



P&O AND FESTIVAL CRUISES TO JOIN FORCES

11th May 2000

The Peninsular and Oriental Steam Navigation Company (P&O) and Festival Cruises group announce that they have agreed, subject to contract, to join forces in order to expand in the global cruise business. Festival, one of Continental Europe's leading cruise lines, will join P&O Cruises, Princess Cruises and Germany's Aida Cruises, underlining P&O's position as the world's most international cruise company.

The whole of Festival's cruises business, including its existing fleet of four cruise ships, a newbuilding programme currently underway in France, and its pan-European sales and marketing network of subsidiaries in 10 countries will be included in the merger. Festival will be further developed as an independent brand in cruising under the guidance of its established management team, headed by Chairman and Chief Executive Officer George Poulides.

The consideration to be paid by P&O will be a mixture of cash and shares and will depend partly on future results. With particularly strong profits this would have a value of up to \$400 million. The shares will be in the new cruise company to be created later this year by the demerger of P&O's cruises division.

Festival will add significantly to P&O's share of the fast-growing European cruise markets, reinforcing its position as the global leader in high yield destination cruising. Festival already enjoys a strong platform of cruise sales in most countries of Europe, including significant market shares in France, Germany, Italy, Switzerland, Austria, Spain and the Benelux countries. With Europe continuing to hold high growth potential, Festival's marketing offices in the various countries will be used to further expand the Group's position throughout the Continent.

Festival Cruises will continue to operate and market the four cruise ships Azur, Bolero, Flamenco and Mistral which have established its reputation throughout Continental Europe for offering cruises which rate highly with a wide range of consumers for value, entertainment and service. The newly built 1,200 berth French-flag Mistral was named in June 1999 at a ceremony attended by France's Prime Minister Lionel Jospin and was the first modern cruise ship specifically designed and built for the pan-European market.

Festival's next two ships, each with 1,566 lower berths, are the European Vision and European Dream, scheduled for delivery from the Chantiers de l'Atlantique shipyard in France in June 2001 and April 2002. They will have the same design philosophy which has already made Mistral so popular, with an emphasis on the finest European standards amid a cosmopolitan, informal cruising atmosphere.

Besides the existing newbuilding programme, P&O and Festival are keen to embark on a wider expansion of the Festival brand in the near future so as to keep pace with rapidly growing European demand for cruises in the Mediterranean and other leading destinations. With 350 million people, Europe's potential leisure market is larger than that of the United States and Canada combined. In spite of double-digit growth in recent years, cruising has only reached 0.8% of the annual holiday market so far. Europe will be a prime source of passenger growth in years to come. P&O, with Festival and Aida, will be ideally placed to capitalise on this.

Commenting on the announcement, P&O Chairman Lord Sterling said: "Following our recent investments in Aida and Seetours, this is a further key strategic move in consolidating our position as the leading European cruise company and reinforces our standing as the most international of the major cruise lines. Festival is a dynamic business with a strong brand name and reputation. By combining these strengths with those of the P&O group, we have an excellent platform from which to take full advantage of the strongly growing European cruise market."

Festival Chairman George Poulides said: "P&O is the most prestigious name in cruising and we are delighted to be on the same team. The key theme of today's announcement is expansion and I am

particularly thrilled that we have an identical vision for Festival's growth in the future. It is a great tribute to all our staff and marketing executives across Europe, as well as our ships' crews, who have helped us establish Festival in the front rank of international cruises lines."

Further details will be announced on completion of the transaction.

Further information:

Peter Smith Director - Communications and Strategy
 P&O
 020 7930 4343

(ends)