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P&O TRADING UPDATE: JANUARY TO MARCH 2005

This is the first quarter trading update for P&O's ports, ferries and other businesses. It is anticipated that a pre-close trading statement will be made on 22 June ahead of the interim results scheduled for 11 August.

Q1 Highlights

- The overall trading environment for Ports remains strong, enabling tariff increases to be achieved and leading to profit growth ahead of volume growth. Organic growth in container volumes was 7%, with growth of 17% in China and India;
- In Ferries, Q1 was impacted by the lack of berthing capacity at Calais, but this problem is now largely resolved. The implementation of the fundamental business review has gone well and the new product is operating successfully;
- Cold Logistics reported a stable Q1 with good trading conditions in the USA and Australia, albeit with some labour cost pressures in Australia; and
- Net property sales agreed to date are over £160 million and are on track to achieve the target of £250 million for the full year.

Outlook

- The trading performance of our main businesses is positive and the outlook is consistent with expectations for the full year.

Robert Woods, P&O Chief Executive said: "We are encouraged by this first quarter performance, particularly in our Ports business where we have seen significant volume growth in China and India. Whilst the market for Ferries remains challenging, overall it is stable, and this is allowing us to see the benefits of our fundamental business review coming through."

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PORTS

	Throughput ⁽¹⁾ (TEU ⁽²⁾ '000)	
	Q1	
	2005	2004
By Region		
Asia	1,524	1,365
Americas	552	501
Europe	892	905
ANZ	474	438
Total	3,442	3,209

- (1) Throughput is reported on an equity-adjusted basis, i.e. 100% of volumes through subsidiaries plus the equity share of associate and joint venture volumes. Therefore equity-adjusted throughput recognises the actual volume that contributes to P&O Ports' earnings as reported in its profit and loss statement.
- (2) TEU = twenty foot equivalent unit. This is a standard size of container and a common measure of capacity in the container logistics business.

Overview

1. For Q1 2005, total and organic container volume growth compared to Q1 2004 was 7%. Good growth was achieved in Asia, with 17% average growth in China and India, offset by weakness in the Philippines and Indonesia. Growth in Australia and the Americas returned to more normal levels. In Europe container volumes were slightly reduced, with a focus on higher yielding traffic in Antwerp and unchanged volumes in Southampton. With new capacity being introduced ahead of the peak season in the second half, overall volume growth is expected to accelerate during the year.
2. Tariff increases were either implemented or agreed at a number of locations. These are more than offsetting cost pressures, allowing profit growth to exceed volume growth.

Asia

3. Volume growth in Asia was 12%. Strong growth of 17% was achieved in China and India but was offset by lower volumes in the Philippines and Indonesia.
4. In India, during Q1, two quay cranes and a rail mounted gantry crane were commissioned at Mundra and a new quay crane and four rubber tyre gantries were commissioned at Chennai as those terminals continue to be developed to meet growth in demand. In Pakistan, an additional 10 acres of land was leased from the port authority to meet high demand for more capacity and five new rubber tyre gantries were also commissioned.
5. In China, the facilities at both Qingdao and Shekou continued to perform well.

6. At Surabaya in Indonesia, container volumes were static compared to Q1 2004 reflecting reduced international trade. At ATI in the Philippines, the weak local economy led to lower container volumes and a static non-container market compared to 2004. Good volume growth was achieved at Laem Chabang in Thailand.

Americas

7. Volume growth of 10% was achieved across the Americas. Volumes were strong in the US and the performance of the Port Newark container terminal continued to improve despite the winter weather being more severe than the prior year. The non-containerised businesses performed well, particularly in New Jersey, although competitive pressure remains at some sites.
8. In Argentina volumes returned to anticipated levels compared to the high volumes in 2004. At Vancouver reasonable volume growth was achieved although some congestion occurred due to a lack of rail capacity and expansion work at the terminal. The redevelopment to double the size of the terminal remains on track for Q3 2005.

