



DEMERGER OF P&O'S CRUISES BUSINESS

3rd February 2000

The Board of The Peninsular and Oriental Steam Navigation Company announces that it intends to demerge the Group's cruises business to form a separate company. The ongoing Group will continue to focus increasingly on its high return logistics businesses. A listing will be sought for the new cruise company in both London and New York. Its headquarters will be in London.

P&O Cruises and the Group's US business, Princess Cruises, are two of the best known brands in the industry. The profits of P&O's cruises business have been growing at 17% compound for the last 10 years and its return on capital and other financial measures are at the forefront of the industry. P&O Cruises is the UK's foremost cruise company while Princess is the leading US operator in Alaska, Europe and other key destination trades and has a powerful and expanding presence in the Caribbean.

With the inclusion of Aida Cruises, Germany's fastest growing cruise company, and the Group's cruise interests in Australasia, P&O is the most international of all the cruise companies. In order to meet continuing strong demand and further increase cost effectiveness, P&O's cruises business has 11 ships on order which will double the size of the fleet over the next five years.

Peter Ratcliffe, currently President of Princess Cruises and a Main Board Director of P&O, will assume executive responsibility for P&O's cruises division and will become Chief Executive of the new company. Lord Sterling will become Chairman of the new company. Lord Sterling and Sir Bruce MacPhail will continue as Chairman and Managing Director respectively of P&O and Tim Harris will continue as Assistant Managing Director of P&O and Chief Executive of P&O Nedlloyd.

The decision to demerge cruises follows the Group's progress in focusing on its three core businesses – cruises, ferries and ports – particularly since its strategic announcement in March 1999. With the exception of cruises, these are now heavily concentrated on logistics and transport businesses where P&O has a strong position and can achieve high returns. In 1999 the ferries and ports divisions made excellent progress, with a return on capital approaching 15%. Ports, ferries and logistics will be the core businesses for P&O in future and the key areas for further investment.

P&O is one of the world's leading port operators with 21 container terminals in 15 countries and interests in a further 30 ports. The business is growing strongly on the back of increasing world trade. A number of P&O's port investments are in a start-up phase and their full potential has yet to be realised. There are many other locations for further profitable investment.

P&O Nedlloyd is an important customer of P&O Ports. P&O remains committed to securing a listing for P&O Nedlloyd and to playing a proactive part in the further consolidation that is taking place in container shipping. In so doing it will seek to maintain the benefits of the current relationship.

P&O is the UK's best known ferry operator with 50 ships carrying both freight and passengers and a strong market position. The UK-Continental freight market in particular has grown considerably, approximately 50% in the last five years. There will be further opportunities to expand the business both in the UK and overseas.

P&O also has a strong presence in high value added areas of supply chain management, with a leading position in the European business-to-business market and in cold product distribution in Australia and North and South America. The growth of outsourcing and e-commerce are opening up major new opportunities.

The P&O brand and reputation has been, and will continue to be, of immense value to these businesses. P&O is known throughout the world as a provider of a first class service in its chosen areas of logistics and transport. This enables the Group to leverage growth by offering vertically integrated solutions and

cross-selling services. Maintaining these relationships will be of key importance in maximising the future growth potential of these businesses.

Commenting on the announcement, P&O Chairman Lord Sterling said: "Over the last few years our strategy has focused on increasing shareholder value through investing in rapidly growing businesses offering high returns and moving out of other areas. We have achieved our targets ahead of schedule. The demerger we are announcing today is the next logical step. It will enable both businesses to pursue the strategies that best meet their long term objectives and to accelerate their future growth. It is strongly in the interests of our stockholders, customers and employees."

The demerger will be subject to certain approvals and good progress is being made in securing these. It will then be put to stockholders. It is hoped to conclude the process in the fourth quarter of 2000. No further statement will be made until the Group's preliminary announcement of its 1999 results on 16 March.

Further information:

Peter Smith Director, Communications and Strategy
0171 930 4343

There will be a conference call for UK analysts and investors at 09:00 hours (UK time) today and for US analysts and investors at 15.30 hours (UK time) today.

