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P&O PRELIMINARY ANNOUNCEMENT OF 2004 RESULTS

Key Points

- Pre-exceptional profit before tax up 65% to £170.2 million (£103.2 million);
- Ports trading profit up 24% (34% in constant currency) and container throughput up 22% to a record 13.8 million teus;
- Trading conditions for Ferries challenging but good progress in implementing conclusions of fundamental business review;
- Exceptional items of £380.2 million, principally for Ferries as previously announced;
- Net property disposals of £371 million against a target of £250 million;
- Strong cash inflow with net debt reduced to £1,029.6 million (£1,502.7 million); and
- Recommended final dividend of 6.0p (full year 9.0p), in line with previous announcement.

Outlook

- Good start to the year for Ports;
- New Ferries product well received;
- P&O Nedlloyd continuing to trade well;
- Further significant property sales already achieved; and
- Group operating profit, excluding rapidly reducing property business, anticipated to improve further in 2005.

Financials	2004	2003
	£m	£m
Turnover	3,057.4	4,137.9
Pre-exceptional operating profit on continuing operations	268.3	202.7
Interest	(98.1)	(111.3)
Pre-exceptional profit before tax	170.2	103.2
Exceptional items before tax	(380.2)	(23.2)
(Loss)/profit before tax	(210.0)	80.0
EPS before exceptional items and goodwill amortisation	19.4 p	12.4 p
Basic EPS	(34.7) p	6.5 p
Dividend per £1 nominal of deferred stock	9.0 p	13.5 p

Note: Exceptional items are primarily impairment charges, reorganisation costs and profits and losses on sale of businesses. Trading profit is operating profit before exceptional items.

Comment by P&O Chief Executive, Robert Woods

“The Group results reflect a substantial improvement in trading performance. We also made considerable strategic progress during the year. Excluding our rapidly reducing property business, where we have announced net sales of over £500 million since the beginning of last year, operating profit is anticipated to improve further in 2005.”

An interview with Robert Woods, Chief Executive, and Nick Luff, Chief Financial Officer, will be available from 07.00 hours on www.pogroup.com and www.cantos.com.

A presentation of the results for analysts and investors will be held at 09.00 hours today at Deutsche Bank, 75 London Wall, London, EC2M. This presentation will be video webcast live on the Group website www.pogroup.com. Details can be found in the Investor section.

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P&O is a leading developer and operator of container ports around the world. This business achieved volume growth of over 20% in 2004 and accounts for half of the Group’s net operating assets. P&O is a major ferry operator in the UK. It provides cold logistics services internationally and is selling down its development property portfolio which is now located mainly in the US. It also holds a 25% interest in Royal P&O Nedlloyd N.V., one of the world’s largest container shipping lines.

PRELIMINARY STATEMENT

GROUP PERFORMANCE

Results and dividend

The Group results reflect a substantial improvement in trading performance. Operating profit from continuing operations before exceptional items increased to £268.3 million (£202.7 million) despite adverse currency movements of approximately £20 million. Strong profit growth was achieved in our major business, Ports, while the cyclical upturn continued to benefit Container Shipping. Ferries experienced difficult trading conditions which led to a fundamental business review, the results of which are now being successfully implemented.

Pre-exceptional profit before tax increased 65% to £170.2 million (£103.2 million). There were significant exceptional items (primarily impairment and reorganisation charges and profits and losses on sale of businesses) totalling £380.2 million (£23.2 million) before tax of which £267.1 million related to the restructuring of Ferries announced in September and £65.4 million to the restructuring of the Group's interest in P&O Nedlloyd. After exceptional items, interest and tax, the Group recorded a loss of £235.4 million (profit £59.2 million).

Before exceptional items and goodwill amortisation, the earnings per £1 nominal of deferred stock were 19.4p (12.4p). The basic and diluted loss per £1 nominal of deferred stock was 34.7p (earnings 6.5p). In line with the announcement of future dividend policy on 2 February 2004, the Board recommends a final dividend of 6.0p per £1 nominal of deferred stock which, together with the interim dividend of 3.0p, would give a total dividend of 9.0p for 2004. The dividend will be paid on 1 June 2005 to deferred stockholders on the register at the close of business on 29 March 2005.

Cash Flow and Financial Position

Net cash inflow from operating activities and dividends from joint ventures and associates increased significantly to £439.1 million (£310.7 million), principally due to property sales. Net capital expenditure was an inflow of £220.8 million (£411.1 million outflow) with property and business disposals more than offsetting capital expenditure in Ports and other divisions. Consequently, after interest, tax and dividend payments, there was a net cash inflow of £448.1 million (£304.0 million outflow).

