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PRELIMINARY ANNOUNCEMENT OF 1999 RESULTS

16th March 2000

The Board of The Peninsular and Oriental Steam Navigation Company today announced preliminary results for 1999.

The key figures are as follows:	1999 £m	1998 £m
Total operating profit:		
Continuing operations	577.8	506.8
Discontinued operations	40.2	53.7
	618.0	560.5
Headline profit	474.7	415.9
Profit/(loss) on sale of fixed assets and businesses	50.7	(47.0)
Profit on ordinary activities before taxation	525.4	368.9
Profit attributable to stockholders	402.0	272.0
Earnings per £1 nominal of deferred stock (FRS 3 basis)	60.0p	41.7p

Key points of the results and Chairman's statement

- Headline profit increased by 14 per cent and profit before tax by 42 per cent
- Headline earnings per share increased by 15 per cent and earnings per share by 44 per cent
- Debt/equity ratio down to 38.6 per cent (1998 46.6 per cent)
- Particularly strong performances from Cruises and Ports
- Final dividend increased by 8 per cent from 18.0 pence to 19.5 pence
- Demerger update including capital structure, tax, dividend levels and timetable
- Strong current trading for Cruises
- Excellent growth opportunities for Logistics

Commenting on the announcement, Lord Sterling said: "These excellent results underline the fact that we are preparing for a demerger from a position of strength and that our two new companies have not only an impressive track record but a financial platform and competitive advantage that will provide a sound basis for their future success."

The full text of the Chairman's statement follows.

Lord Sterling will be hosting a presentation of the results for analysts and institutions at 09.00 hours today at the City Presentation Centre, 4 Chiswell Street, London EC1.

Of the Group's net borrowings at the end of 1999, we expect to allocate approximately £700 million to P&O Princess. This will give the company a debt/equity ratio of around 60 per cent before any equity placing in the US. The ongoing P&O will retain around £650 million of the net borrowings at the end of 1999, together with a share of joint venture and associate borrowings of approximately £550 million. Looking forward, the cash outflows from the 1999 final and 2000 interim dividends, and the bulk of the demerger costs, will fall within the ongoing P&O, but these will be offset by the proceeds of property sales. This will give a debt/equity ratio for the ongoing P&O, including the share of joint venture and associate borrowings, of some 50 per cent.

We have received tax clearance in principle from the Inland Revenue for the demerger. Looking ahead, the introduction of a UK tonnage tax will have a significant beneficial effect for P&O Princess which will have a tax rate of around 5 per cent. The ongoing P&O will also benefit from the tonnage tax and will have a tax rate of around 25 per cent.

The interim dividend for the six months ending 30 June 2000 will be declared prior to the demerger. The dividend levels of both P&O Princess and the ongoing P&O will reflect those of comparable companies which, in the case of P&O Princess, will be substantially lower than P&O's current dividend yield. The combined dividends of the two separate companies will therefore be lower than the historic level of dividends paid by P&O. Had the two companies been independent of each other during 1999 the combined recommended total dividends would have been of the order of 25 pence – 12 pence per ordinary share in P&O Princess and 13 pence per £1 nominal of deferred stock in the ongoing Group.

We intend to send a circular to stockholders in early September 2000 giving full details of the proposed demerger, convening an extraordinary general meeting of the Company to approve the demerger and including listing particulars in respect of P&O Princess. Concessionary and preferred stockholders will continue to hold stock in P&O and their rights will be unaffected by the demerger. We also intend shortly to send a circular to holders of the convertible stock proposing that those who convert into deferred stock during the conversion period commencing on 12 April 2000 will benefit from an enhanced conversion rate. This proposal will be subject to class consent of the convertible stockholders and consent of the Company at the annual general meeting. Details will be sent to all stockholders in the Report and Accounts.

Cruises

The Cruises division had another strong year. Our ships sailed 100 per cent full. Net revenue yields maintained the high levels achieved in 1998. Our increasing size and new ships enabled us to reduce our unit costs. As a result, the increase in operating profit once again exceeded the increase in capacity. The return on capital employed, excluding ships under construction, was over 15 per cent.

This is not the first year that we have reported such strong results. Over the last ten years, Cruises' operating profit has increased by 17 per cent compound and our return on capital has consistently exceeded our cost of capital. The factors behind this outstanding performance need to be clearly understood. While some relate to the sector as a whole, others are specific to P&O.