Note to Editors

Demerger process

1. It is envisaged that the demerger will result in deferred stockholders receiving shares in a new company which will hold P&O's cruise interests as well as retaining existing stock in The Peninsular and Oriental Steam Navigation Company, which will hold the other P&O businesses. Listing particulars will be prepared in due course for the cruise company. In the meantime requisite consents and approvals are being sought, including tax clearances. P&O is being advised by J P Morgan and S G Hambros; its joint brokers are WestLB Panmure and Credit Suisse First Boston. Strategic progress.
2. Over the past four years, P&O has taken some major steps that have led to the focus on its three core businesses – cruises, ferries and ports and logistics. Following a strategy announcement in March 1996, the Group floated its Bovis Homes subsidiary, disposed of some smaller businesses and sold over £500 million of property. A further announcement in March 1999 led to the sale of Bovis Construction, Earls Court and Olympia, P&O's Australian services company and more property. Earlier this year P&O announced that it was in detailed discussions for the sale of over £400 million of investment property, a step which will effectively complete the Group's move out of investment property.

Cruises

3. P&O is the world's third largest cruise operator. Princess Cruises operates 9 ships with a total of 14,700 berths, principally targeting the North American market. It is the market leader in all of the high yielding destination trades, notably Alaska and Europe and is expanding in the Caribbean with its highly successful Grand Class Cruising concept. P&O Cruises, the UK's leading cruise line, operates four ships (including the Swan Hellenic ship Minerva) with a total of 4,300 berths. In November 1999 P&O acquired a controlling interest in Aida Cruises, Germany's fastest growing cruise company. P&O also has an Australian cruise subsidiary.
4. In the US the cruise industry has grown at 9% compound for over 10 years. The industry's share of the relevant vacation market, however, is still less than 5%. Underlying demand is strong with market surveys indicating that some 70% of the US population would like to cruise but that only 10% have done so. Demographic trends continue to favour cruising, with the 50-59 age bracket nearly doubling in number from 22 million in 1990 to 41 million in 2010. The UK cruise market has seen a compound annual growth rate of 15% over the last 10 years but is still some way behind

the US in terms of market penetration. The rest of Europe is at an even earlier stage of cruise development while the Far East offers immense opportunities.

Logistics and transport

5. P&O is known throughout the world as a provider of logistics services, particularly in the field of maritime transport. It operates in over 100 countries. The main area for investment recently has been international ports, primarily container terminals. There are 21 such terminals in 15 countries. Total throughput increased last year by 50%, of which 40% was through expansion and 10% through organic growth. The business is making excellent returns and is well placed to benefit from the continuing strong growth in world containerised trade.
6. P&O is the largest operator of freight and tourist vehicle ferries between the UK and the rest of Europe. It operates 50 ro-ro ships on 18 routes. Over half of the total revenue comes from the freight market which has grown at an average of approximately 10% per annum compound over the last five years. P&O Trans European has established a leading position in European business-to-business logistics and has one of the most comprehensive European networks. It is concentrating increasingly on systems led solutions and the opportunities arising from e-commerce. P&O Trans European is a major customer of P&O Ferries. In refrigerated goods, P&O's Cold Logistics is at the forefront of applying advanced technology to the distribution needs of supermarket chains and other retail customers in Australia and the US and, more recently, South America.

Other businesses

7. Apart from the core businesses of cruises, ferries and ports and logistics, P&O still has an interest in cargo shipping and property, albeit at a much reduced level compared to a year ago. Its strategy towards these businesses remains unchanged. P&O and its Dutch partner Royal Nedlloyd are committed to seeking a listing for their container shipping joint venture company P&O Nedlloyd. The market has been gradually improving and there is continuing consolidation in which P&O Nedlloyd is playing an active part. P&O remains committed to moving out of bulk shipping as soon as market conditions permit. There are considerable profits yet to be realised from P&O's property development portfolio. The Group will continue to reduce its interests in this business, having now effectively disposed of its investment property (note 2 above).

(ends)