The cash inflow led to a reduction in net borrowings to £1,029.6 million (£1,502.7 million). Stockholders' funds reduced to £976.3 million (£1,310.1 million) mainly due to the exceptional items. The debt to capital ratio was 50.2% (52.8%).

The detailed position regarding pensions and the estimated effect of International Financial Reporting Standards are provided in notes 13 and 16 respectively to this statement.

STRATEGIC PROGRESS

2004 was an important year in P&O's strategic development.

A major objective was achieved with the restructuring of the Group's interest in container shipping. P&O now holds a 25% interest in the listed Royal P&O Nedlloyd N.V. Whilst we would not rule out a sale of some or all of our shares at a price that recognised the full potential of the company, we are comfortable with our shareholding. The industry remains cyclical but we believe that the prospects for the company are highly positive. The relationship with Ports continues to develop and this will be a key factor in any future decisions.

£140 million was invested in expanding the Ports portfolio, notably at Qingdao in China, Mundra and Chennai in India, Antwerp and Southampton in Europe and in Australia. International trade is continuing to grow strongly and P&O is benefiting from having many of its container terminals in fast developing locations where demand is outstripping supply. Ports will remain the focus of our capital investment.

In September we announced proposals to change fundamentally the way we run our Ferries business in response to difficult industry conditions. Those proposals are being implemented quickly following agreement with trade unions and the benefits are starting to be seen.

We achieved net property sales of £371 million, considerably ahead of our target of £250 million. As a result, significant capital has been realised and Property net operating assets were reduced from £808.0 million to £465.9 million.

DIVISIONAL PERFORMANCE

Ports

Ports total trading profit increased to £153.8 million with the strong growth reported in the first half continuing throughout the year. Total operating profit increased to £158.1 million (£129.1 million) including a net benefit of £4.3 million for exceptional items.

Excluding the Maritime Services business, part of which was sold in 2003, Ports trading profit increased by 24% to £146.9 million (£118.5 million). Adverse currency movements held back earnings by £12 million. On a constant currency basis, trading profit increased by 34%.

Total container throughput grew 22% to a record 13.8 million teus. Organic volume growth was 15%. Net operating assets increased to £1,202.2 million (£1,170.6 million). Return on average capital employed at ports we have operated for more than five years increased to 18% (16%), a particularly strong result.

Asia

Our Asian terminals increased trading profit by 23% to £84.6 million (£69.0 million) with strong organic volume growth of 18%.

In China, significant volume and profit growth was achieved at Qingdao following the handover of an additional four berths, making a total of eight berths with a potential throughput of over 4 million teu. Shekou also grew strongly with a new facility becoming fully operational in February 2004.

In India, Nhava Sheva (Mumbai) again performed well although it is now at capacity. Chennai continued to grow strongly and the recent start up terminal at Mundra moved into operating profit. In Pakistan, growth in volumes and a high contribution from ancillary services such as container storage led to strong profit growth at Port Qasim.

The difficult economic environment in the Philippines led to static container volumes at ATI and weak non-containerised cargo volumes. In Indonesia, slower economic growth also resulted in disappointing international container volumes at Surabaya.

Americas

Our ports in the Americas significantly improved trading profits to £16.2 million (£13.2 million) with organic volume growth of 17%. This reflected some improvement at Port Newark (New York) where reconstruction of the main part of the terminal was completed during 2004 leading to customer gains, improved volumes and better utilisation. TRP in Argentina achieved good volume growth, particularly in the first half of the year. The terminal in Vancouver progressed well and increased tariffs were achieved. Agreement has been reached to double the size of the existing container terminal under a new 51 year lease from the port authority. Non-containerised business in the Americas was mixed with certain sites experiencing local competitive pressure.

Australia

Trading profit increased to £26.9 million (£17.7 million) with organic volume growth of 14%. There was a significant improvement in logistics and transport, and also in the non-containerised business which benefited from the easing of the drought experienced in 2003. The business also benefited from strong trade flows with Asia for both containerised and non-containerised cargo. Increased container productivity was achieved, particularly in Sydney and Melbourne.

Europe

Trading profit increased to £19.2 million (£18.6 million) with organic volume growth of 10%. Profit growth was held back at Southampton due to increased labour costs in order to support planned increases in capacity. Expansion is underway to increase capacity from 1.5 million to 1.9 million teus. Our operation at Antwerp suffered from congestion as did the terminal at Le Havre. Major expansion is underway at Antwerp, to benefit from the continuing good growth in demand, and the Le Havre 2000 project is due to commence operations in 2006. In the UK, a decision by the Secretary of State for Transport on the proposed port development at London Gateway is awaited.

