	1,157,153	316,197	311,139	281,778	248,039
Earnings/(losses) before net finance costs:					
Container operations	66,757	17,654	16,608	16,463	16,032
Passenger transport operations	46,412	8,560	22,126	14,873	853
Leisure operations	46,162	10,085	15,978	10,333	9,766
Other operations	1,234	359	253	727	(105)
	160,565	36,658	54,965	42,396	26,546
Corporate costs	(13,524)	(3,507)	(3,510)	(3,245)	(3,262)
	147,041	33,151	51,455	39,151	23,284
Net finance costs	(102,230)	(26,518)	(26,652)	(24,655)	(24,405)
Earnings/(losses) before income taxes	44,811	6,633	24,803	14,496	(1,121)
Provision for /(benefit from) income taxes	2,793	(257)	5,850	200	(3,000)
Net earnings	42,018	6,890	18,953	14,296	1,879
Preferred share dividends	14,245	3,562	3,561	3,561	3,561
Net earnings/(losses) on class A and class B common shares	27,773	3,328	15,392	10,735	(1,682)
	$	$	$	$	$
Net earnings/(losses) per class A and class B common share:					
Basic	2.07	0.25	1.15	0.80	(0.13)
Diluted	2.07	0.25	1.02	0.75	(0.13)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Part III

Item 10. **Directors and Executive Officers of the Registrant**

Directors

Information regarding directors may be found in the Company's Proxy Statement for the 1999 annual general meeting under the caption "Election of Directors". It is substantially the same information as that included in Item 10 of the Form 10-K filed with the Securities and Exchange Commission.

Executive Officers

The executive officers of the Company are as follows:

Name, Age	Position
James B. Sherwood, 65	President since 1974
David G. Benson, 55	Senior Vice President - Passenger Transport since 1997
Daniel J. O'Sullivan, 60	Senior Vice President - Finance and Chief Financial Officer since 1997
Simon M.C. Sherwood, 38	Senior Vice President - Leisure since 1997
Robert S. Ward, 60	Senior Vice President - Containers since 1986
James A. Beveridge, 50	Vice President - Administration and Property since 1997
John D. Campbell, 56	Vice President - Bermuda since 1990
Christopher W.M. Garnett, 53	Vice President - Rail since 1997
Edwin S. Hetherington, 49	Vice President, General Counsel and Secretary since 1997
Nicholas J. Novasic, 47	Vice President - Funding, North America since 1987
Michael V. Scawn, 59	Vice President - Funding since 1981
Stephen O. Whittam, 58	Vice President - Management Information Systems since 1984

The business experience of each person during the last five years is shown in the table except as follows. Messrs. Benson and Simon Sherwood were Vice Presidents from 1992 and 1991, respectively. Mr. O'Sullivan was Senior Vice President – Finance and Treasurer from 1986. Mr. Beveridge was Group Finance Director of MEPC Plc, a property company listed on the London Stock Exchange. Before joining SCL in 1995, Mr. Garnett was Commercial Director of Eurotunnel in charge of sales and marketing. Mr. Hetherington was General Counsel and Secretary of the Company from 1984. Mr. Simon Sherwood is the stepson of Mr. James Sherwood.

Item 11. **Executive Compensation**

Information regarding executive compensation may be found in the Company's Proxy Statement for the 1999 annual general meeting under the captions "Election of Directors -- Executive Compensation", "-- Pension Plans", "-- 1997 Stock Option Plan","-- 1986 Stock Option Plan" and "-- 1991 Stock Appreciation Rights Plan". It is substantially the same information as that included in Item 11 of the Form 10-K filed with the Securities and Exchange Commission.

Item 12. **Security Ownership of Certain Beneficial Owners and Management**

Information regarding security ownership may be found in the Company's Proxy Statement for the 1999 annual general meeting under the caption "Shareholding Information". It is a summary of the information included in Item 12 of the Form 10-K filed with the Securities and Exchange Commission.