Europe

9. Container volumes were slightly reduced in Europe. In Antwerp, one shipping line relocated volume to its own dedicated terminal, allowing P&O to focus on higher yielding traffic. The Antwerp Gateway (Deurganckdok) development is on track to commence operations in the second half of the year.
10. In the UK, an additional 4 acres of land were obtained at Southampton during February and capacity is being increased from 1.5 million to 1.9 million teus to accommodate 'peak season' demand for 2005. The loss of one service to a competing terminal during the 2004 'peak season' held back volumes at Southampton in Q1.

ANZ

11. Volume growth was 8%. Good growth was achieved at the major Australian facilities and productivity improvements were sustained. The significant improvement in the transport and logistics operations reported in 2004 continued and strong Asian trade flows also benefited the bulk and general businesses.

FERRIES

Carryings ('000)	Q1	
	2005	2004
Freight Units		
Short Sea	206	234
Other Routes	212	200
Total	418	434
Cars & Coaches		
Short Sea	169	246
Other Routes	70	58
Total	239	304
Passengers		
Short Sea	1,144	1,537
Other Routes	382	360
Total	1,526	1,897

- (1) 'Short Sea' is the Dover-Calais route. 'Other Routes' is an aggregation of P&O Ferries' other routes around the UK, on the North Sea, the Irish Sea and the Western Channel.
- (2) Carryings are reported for continuing routes only and consequently the data has been restated to exclude the routes that have been closed or discontinued during 2004/5. These are the Mostyn-Dublin, Dublin-Cherbourg, Rosslare-Cherbourg and Fleetwood-Larne routes on the Irish Sea and the Portsmouth routes to Caen and Cherbourg on the Western Channel. Further, carryings are excluded for the loss making Portsmouth-Le Havre route which, subject to consultation, is anticipated to close at the end of September 2005. In Q1 carryings on the Portsmouth-Le Havre route were: freight 14,000 units (2004: 18,000), cars & coaches 32,000 units (2004: 27,000) and passengers 114,000 (2004: 104,000).

Overview

1. Fundamental Business Review – implementation of the review has gone well with successful changes made to the product and cost savings ahead of schedule. Almost 1,000 of the originally planned 1,200 headcount reductions have now been implemented and other proposals such as more flexible manning are also operating successfully. Full details of the proposals announced in September 2004 can be found in the investor section of the company website at www.pogroup.com.
2. Calais – berthing restrictions at Calais port, which is operated by the local Chamber of Commerce, meant that approximately 20% of P&O's sailings were lost on the Short Sea in Q1. Freight carryings held up reasonably well but tourist traffic was particularly impacted, with the sailings lost occurring during the busier period within the quarter. We are now operating close to a full service and the situation should be completely resolved within the next month. It is estimated that the financial impact will be more than the £5 million previously indicated but the additional impact is being offset by the cost savings noted above being ahead of schedule. Hence our expectations for the full year result are unchanged.

Freight

3. For Q1, P&O's total freight carryings were 4% lower than 2004. Short Sea carryings were only 12% lower despite approximately 20% of sailings being lost due to the berthing issues at Calais. On other routes, carryings were 6% ahead of 2004. This reflected good market growth on the North Sea whilst on the Irish Sea P&O carryings benefited from disruption to a competitor's services. Average net freight rates (for continuing routes) were in line with Q1 2004.

Tourist Vehicles and Passengers

4. For Q1, P&O's total tourist vehicle and passenger carryings were approximately 20% lower than 2004. Average tourist rates per unit (for continuing routes) were slightly improved year on year and benefited from a reduced proportion of lower rated day-trip traffic. Average on-board spend per head (for continuing routes) was slightly down year on year.
5. On the Short Sea, P&O's tourist vehicle carryings were 31% lower than 2004 and passenger carryings were 26% down due to the issues at Calais. On other routes tourist vehicle carryings were 21% ahead and passenger carryings were 6% ahead of the previous year. These increases reflected Easter tourist carryings falling into Q1 in 2005 and also the benefit of operating more sailings on the Portsmouth-Bilbao route compared to 2004.

(ends)