Maritime Services

Operating profit was £6.9 million (£10.6 million) reflecting the impact of the disposal of our 50% interest in the International Offshore Services business in June 2003. The remaining parts of the business made a sound contribution.

Ferries

Ferries reported a trading loss of £15.4 million (£0.2 million). The result includes the Ferrymasters business which reported a loss of £1.9 million (£0.1 million). After reorganisation and impairment charges of £266.0 million (£39.8 million), the operating loss was £281.4 million (£40.0 million).

On a like for like basis, net revenue (turnover less direct variable costs) declined by £34.0 million compared to 2003. Freight volumes grew by 5%, despite reduced capacity on the Short Sea, but average net freight rates declined by 8%. Tourist vehicle volumes were down 5% year on year, mainly attributable to the Short Sea, but average net tourist vehicle rates were up 3% despite significant price competition over the summer period. Passenger numbers decreased 3% and the net on-board spend per passenger fell sharply because of the impact of the rise in cigarette prices following the increases in French tobacco duty. As a result, net revenue generated from on-board sales was down by 23%. The decline in total net revenue was only partially offset by cost reductions, hence the trading result was £15.2 million lower than 2003.

These adverse trading conditions led to a fundamental business review, the conclusions of which were announced on 28 September. We are now focusing increasingly on freight, which is growing strongly, and we have a simplified tourist product targeting lower volumes of premium traffic. We are operating on fewer routes with fewer ships and a cost base that is becoming substantially lower and more flexible. Total profit improvements of £55 million a year are on schedule and we are confident that they will be fully delivered as planned by 2006. Following the decision by Brittany Ferries not to take on our Portsmouth-Le Havre route, total implementation costs are estimated at £83.9 million. The review included a reassessment of the carrying value of Ferries' assets, which resulted in an impairment charge of £182.1 million and a £1.1 million write down of investments.

Cold Logistics

Cold Logistics reported a trading profit of £17.4 million. After an impairment charge of £10.0 million, the operating profit was £7.4 million (£16.4 million). Net operating assets are now £189.5 million (£218.9 million).

The US had a good year with 4% revenue growth in local currency despite the sale of two small facilities which reduced capacity by 4%. Improved operating performance and productivity gains led to higher profit. In Australia revenue also grew 4% in local currency but a tight labour market and new contract start up costs resulted in profits remaining similar to 2003.

Following a change in approach to supply chain management by some major retailers in Australia, it is unlikely that some contracts, which expire in 2006 and 2008, will be renewed in their current form. We believe that the surplus capacity that may result at some sites can be managed effectively. However, the carrying value of the

relevant facilities has been reviewed in the light of this anticipated change, resulting in the impairment charge of £10 million.

Container Shipping

P&O's share of the results of P&O Nedlloyd was an operating profit of £55.5 million (£17.6 million). P&O now holds 25% of Royal PONL which reported its full year results on 3 March (see www.ponl.com). These included an operating profit from container shipping of US\$401.0 million (US\$77.0 million). The strong upturn was due to a 13% average freight rate increase and 10% underlying volume growth.

Property

The Property trading result was £57.0 million (£39.8 million) before impairment charges of £31.0 million (nil). Operating profit was £26.0 million (£39.8 million).

Total gross sale proceeds were £500 million with net sale proceeds of £371 million. Significant sales were made in the US. The Australian resorts and La Manga Club were sold together with part of the Hanseatic Trade Centre (HTC) joint development in Germany and the Manchester Arena in the UK. Offsetting these gross sales was development spend of £129 million, largely in the UK.

In January, it was announced that the remainder of HTC had been sold. This resulted in an impairment charge of £60.2 million, of which £31.0 million is included in operating profit as noted above and a further £29.2 million as a write down to the investment.

OUTLOOK

2005 has seen a good start for our Ports business. World containerised trade is growing strongly and many of our ports benefit from a favourable local competitive environment. We expect to invest approximately £1 billion of capital to the portfolio over the next five years. At the end of 2004, our total capacity was over 15 million teu, with expansion rights which could increase this to 31 million teu. By the end of 2005, we expect total capacity to be approximately 17 million teu. If we succeed with our proposal for London Gateway port then this would eventually add a further 3.5 million teu. Over and above this we are examining a range of opportunities around the world that could, over time, add up to a further 6 million teu.

The market for Ferries remains challenging, particularly for the tourist business. Current operational difficulties at Calais will have a negative impact on the results in the short term. However, freight continues to grow strongly and the enhanced freight service that we are offering following the fundamental business review has been well received. With a new management team now in place, we are on target to achieve the forecast cost savings from the review.