Item 13. **Certain Relationships and Related Transactions**

Information regarding these relationships and transactions may be found in the Company's Proxy Statement for the 1999 annual general meeting under the caption "Election of Directors -- Other Agreements". It is substantially the same information as that included in Item 13 of the Form 10-K filed with the Securities and Exchange Commission.

Part IV

Item 14. **Exhibits, Financial Statement Schedules, and Reports on Form 8-K**

(a) Documents filed as part of the report.

1. Financial Statements.
   The Financial Statements are included in Item 8 above.

2. Financial Statement Schedules and Exhibits.
   The applicable Financial Statement Schedule and Exhibits are included only in the Form 10-K filed with the Securities and Exchange Commission.

(b) Reports on Form 8-K.
   No report on Form 8-K was filed during the fourth quarter of 1998.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 30, 1999

Sea Containers Ltd.

By: /s/ J.B. Sherwood
James B. Sherwood
President
(Principal Executive Officer)

By: /s/ D.J. O'Sullivan
Daniel J. O'Sullivan
Senior Vice President - Finance
and Chief Financial Officer
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Dated: March 30, 1999

Signature	Title
/s/ J.D. Campbell John D. Campbell	Director
/s/ I. Hilton Ian Hilton	Director
/s/ W.M. Grindrod W. Murray Grindrod	Director
/s/ R.M. Riggs Robert M. Riggs	Director
/s/ P.J.R. Schlee Philip J.R. Schlee	Director
/s/ C.N.C. Sherwood Charles N.C. Sherwood	Director
/s/ J.B. Sherwood James B. Sherwood	Director
/s/ M.J.L. Stracey Michael J.L. Stracey	Director

Principal subsidiaries and other investments

Bermuda

The Marine Container Insurance Co. Ltd.
Sea Containers House Ltd.
Sea Containers Holdings Ltd.
Sea Containers Properties Ltd.
Sea Containers SPC Ltd.
Orient-Express Hotels Ltd.
Leisure Holdings Asia Ltd.
Hamilton, Bermuda

United Kingdom and Isle of Man

Sea Containers Ferries Ltd.
Sea Containers Ports Ltd.
Sea Containers Chartering Ltd.
Sea Containers Services Ltd.
Sea Containers Property Services Ltd.
Fairways & Swinford (Travel) Ltd.
Silja Holdings Ltd.
The Illustrated London News Partnership
Orient-Express Services Ltd.
Venice Simplon-Orient-Express Ltd.
Regency Rail Cruises Ltd.
Collection Venice Simplon-Orient-Express Ltd.
Harry's Bar Ltd.
London, England

Folkestone Properties Ltd.
Folkestone, England

Heysham Port Ltd.
Heysham, England

Newhaven Port & Properties Ltd.
Newhaven, England

Hart, Fenton & Co. Ltd.
Portsmouth, England

Hoverspeed Ltd.
Dover, England

Sea Containers Ferries Scotland Ltd.
Stranraer, Scotland

The Isle of Man Steam Packet Company Ltd.
Isle of Man

Argyll and Antrim Steam Packet Company Ltd.
Campbeltown, Scotland

Yorkshire Marine Containers Ltd.
Beverley, Yorkshire, England

Great North Eastern Railway Ltd.
York, England

Continental Europe

Neptun Maritime Oyj
Helsinki, Finland

Société de la Cité S.A.
Carcassonne, France

Sea Containers Italia S.r.l.
Genoa, Italy

Hotel Cipriani S.p.A.
Venice, Italy

Alberghiera Fiesolana S.p.A.
Florence, Italy

Società Gestione Esercizi S.p.A.
Portofino, Italy

Hotelapa Investimento Hoteleiro S.A.
Lisbon, Portugal

Island Hotel (Madeira) Ltd.
Madeira, Portugal

Grampian Investimentos Hoteleiros S.A.
Faro, Portugal

SeaCat AB
Gothenburg, Sweden

U.S.A.

Sea Containers America Inc.
New York, New York and Washington D.C.