Cruising is still a relatively young industry. Despite demand growing by an average of 8 per cent a year in the US for the past 20 years, it still accounts for less than 5 per cent of the total leisure market. In Europe it is much lower and in Asia lower again. Increased supply has consistently generated increased demand while market surveys indicate that there are still many more people who want to go cruising than have yet done so. In part this is caused by favourable demographics, with the 50-59 year age bracket – the prime cruising age – forecast to double in number in the US between 1990 and 2010. The new ships that are being introduced are also highly attractive and offer a range of features comparable to those of even the most highly specified land based resorts. Cruising's value for money means that it is seen as an increasingly affordable vacation choice.

For all of these reasons, the number of new passengers is growing strongly year by year. Cruising also has high satisfaction levels. The number of repeat cruisers is therefore considerable, at over two thirds in the case of P&O Princess. These factors provide for significant price elasticity. Through selective use of sophisticated yield management systems, small adjustments in price are able to produce marked increases in demand. Finally, the industry is relatively consolidated with the leading operators having a strong position.

P&O Princess is one of the market leaders. We have three of the industry's strongest brands: P&O, Princess and Aida. We are the number one cruise line in the premium segment in the major destination trades in the US. Importantly, however, we are the most international of the three leading cruise companies with approximately 25 per cent of our revenue and profit coming from outside of the US. We are the leading cruise line in the UK. We have the fastest growing cruise company in Germany and we have a strong position in Australia.

Our product is highly attractive. Our ships are consistently recognised as trend setters. We were the first company to introduce balconies on standard cabins with the additional revenue they earn. Over 30 per cent of all the standard cabins in the Princess fleet have balconies, well in excess of our main competitors. The amount of choice and our customer satisfaction programmes have differentiated our product and further increased earnings. Finally, we are continually expanding our IT systems. Travel agents in the US can now book on-line over the internet and we are about to deploy a completely new, state of the art yield management system.

Recently, some comments have been made about pricing pressure in the US. While the pricing environment is indeed tighter this year, we believe the issue has been exaggerated. What has made cruising so successful is that, by keeping prices competitive and offering great value for money, it has grown strongly. This in turn has brought unit costs down and improved margins, with further cost benefits from new, more efficient ships and improved IT and other systems. The benefit of this will reduce if fuel prices stay at their current high levels.

In the case of P&O Princess, I have already remarked that we are more international than our two major competitors and therefore a greater proportion of our earnings comes from outside of the US. Even within the US, our focus is on the destination trades such as Alaska, where we have created a strong land side position, rather than the Caribbean trade. As a premium operator we also tend to attract a slightly more affluent customer.

As a result of these factors, prices for P&O Princess through the summer period are in line with the high levels of last year. At this stage the final quarter of 2000 does not look as strong as last year although this is not surprising as it is a period of significant capacity increase and compares to the last quarter of 1999, when we benefited from the millennium. Having said this, we still expect to sail 100 per cent full at rates that are close to last year and with a high return on capital in a low tax environment. This is despite increasing our overall capacity by 23 per cent. Only in a strong and far from mature market could one expect to achieve such results.

Looking beyond the current year, I would reiterate what I have said about the fundamentals of the industry. The product is improving all the time. It offers exceptionally good value for money and more and more people are going cruising. Once they have taken a cruise there is a strong likelihood that they will do so again. Even in the US there is ample room to grow let alone in other countries such as the UK, where we are introducing Aurora this April. Aida is having a good year and our Australian company is also doing well. We are committed to our expansion programme and to increasing our global reach. We will continue to invest in our brands, reduce unit costs and provide an outstanding product.

The future P&O

Following the demerger, the ongoing P&O will be one of the world's leading logistics and transport companies with excellent growth opportunities. It is the most internationally diverse port operator with a strong track record in a business where there are significant barriers to entry. It is the UK's leading ferry operator. Despite the doubling of capacity on the Short Sea brought about by the advent of Eurotunnel in 1995, followed by the loss of duty free sales in mid-1999, P&O Ferries has made consistently good returns. P&O Trans European now has the coherence and critical mass to become one of the leaders in European business to business logistics. Our cold logistics company has a leading position in its chosen markets. The increased use of a standard e-platform worldwide and laser controlled stock picking has helped it to become one of the world's top six companies in its sector.