Royal P&O Nedlloyd is continuing to benefit from strong volumes and freight rates. Assuming that current industry and market conditions continue, they expect a significant improvement in operating profit this year.

We intend to make further net property sales of £250 million in 2005. We are announcing today the £47 million sale of a significant part of our King's Cross development which already brings the total for this year to £157 million. By the end

of the year we expect Property to account for less than 10% of our net operating assets. The reduced size of the portfolio, together with our having sold the resorts and other assets which were significant contributors to earnings, means that Property is likely to make a much smaller profit contribution in 2005.

For the Group as a whole, excluding Property, operating profit is anticipated to improve further in 2005.

**GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Before exception al items 2004 £m	Exceptional items 2004 £m	Total 2004 £m	Total 2003 £m
Turnover: Group and share of joint ventures (note 2)	3,057.4	-	3,057.4	4,137.9
Less: share of joint ventures' turnover	(659.9)	-	(659.9)	(1,846.9)
Group turnover	2,397.5	-	2,397.5	2,291.0
Net operating costs	(2,239.2)	(272.3)	(2,511.5)	(2,192.1)
Group operating (loss)/profit	158.3	(272.3)	(114.0)	98.9
Share of operating results of: joint ventures	25.1	-	25.1	40.8
associates	84.9	(30.4)	54.5	35.0
Continuing operations				
Total operating (loss)/profit before goodwill amortisation	285.5	(302.7)	(17.2)	181.3
Goodwill amortisation	(17.2)	-	(17.2)	(18.4)
	268.3	(302.7)	(34.4)	162.9
Discontinued operations	-	-	-	11.8
Total operating (loss)/profit (note 3)	268.3	(302.7)	(34.4)	174.7
(Loss)/profit on sale of fixed assets and businesses	-	(47.2)	(47.2)	16.6
Amounts written off investments	-	(30.3)	(30.3)	-
Net interest payable and similar items (note 7)	(98.1)	-	(98.1)	(111.3)
(Loss)/profit on ordinary activities before taxation	170.2	(380.2)	(210.0)	80.0
Taxation (note 8)	(26.9)	1.5	(25.4)	(20.8)
(Loss)/profit on ordinary activities after taxation	143.3	(378.7)	(235.4)	59.2
Equity minority interests	(14.9)	-	(14.9)	(9.2)
(Loss)/profit for the financial year attributable to stockholders	128.4	(378.7)	(250.3)	50.0
Dividends on equity and non-equity share capital (note 9)	(69.9)	-	(69.9)	(102.5)
Retained loss for the financial year	58.5	(378.7)	(320.2)	(52.5)
Basic (loss)/earnings per £1 nominal of deferred stock			(34.7)p	6.5p
Headline earnings per £1 nominal of deferred stock			19.4p	12.4p
Dividend per £1 nominal of deferred stock			9.0p	13.5p

Exceptional items consist of impairment charges, reorganisation and closure costs, exceptional income, profits and losses on sale of fixed assets and businesses and amounts written off investments. The 2003 operating result includes an exceptional charge of £39.8 million.

**SUMMARISED GROUP BALANCE SHEET
AS AT 31 DECEMBER 2004**

	2004 £m	Restated 2003 £m
Fixed assets		
Intangible assets: Goodwill	105.2	237.3
Land and buildings	447.6	585.3
Ships and other fixed assets	903.1	1,092.7
Investments (including joint ventures and associates)	569.6	761.6
	<u>2,025.5</u>	<u>2,676.9</u>
Current assets		
Properties held for development and sale	361.7	478.6
Stocks	43.2	60.1
Debtors	427.1	467.3
Cash at bank and in hand (note 11)	50.8	64.0
	<u>882.8</u>	<u>1,070.0</u>
Creditors: amounts falling due within one year		
Loans (note 11)	(79.7)	(100.8)
Other creditors	(551.9)	(627.7)
	<u>(631.6)</u>	<u>(728.5)</u>
Net current assets	251.2	341.5
Total assets less current liabilities	2,276.7	3,018.4
Creditors: amounts falling due in more than one year		
Loans (note 11)	(979.9)	(1,437.0)
Other creditors	(55.1)	(55.7)
	<u>(1,035.0)</u>	<u>(1,492.7)</u>
Provisions for liabilities and charges	(220.3)	(180.2)
	<u>(1,035.0)</u>	<u>(1,492.7)</u>
Net assets	1,021.4	1,345.5
Capital and reserves		
Share capital and share premium	1,596.4	1,585.9
Reserves	(620.1)	(275.8)
	<u>976.3</u>	<u>1,310.1</u>
Stockholders' funds (note 1)	976.3	1,310.1
Equity minority interests	45.1	35.4
	<u>1,021.4</u>	<u>1,345.5</u>
	1,021.4	1,345.5