GE SeaCo America LLC
Orient-Express Hotels Inc.
'21' Club Inc.
SeaStreak America Inc.
New York, New York

Charleston Marine Containers Inc.
Charleston Container Shops Inc.
Charleston Place Holdings Inc.
Charleston, South Carolina

SeaCo Texas Properties Inc.
Houston Marine Containers Inc.
Houston, Texas

Sea Containers West Inc.
San Francisco, California

Windsor Court Hotel L.P.
New Orleans, Louisiana

Middle and Far East

Sea Containers Asia Ltd.
Hong Kong

Sea Containers Asia Pte. Ltd.
Pacifica Ship Management Pte. Ltd.
Eastern and Oriental Express Ltd.
Singapore

Myanmar Hotels and Cruises Ltd.
Myanmar

Australasia

Sea Containers Australia Ltd.
Sydney, Australia

Heritage Train Company Pty. Ltd.
Brisbane, Australia

International Reefer Services Pty. Ltd.
Melbourne, Australia

Caribbean and Latin America

GE SeaCo SRL
Bridgetown, Barbados

Société Hôtelière de Baie Longue S.A.
St. Martin, French West Indies

Paulista Containers Maritimos Ltda.
Santos, Brazil

Sea Containers Brasil Ltda.
Companhia Hoteis Palace.
Rio de Janeiro, Brazil

Brasiluvas Agricola Ltda.
Juazseiro, Bahia, Brazil

Perú OEH S.A.
Lima, Peru

Africa

Eighty Westcliff (Pty.) Ltd.
Johannesburg, South Africa

Mount Nelson Hotel Ltd.
Cape Town, South Africa

Société Bananière de Motobé S.A.
Motobé, Ivory Coast

Gametrackers (Botswana) Pty. Ltd.
Gaborone, Botswana

Shareholder and investor information

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Internet address
http://www.seacontainers.com

Stock exchange listings
Sea Containers Ltd. class A and class B common shares are listed on the New York, Pacific and London Stock Exchanges.

On the U.S. exchanges the trading symbols are SCRA and SCRB.

Share transfer agent and registrar
BankBoston N.A.
c/o EquiServe L.P.
P.O. Box 8040
Boston, Massachusetts 02266-8040
Tel: (800) 730-4001
Fax: (781) 828-8813
Internet: http://www.equiserve.com

Shareholders are encouraged to contact the Transfer Agent directly regarding any change in certificate registration, change of mailing address, lost or stolen certificates, replacement of dividend checks, consolidation of multiple accounts, elimination of duplicate mailings, replacement of Form 1099-DIV and related shareholder service matters.

Co-registrar of shares
The Bank of Bermuda
6 Front Street
Hamilton HM 11
Bermuda

Auditors
Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281

SCRA
Listed
NYSE

Annual general meeting
The annual general meeting of shareholders will be held at the '21' Club, 21 West 52nd Street, New York, New York on June 8, 1999 at 2.00 p.m.

Shareholder information
Copies of SEC Form 10-K annual reports, SEC Form 10-Q quarterly reports and other published financial information may be obtained upon request to:

Sea Containers America Inc.
1155 Avenue of the Americas
New York, New York 10036
Tel: (212) 302-5066
Fax: (212) 302-5073

Investor relations
Shareholders, securities analysts, portfolio managers and representatives of financial institutions seeking financial information may contact:

William W. Galvin III
The Galvin Partnership
515 Madison Avenue
37th Floor
New York, New York 10022
Tel: (212) 838-5454
Fax: (212) 755-3204
E-mail: info@galvinpartners.com

Dividend reinvestment and share purchase plan
Sea Containers Ltd. offers this plan to owners of its common shares as a convenient and economical method of investing their cash dividends in class A common shares at a discount from the market price and without payment of any brokerage commission or service charge. A common shareholder under the plan may also make optional cash deposits to purchase class A common shares at market price without payment of commissions or other charges. For further information about the plan, please contact the share transfer agent and registrar, BankBoston N.A., at the address at left.

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