These are high growth, high return businesses with significant competitive advantages. In 1999 they increased operating profit by 22 per cent compared to 1998 and made a return on net operating assets of 13 per cent. This is despite the loss of duty free sales and the adverse effect of the strength of sterling on UK exports. We have achieved similarly strong returns for the last five years. By working together and leveraging off each other, these businesses are uniquely positioned to benefit from the increases in world

trade that will result from growth in GDP strengthened by further trade liberalisation and technological change.

The focus on logistics will yield increasing benefits for the ongoing Group as we move forward. The key factors will be our brand name and reputation, financial strength, global presence, customer interface and IT capabilities. P&O is one of very few logistics companies whose name is recognised worldwide. We have a formidable reputation and a strong balance sheet. These are decisive issues when it comes to winning new business. Our ability to win new contracts is further enhanced by having global customers which are common in our different areas of business. Finally, through a Group wide approach to IT development we will be able to apply best practice in each area in order to bring our businesses closer together.

One of the main objectives for the ongoing Group will be to develop these synergies so as to leverage growth in those high return areas where we have a competitive advantage. One recent notable success was the joint venture agreement between P&O Ports, Trans European and Duisburg Port to develop a major inland terminal and logistics centre at Duisburg, Germany.

Our Ports division achieved an excellent result last year with operating profit increasing 60 per cent to £73.1 million (1998 £45.7 million). Container throughput increased by 50 per cent of which 10 per cent was organic and 40 per cent new investment. We now have investments in 19 countries, with 25 container terminals and more than 30 other ports. P&O Ports are located within many of the world's fastest growing economies. Recent success in securing concessions in India and China underlines P&O Ports' position as one of the leading international port developers and service providers. The outlook for the further development of this business remains very positive.

Ferries had a good year, responding well to the loss of duty free in the second half. The freight market on the Short Sea strengthened with improved rates and increased volume. Tourist vehicle rates also increased. After some further adjustment for the loss of duty free in the first half of 2000, and the impact of higher fuel prices, we expect the division to resume its strong growth supported by two new cruiseferries – the world's largest – for the North Sea in 2001 and two new ferries for the Irish Sea later this year.

After some years of development, Trans European has the regional presence and IT systems to achieve good returns. It can now provide a seamless managed logistics chain between raw materials producers, manufacturing plants and distribution centres across Europe. Its web-based customer interface enables it to take over a company's supply chain management down to the level of individual site requirements.

As with Trans European, the P&O brand has played a key role in the expansion of Cold Logistics. From a leading position in the Australian market it has moved successfully into the US, Argentina and Brazil. It has developed a competitive advantage in temperature controlled logistics through the provision of market leading systems and technology in the retail sector, ranging from inventory management to internet fulfilment. There are many good investment opportunities, particularly with the increased demand for outsourcing.

We are announcing separately today that our container shipping joint venture, P&O Nedlloyd, made a small operating profit in 1999. The increase in fuel costs had a significant adverse effect. In other respects the outlook is more positive than it has been for some years. Average revenue rates are gradually improving and a major new cost reduction programme is underway. The industry is continuing to consolidate and there is an approximate balance between supply and demand going forward. In view of its size, capital requirements and the need for consolidation, P&O Nedlloyd should have a quotation in its own right. With profitability improving and a brighter industry outlook, the prospects for achieving this have improved. In the meantime we will continue to exploit the synergies with Ports and Trans European.

The trading environment has also improved for our bulk shipping joint venture, Associated Bulk Carriers. Rates have improved considerably over the past few months although higher fuel costs have had an adverse effect. This company will become independent as soon as market conditions permit.

Our Property division had an excellent year. We achieved significant disposals from our investment property portfolio, taking advantage of strong market conditions. Although some sales remain to be completed, we have largely left that business, a year or more in advance of our original timetable.

Property development contains many profitable opportunities from which the ongoing P&O will continue to benefit as individual projects come to fruition and capital employed reduces.

The Board

With the sale of the Bovis Group last year, Sir Frank Lampl stood down from the Board. Tim Harding, who is responsible for our Property division, will be retiring from the Board in April this year. I should like to pay tribute to their splendid contributions to the company. We have benefited greatly from their immense knowledge of their areas of business as well as their wider perspective.