**SUMMARISED GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

	2004 £m	2003 £m
Net cash inflow from operating activities and dividends from joint ventures and associates (note 12)	439.1	310.7
Returns on investments and servicing of finance	(87.0)	(96.3)
Taxation	(37.0)	(13.6)
	<hr/>	<hr/>
	315.1	200.8
Purchase of fixed assets and investments	(156.3)	(279.5)
Sale of fixed assets and investments	103.0	17.3
Purchase of subsidiaries, joint ventures and associates	(68.2)	(247.5)
Sale of subsidiaries, joint ventures and associates	342.3	98.6
	<hr/>	<hr/>
	535.9	(210.3)
Equity dividends paid	(87.8)	(93.7)
	<hr/>	<hr/>
Net cash inflow/(outflow) before financing	448.1	(304.0)
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Movement in net borrowings		
Net cash inflow/(outflow) before financing	448.1	(304.0)
Issues of stock	12.6	121.9
Issue costs of stock placing	-	(2.3)
Purchase of own shares	(14.2)	-
Borrowings of subsidiaries acquired less sold	(10.9)	(2.7)
Inception of finance leases and other non-cash movements in net borrowings	(5.2)	(9.6)
Exchange movements in net borrowings	42.7	40.8
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Decrease/(increase) in net borrowings	473.1	(155.9)
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NOTES

1 Reconciliation of movements in stockholders' funds

	2004 £m	2003 £m
(Loss)/profit for the financial year attributable to stockholders	(250.3)	50.0
Deficit on valuation of land and buildings	-	(0.1)
Taxation on disposal of previously revalued properties	(5.2)	-
Exchange movements on foreign currency net investments and revaluation reserves	(57.4)	(48.0)
UK taxation on exchange movements on foreign currency net investments	3.5	-
	<hr/>	<hr/>
Total recognised gains and losses for the financial year	(309.4)	1.9
Dividends on share capital	(69.9)	(102.5)
New stock issued	12.6	54.2
Merger reserve	-	65.4
Purchase of own stock	(14.2)	-
Other movements in own stock	2.5	1.3
Goodwill on disposals	44.6	-
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Net change in stockholders' funds	(333.8)	20.3
Stockholders' funds at the beginning of the year (restated)	1,310.1	1,289.8
Stockholders' funds at the end of the year	<hr/> <u>976.3</u>	<hr/> <u>1,310.1</u>

Stockholders' funds at the beginning of the year, as previously reported, were £1,323.1 million (2003 £1,304.1 million) before the prior year adjustment for the adoption of UITF abstract 38 "Accounting for ESOP Trusts" of £13.0 million (2003 £14.3 million), as explained in note 14.

2 Turnover: Group and share of joint ventures

	2004 £m	2003 £m
Continuing operations		
Ports	1,019.3	944.8
Ferries	984.0	1,081.0
Cold Logistics	205.6	210.5
Container Shipping*	478.9	1,685.1
Property	369.6	216.5
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	3,057.4	4,137.9
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* Turnover for the Container Shipping business includes joint venture turnover for P&O Nedlloyd until 16 April 2004 only. On that date P&O disposed of its 50% stake in P&O Nedlloyd for a consideration of €215 million cash and a 25% shareholding in Royal P&O Nedlloyd N.V. P&O's investment in Royal P&O Nedlloyd N.V. has been accounted for as an associate since that date.

3 Operating (loss)/profit and exceptional items

	Before exceptional items 2004 £m	Exceptional items 2004 £m	Total 2004 £m	Total 2003 £m
Continuing operations				
Ports	153.8	4.3	158.1	129.1
Ferries	(15.4)	(266.0)	(281.4)	(40.0)
Cold Logistics	17.4	(10.0)	7.4	16.4
Container Shipping	55.5	-	55.5	17.6
Property	57.0	(31.0)	26.0	39.8
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	268.3	(302.7)	(34.4)	162.9
Discontinued operations				
Bulk Shipping	-	-	-	11.8
	<hr/>	<hr/>	<hr/>	<hr/>
	268.3	(302.7)	(34.4)	174.7
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In the above table, exceptional items consist of impairment charges, reorganisation and closure costs and exceptional income. The 2003 operating result for Ferries was a loss of £0.2 million, before an exceptional reorganisation and impairment charge of £39.8 million.

