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P&O TRADING UPDATE: JULY TO SEPTEMBER 2004

This is the third quarter update in 2004 for P&O's ports, ferries and other businesses.

Key Points for Q3

- Organic growth in Ports' container volumes was 16%. Record container volumes continue to be handled in P&O terminals in China, India and Pakistan. Despite exchange rates remaining unfavourable and congestion affecting some locations there has been no change in the expected result for the full year with profit growth in the second half anticipated to be ahead of volume growth;
- Ferries' peak season tourist vehicle and passenger carryings were comparable to the prior year, despite a weak overall market, and freight volumes grew strongly. As anticipated at the half year, tourist and freight rates were down on the prior year and hence there is no change in the expected result for the full year. The implementation of the restructuring proposals announced on 28 September is on track;
- Cold Logistics reported good trading in the Americas and stable trading in Australia; and
- Property disposals are on track to achieve the company's net sales target of £250 million by the end of the year.

The next quarterly update (October to December 2004) is scheduled for 8 March when P&O expects to announce its preliminary results. Prior to then, it is anticipated that a pre-close period statement will be made on 15 December.

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PORTS

	Throughput ⁽¹⁾ (TEU ⁽²⁾ '000)			
	Q3		Year to Date	
	2004	2003	2004	2003
By Region				
Asia	1,481	1,217	4,275	3,430
Americas	552	481	1,614	1,304
Europe	1,040	889	2,935	2,275
ANZ	465	410	1,357	1,205
Total	3,538	2,997	10,181	8,214

(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.

Key Points

1. In Q3, throughput was 18% higher than 2003 with 16% attributable to organic growth. Year to date, throughput was 24% higher than 2003 with 16% attributable to organic growth. P&O Ports continued to experience good growth in container volumes across most locations with a number of facilities in China, India and Pakistan continuing to handle record volumes. This growth has resulted in congestion at some terminals which are currently operating at close to capacity.
2. All P&O Ports facilities have been certified as being in compliance with the International Ship and Port Facility Security Code ('ISPS') which came into effect in July 2004. Compliance costs were not material and are being recovered from the end users of some facilities where appropriate.

Asia

3. Asia continued to report good growth. Volumes were particularly strong in China and Pakistan and there was good growth in India despite the NSICT terminal in Mumbai being full. At ATI in the Philippines, the depressed local economy resulted in lower volumes than the previous year.
4. In India, the inland logistics (rail and off-dock storage facilities) supporting the port of JNPT in Mumbai found it difficult to accommodate the level of growth being experienced by the port as a whole and consequently the NSICT terminal suffered from congestion. The container terminal at Chennai achieved record volumes and productivity levels following the completion of civil works. In August, P&O secured the rights to invest in Bengal Port Ltd which has signed development and concession agreements for a port development at Kulpi, West Bengal. The project is subject to feasibility studies and could be operational by 2007. It is estimated to comprise an ultimate capacity of 1 million teus and investment of US\$235 million.
5. In China, the new facilities at both Qingdao and Shekou are performing well and trade continues to grow strongly.
6. Elsewhere, lower levels of growth were experienced at Surabaya, reflecting weak international trade with Indonesia. At LCIT in Laem Chabang, Thailand new equipment was commissioned at the new C3 terminal which is operating at high productivity levels.

Americas

7. Good volume growth was generally achieved across the Americas although operations in Florida and the Gulf of Mexico were adversely impacted by a worse than normal hurricane season.
8. In the USA, all activities are governed by labour supply agreements with the International Longshoreman's Association ('ILA'). These agreements have been renewed from 1 October 2004 for a period of 2 years. Compared with 2003, throughput at PNCT in New York continued to benefit from the completion of construction work at the terminal earlier in 2004.
9. In Canada, volumes continue to grow steadily ahead of the planned expansion of the terminal in Vancouver. In Argentina, volume growth returned to more normal levels following the very high growth rates earlier in the year as the economy recovered.

Europe

10. Some congestion was experienced at Antwerp, Belgium and Le Havre, France where the facilities are operating at close to capacity. At Antwerp, development of the new Deurganckdok facility is ongoing with operations expected to commence in the second half of 2005. In France, the P&O and CMA CGM joint venture recently signed a 36 year concession to equip and operate the first phase of the Le Havre Port 2000 project which is anticipated to be operational in 2006. It involves gross capacity of 675,000 teus and investment by the joint venture company of approximately €100 million.
11. Volumes in Southampton grew in Q3 but the terminal is now operating close to its current capacity. Further capacity is being added to cater for growth in the period 2005 – 2007. We await a decision from the Secretary of State on the proposed London Gateway Port development where the first two berths would potentially come into operation by late 2007/early 2008.

ANZ

12. Good growth was achieved across all the Australian facilities and productivity improvements have been sustained.

FERRIES

	Carryings ('000)			
	Q3		Year to Date	
	2004	2003	2004	2003
Tourist Vehicles				
Short Sea	531	532	1,178	1,232
Other Routes	328	325	691	685
Total	859	857	1,869	1,917
Passengers				
Short Sea	3,097	3,111	7,290	7,489
Other Routes	1,288	1,261	2,813	2,788
Total	4,385	4,372	10,103	10,277
Freight Units				
Short Sea	259	241	738	723
Other Routes	234	216	694	662
Total	493	457	1,432	1,385

- (1) 'Short Sea' is the Dover-Calais route. 'Other Routes' is an aggregation of P&O Ferries' other routes around the UK, namely North Sea, Irish Sea and the Western Channel.
- (2) Carryings are reported for current routes only and consequently the data has been restated to exclude the routes that have been closed or discontinued during 2003/4. These are the Mostyn-Dublin, Dublin-Cherbourg and Fleetwood-Larne routes on the Irish Sea.

Tourist Vehicles and Passengers

1. For Q3, P&O's total tourist vehicle and passenger carryings were comparable to the prior year despite an overall decline in the market. As anticipated, average tourist rates per unit were down 8% year on year and consequently, for the year to date, average rates were the same as 2003. Average on-board spend per head was down 19% in Q3 and year to date as the increase in French tobacco duty introduced in Q4 2003 continued to have an impact.
2. On the Short Sea, the overall car market declined by approximately 1% and the coach market declined by approximately 4%. However, P&O's tourist vehicle and passenger carryings were only slightly down. On other routes tourist vehicle carryings were 1% ahead and passenger carryings were 2% ahead of the previous year. This reflected increased carryings on the Western Channel due to the net benefit of the new Portsmouth-Caen route, offset by a difficult market with Anglo-French volumes down 3% year on year. There were reduced carryings across most other sectors.

Freight

3. For Q3, P&O's total freight carryings were 8% ahead of 2003 on both the Short Sea and other routes. For Q3 and year to date average rates per unit were down 8% year on year but were broadly stable compared to the first half of 2004. On the Short Sea P&O's carryings grew in line with market growth. On other routes there was strong growth on the North and Irish Seas offset by weakness on the Western Channel.

Fundamental Business Review

4. P&O announced the results of its Fundamental Business Review on 28 September. Implementation of the proposals is progressing on schedule. Full details can be found in the investor section of the company website at www.pogroup.com.

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