I was very pleased to welcome Peter Smith to the Board. He joined the Group in 1994 and has executive responsibility for communications, investor relations and other corporate affairs.

Employees

Our employees played a critical part in achieving our excellent results last year. The credit is even greater as the success has come at a time when the Group is undergoing considerable change. In thanking them for their contribution I have in mind those whose businesses have now left the Group as well as those who remain with us. The demerger of P&O Princess and the focus on logistics in the ongoing Group will provide new opportunities as well as further change. I am sure that our employees will once again be more than equal to the challenges ahead.

The future

As we approach our demerger I am pleased to report that our two main streams of business are trading well. Our companies are world class and we are moving forward from a position of strength. The demerger will enable both businesses to pursue the strategies that best meet their long term objectives and to accelerate their future growth. It is very much in the interests of our stockholders, customers and employees.

The Lord Sterling of Plaistow CBE
Chairman
16 March 2000

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London SW1Y 5EJ

SUMMARISED GROUP BALANCE SHEET	1999	1998
	£m	£m
Goodwill	105.1	6.8
Ships	2,106.8	1,877.8
Properties	1,150.3	1,351.7
Other fixed assets	511.1	567.7
Investments	956.3	900.5
Development and dealing properties	374.7	359.9
Stocks	108.0	125.0
Debtors	932.8	1,106.4
	6,245.1	6,295.8
Net borrowings (note 7)	(1,335.9)	(1,392.0)
Other creditors and provisions	(1,369.4)	(1,876.4)
Equity minority interests	(82.3)	(39.7)
Stockholders' funds (note 1)	3,457.5	2,987.7

SUMMARISED GROUP CASH FLOW	1999 £m	1999 £m	1998 £m	1998 £m
Net cash inflow from operating activities and dividends from joint ventures and associates		681.8		625.6
Returns on investments and servicing of finance	(125.7)		(135.0)	
Taxation paid	(84.4)		(51.0)	
		(210.1)		(186.0)
Purchase of fixed assets and investments	(434.0)		(661.7)	
Sale of fixed assets and investments	45.5		602.4	
Purchase of subsidiaries, minority interests, joint ventures and associates	(250.1)		(174.8)	
Sale of subsidiaries, joint ventures and associates	569.4		88.3	
		(69.2)		(145.8)
Equity dividends paid		(282.1)		(53.2)
Net cash inflow before management of liquid resources and financing		120.4		240.6

NOTES

1. Reconciliation of movements in stockholders' funds

	1999 £m	1998 £m
Profit for the financial year attributable to stockholders	402.0	272.0
Surplus on valuation of properties	7.6	16.8
Surplus on valuation of properties held by associates and joint ventures	1.4	7.2
Taxation on valuation surpluses	(27.8)	-
Exchange movements on foreign currency net investments	37.1	(32.6)
Total recognised gains and losses for the year	420.3	263.4
Dividends	(227.8)	(213.1)
Scrip dividend alternative	-	66.2
New stock issued	166.2	52.5
Goodwill on disposals	111.1	0.4
Net change in stockholders' funds	469.8	169.4
Stockholders' funds at the beginning of the year	2,987.7	2,818.3
Stockholders' funds at the end of the year	3,457.5	2,987.7

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2. Turnover and net operating assets

	Turnover		Net operating assets	
	1999 £m	1998 £m	1999 £m	1998 £m
Continuing operations:				
Cruises	1,330.1	1,141.1	1,983.3	1,670.2
Ports, ferries and logistics	1,822.2	1,659.3	1,428.6	1,044.9
Cargo shipping	-	44.9	852.7	859.4
Property	519.7	351.7	1,480.4	1,754.3
	3,672.0	3,197.0	5,745.0	5,328.8
Discontinued operations	2,464.6	2,714.7	-	136.6
	6,136.6	5,911.7	5,745.0	5,465.4

Net operating assets include ships under construction of £233.5 million (1998 £104.5 million) within Cruises and £19.5 million (1998 £nil) within Ports, ferries and logistics.