4 Profit and loss account by half year	Six months to 30 June		Six months to 31 Dec		Twelve months to 31 Dec	
	2004	2003	2004	2003	2004	2003
	£m	£m	£m	£m	£m	£m
Total operating (loss)/profit						
Continuing operations						
Ports	71.4	58.4	86.7	70.7	158.1	129.1
Ferries	(25.1)	(19.9)	(256.3)	(20.1)	(281.4)	(40.0)
Cold Logistics	8.5	7.6	(1.1)	8.8	7.4	16.4
Container Shipping	20.6	(19.9)	34.9	37.5	55.5	17.6
Property	37.7	13.1	(11.7)	26.7	26.0	39.8
	<u>113.1</u>	<u>39.3</u>	<u>(147.5)</u>	<u>123.6</u>	<u>(34.4)</u>	<u>162.9</u>
Discontinued operations						
Bulk Shipping	-	5.8	-	6.0	-	11.8
	<u>-</u>	<u>5.8</u>	<u>-</u>	<u>6.0</u>	<u>-</u>	<u>11.8</u>
Total operating (loss)/profit	113.1	45.1	(147.5)	129.6	(34.4)	174.7
(Loss)/profit on sale of fixed assets and businesses	(72.1)	13.2	24.9	3.4	(47.2)	16.6
Amounts written off investments	-	-	(30.3)	-	(30.3)	-
Net interest payable and similar items	(47.1)	(55.0)	(51.0)	(56.3)	(98.1)	(111.3)
	<u>(47.1)</u>	<u>(55.0)</u>	<u>(51.0)</u>	<u>(56.3)</u>	<u>(98.1)</u>	<u>(111.3)</u>
(Loss)/profit on ordinary activities before taxation	(6.1)	3.3	(203.9)	76.7	(210.0)	80.0
Taxation	(20.7)	(8.8)	(4.7)	(12.0)	(25.4)	(20.8)
Equity minority interests	(6.5)	(3.5)	(8.4)	(5.7)	(14.9)	(9.2)
	<u>(6.5)</u>	<u>(3.5)</u>	<u>(8.4)</u>	<u>(5.7)</u>	<u>(14.9)</u>	<u>(9.2)</u>
(Loss)/profit for the financial period	<u>(33.3)</u>	<u>(9.0)</u>	<u>(217.0)</u>	<u>59.0</u>	<u>(250.3)</u>	<u>50.0</u>

5 Net operating assets and operating profit before depreciation, amortisation and exceptional items

	Net operating assets		Operating profit before depreciation, amortisation and exceptional items	
	2004 £m	2003 £m	2004 £m	2003 £m
Continuing operations				
Ports	1,202.2	1,170.6	238.7	208.5
Ferries	287.8	629.5	35.9	57.1
Cold Logistics	189.5	218.9	28.0	26.9
Container Shipping	259.4	493.4	98.2	87.8
Property	465.9	808.0	63.3	47.1
	<u>2,404.8</u>	<u>3,320.4</u>	<u>464.1</u>	<u>427.4</u>
Discontinued operations				
Bulk Shipping	-	-	-	16.2
	<u>2,404.8</u>	<u>3,320.4</u>	<u>464.1</u>	<u>443.6</u>

In the above table, operating profit before depreciation, amortisation and exceptional items is stated after adding back to total operating profit the depreciation, amortisation and exceptional items of all Group subsidiaries, and the Group's share of the depreciation, amortisation and exceptional items of joint ventures and associates.

The Group's goodwill amortisation charge relating to continuing operations was £14.1 million (2003 £13.8 million). The Group's share of amortisation of goodwill and intangible assets within joint ventures and associates was £3.1 million (2003 £4.6 million).

The net operating assets are reconciled to stockholders' funds as follows:

	2004 £m	2003 £m
Net operating assets	2,404.8	3,320.4
Group share of joint venture and associate loans	(179.9)	(290.3)
Group share of joint venture and associate other net non-operating liabilities	(10.3)	(10.7)
	<hr/>	<hr/>
	2,214.6	3,019.4
Amounts receivable relating to previous corporate disposals	35.7	75.2
Interest bearing investments	10.2	11.3
Net borrowings	(1,029.6)	(1,502.7)
Corporation tax and deferred tax	(163.5)	(190.0)
Dividends payable	(46.0)	(67.7)
Minority interests	(45.1)	(35.4)
	<hr/>	<hr/>
	976.3	1,310.1
	<hr/>	<hr/>

6 Ports operating profit and net operating assets

	Before exceptional items 2004 £m	Exceptional items 2004 £m	Total 2004 £m	Total 2003 £m
a) Operating profit				
Asia	84.6	-	84.6	69.0
Americas	16.2	-	16.2	13.2
Australasia	26.9	5.7	32.6	17.7
Europe	19.2	(1.4)	17.8	18.6
	<u>146.9</u>	<u>4.3</u>	<u>151.2</u>	<u>118.5</u>
Maritime Services	6.9	-	6.9	10.6
	<u>153.8</u>	<u>4.3</u>	<u>158.1</u>	<u>129.1</u>
b) Net operating assets			2004 £m	2003 £m
Asia			573.7	550.2
Americas			185.7	199.4
Australasia			187.4	197.7
Europe			226.2	192.0
			<u>1,173.0</u>	<u>1,139.3</u>
Maritime Services			29.2	31.3
			<u>1,202.2</u>	<u>1,170.6</u>

7	Net interest payable and similar items	2004 £m	2003 £m
	Group	(74.2)	(81.7)
	Unwinding of discounts on provisions	(2.7)	(2.5)
	Joint ventures	(8.0)	(17.7)
	Associates	(13.2)	(9.4)
		<hr/>	<hr/>
		(98.1)	(111.3)
		<hr/>	<hr/>

8	Taxation	2004 £m	2003 £m
	United Kingdom	(2.7)	21.9
	Overseas	(10.5)	(33.3)
	Joint ventures	(8.5)	(7.9)
	Associates	(3.7)	(1.5)
		<hr/>	<hr/>
		(25.4)	(20.8)
		<hr/>	<hr/>

The taxation charge is after a taxation credit of £1.5 million (2003 £0.1 million charge) in respect of exceptional items.

9	Dividends on equity and non-equity share capital	2004 £m	2003 £m
	Preferred and concessionary stock (non-equity)	(3.8)	(3.8)
	Deferred stock (equity)		
	Interim	(21.9)	(32.9)
	Final	(44.2)	(65.8)
		<hr/>	<hr/>
		(69.9)	(102.5)
		<hr/>	<hr/>

10 Earnings per £1 nominal deferred stock

The calculations of the basic earnings per £1 nominal of deferred stock are based on the (loss)/profit for the financial year attributable to equity stockholders and the weighted average number of £1 nominal of deferred stock of £731.5 million (2003 £706.2 million).

	2004 £m	2003 £m
(Loss)/profit for the period attributable to stockholders	(250.3)	50.0
Less: dividends on non-equity share capital	(3.8)	(3.8)
	<hr/>	<hr/>
Basic and diluted (loss)/earnings	(254.1)	46.2
	<hr/>	<hr/>
Basic (loss)/earnings per £1 nominal of deferred stock	(34.7)p	6.5p
Diluted (loss)/ earnings per £1 nominal of deferred stock	(34.7)p	6.5p

The diluted loss per £1 nominal of deferred stock is the same in 2004 as the basic loss per £1 nominal of deferred stock as the issue of additional deferred stock arising on exercise of options would reduce the loss per £1 nominal of deferred stock and therefore these are not dilutive under FRS 14. In 2003, dilution increased the weighted average deferred stock in issue by £3.7 million to £709.9 million.

Reconciliation of earnings per £1 nominal of deferred stock

	2004 Pence	2003 Pence
Headline earnings per £1 nominal of deferred stock	19.4	12.4
Amortisation of goodwill	(2.3)	(2.6)
Exceptional items	(52.0)	(3.3)
Taxation on exceptional items	0.2	-
	<hr/>	<hr/>
Basic (loss)/earnings per £1 nominal of deferred stock	(34.7)	6.5
	<hr/> <hr/>	<hr/> <hr/>

Headline profit is calculated as total operating profit before amortisation of goodwill (including the Group's share of goodwill amortisation within joint ventures and associates) and exceptional items, less net interest payable and similar charges. Headline earnings is calculated as headline profit less taxation (excluding taxation on exceptional items), equity minority interest and non-equity dividends. The directors consider that headline earnings give a useful indication of underlying performance.

11 Net borrowings

	2004 £m	2003 £m
Loans due within one year	(79.7)	(100.8)
Loans due after more than one year	(979.9)	(1,437.0)
	<hr/>	<hr/>
	(1,059.6)	(1,537.8)
Short term borrowings and bank overdrafts	(20.8)	(28.9)
Cash	50.8	64.0
	<hr/>	<hr/>
	(1,029.6)	(1,502.7)
	<hr/> <hr/>	<hr/> <hr/>

In the Company's statutory accounts, overdrafts are included within other creditors, and cash is included within current assets. The debt to capital ratio, taking net borrowings as a percentage of sum of stockholders' funds, net borrowings and minority interests, is 50.2% (2003 52.8%).