Operating profit	Six months to 30 June		Six months to 31 December		Twelve months to 31 December	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Continuing operations:						
Cruises	108.5	90.7	142.2	125.4	250.7	216.1
Ports, ferries and logistics	58.6	34.5	102.8	98.3	161.4	132.8
Cargo shipping	(23.5)	(4.9)	4.3	13.1	(19.2)	8.2
Property	88.2	76.0	96.7	73.7	184.9	149.7
	231.8	196.3	346.0	310.5	577.8	506.8
Discontinued operations	28.6	27.3	11.6	26.4	40.2	53.7
	260.4	223.6	357.6	336.9	618.0	560.5

In 1998 Ports, ferries and logistics included £18.4 million of reorganisation costs (£9.6 million to 30 June 1998).

The figures for the six month periods given above are unaudited. The effect of acquisitions in 1999 is not material.

3. Ports, ferries and logistics

	Turnover		Net operating assets	
	1999 £m	1998 £m	1999 £m	1998 £m
Ports	368.2	247.9	669.4	347.1
Ferries	433.2	472.2	415.1	418.5
Logistics	1,020.8	939.2	344.1	279.3
	1,822.2	1,659.3	1,428.6	1,044.9

Operating profit	Six months to 30 June		Six months to 31 December		Twelve months to 31 December	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Ports	26.9	19.8	46.2	25.9	73.1	45.7
Ferries	19.2	3.6	40.8	59.0	60.0	62.6
Logistics	12.5	11.1	15.8	13.4	28.3	24.5
	58.6	34.5	102.8	98.3	161.4	132.8

In 1998 Ferries included £18.4 million of reorganisation costs (£9.6 million to 30 June 1998).

Maritime services, previously included within cold logistics and services, is now included within ports.

Logistics includes P&O Trans European (1999: £13.3 million; 1998: £10.2 million) and P&O Cold Logistics (1999: £15.0 million; 1998: £14.3 million).

4. Further analysis of operating profit for Cargo shipping, Property and discontinued operations is as follows:

	Six months to 30 June		Six months to 31 December		Twelve months to 31 December	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
P&O Nedlloyd	(12.9)	(2.0)	13.9	21.7	1.0	19.7
Bulk shipping	(10.6)	(2.9)	(9.6)	(8.6)	(20.2)	(11.5)
	—	—	—	—	—	—
Cargo shipping	(23.5)	(4.9)	4.3	13.1	(19.2)	8.2
	—	—	—	—	—	—
Property development	47.1	31.3	56.9	30.4	104.0	61.7
Investment property	41.1	44.7	39.8	43.3	80.9	88.0
	—	—	—	—	—	—
Property	88.2	76.0	96.7	73.7	184.9	149.7
	—	—	—	—	—	—
Bovis	12.1	9.3	* 7.5	11.4	* 19.6	20.7
Earls Court Olympia	13.7	13.4	* 0.7	9.8	* 14.4	23.2
Australian services	2.8	4.6	* 3.4	5.2	* 6.2	9.8
	—	—	—	—	—	—
Discontinued operations	28.6	27.3	11.6	26.4	40.2	53.7
	—	—	—	—	—	—

* up to date of sale

5. Depreciation and amortisation

	1999 £m	1998 £m
Cruises	74.3	56.7
Ports, ferries and logistics	83.1	72.4
Cargo shipping	-	6.1
Property	1.5	2.1
Discontinued operations	13.0	16.7
	—	—
	171.9	154.0
	—	—

6. The taxation charge comprises:

	1999	1998
	£m	£m
United Kingdom	(25.2)	(45.2)
Overseas	(77.5)	(35.7)
Joint ventures	(3.7)	(9.4)
Associates	(3.1)	(0.6)
	(109.5)	(90.9)

Included in the taxation charge, there is a charge of £24.1 million (1998 £0.6 million credit) in respect of profits and losses on sale of fixed assets and businesses.

7. Net borrowings include loans of £1,423.7 million (1998 £1,473.8 million), short term borrowings and overdrafts of £22.7 million (1998 £65.0 million) less short term investments and cash of £110.5 million (1998 £146.8 million). In the Company's statutory accounts, short term borrowings and overdrafts are included within other creditors and short term investments and cash are included within current assets. The debt/equity ratio, taking net borrowings as a percentage of stockholders' funds, is 38.6 per cent (1998 46.6 per cent).
8. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 1998 and 31 December 1999. The 1998 report and accounts have been delivered to the registrar of companies, and those for 1999 will be delivered following the Company's annual general meeting. The auditors have reported on these accounts; their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

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