12 Operating cash flow

	2004 £m	2003 £m
Operating (loss)/profit	(114.0)	98.9
Depreciation, amortisation and impairment charge	327.9	155.8
Decrease/(increase) in properties held for development and sale	145.7	(23.1)
Decrease/(increase) in stocks	11.1	(0.9)
(Increase)/decrease in debtors	(4.3)	37.5
Increase/(decrease) in creditors and provisions	50.6	(20.4)
	<hr/>	<hr/>
Net cash inflow from operating activities	417.0	247.8
Dividends received from joint ventures and associates	22.1	62.9
	<hr/>	<hr/>
Net cash inflow from operating activities and dividends from joint ventures and associates	439.1	310.7
	<hr/>	<hr/>

13 Pensions

The two pension schemes of most relevance to the Group's financial position are the P&O Pension Scheme and the new section of the industry wide Merchant Navy Officers' Pension Fund ("MNOPF"), both of which are in deficit. The P&O scheme was a joint scheme for both P&O and P&O Nedlloyd employees. As at 31 December 2004, P&O's share of the deficit in the scheme on an FRS 17 basis was £221 million (2003 £197 million). P&O Nedlloyd has now formed its own scheme and 25% of the assets and liabilities of the P&O scheme are in the process of being separated and transferred into the P&O Nedlloyd Scheme. In addition, P&O Nedlloyd is making an exit payment of £70 million into the remaining P&O scheme. As a result of this separation, which is expected to be completed in April 2005, on a pro-forma basis (using 31 December 2004 data), the deficit in the P&O scheme has reduced to £200 million. Cash payments into the remaining P&O scheme are being increased to approximately £30 million a year, from £12.5 million, but this has no effect on the profit and loss account.

For the MNOPF, the last actuarial valuation also reported a deficit. A court case has just commenced to resolve how deficit payments will be allocated amongst employers. The outcome is likely to be known later in 2005. P&O's share of the deficit on an FRS 17 basis is estimated at either £125 million or £30 million, depending on the outcome of the court case, with these amounts potentially increasing if payments from other employers are not forthcoming. Currently, a multi-employer exemption applies and hence the deficit does not impact P&O's reported financial position.

14 Change in accounting policy

This statement has been prepared in accordance with applicable United Kingdom accounting standards, and on a consistent basis except that the Group has adopted UITF abstract 38 "Accounting for ESOP Trusts" and its consequential changes to UITF abstract 17 "Employee share schemes" for the first time in its 2004 results. Shares purchased through Employee Share Ownership Plan ("ESOP") trusts are taken as a deduction in arriving at stockholders' funds. Previously these were held within investments. The balance sheet as at 31 December 2003 has been restated to reflect this change in accounting policy, resulting in a reduction in stockholders' funds of £13.0 million. The impact on the profit and loss account in the current and prior year is immaterial.

- 15 The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2003 and 31 December 2004. Statutory accounts for 2003 have been delivered to the registrar of companies, and those for 2004 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

16 International Financial Reporting Standards

All quoted companies in the UK will be required to adopt International Financial Reporting Standards ("IFRS") for their consolidated accounts for periods commencing on or after 1 January 2005. This statement has been prepared under UK Generally Accepted Accounting Principles and our Interim Report for 2005 will be our first financial statement prepared under IFRS. A detailed announcement providing the reconciliation of these 2004 results to IFRS will be provided during the second quarter of 2005. We expect the most significant changes to the Group's ongoing reported figures to be in the following areas (estimates are based on these 2004 Preliminary Results):

- IAS 19 : Employee Benefits – a liability of approximately £250 million (based on our FRS 17 valuation) will be reported in the balance sheet with a consequential reduction in Group reserves to reflect P&O's exposure to pension scheme deficits. This excludes the MNOPF due to the multi-employer exemption, as explained in note 13, and the Group's share of P&O Nedlloyd's pension schemes. There will be a benefit to operating profit in 2004 of approximately £4 million as the 'deficit' charges applied under SSAP 24 will no longer be applicable, although changes in mortality and other assumptions could offset this gain for subsequent years;

- IFRS 3 : Business Combinations – there will be an ongoing benefit of approximately £8 million per annum to operating profit as amortisation of goodwill is no longer required. However, in future, annual impairment tests will be performed on the carrying value of goodwill in the balance sheet and this may increase the volatility of results;
- IAS 27 : Consolidated Financial Statements – P&O’s interest in the partnership that owned the HTC property development in Hamburg will be required to be accounted for as a subsidiary. Consequently, P&O’s Group debt as at 31 December 2004 will increase by approximately £146 million. P&O’s share of joint venture and associate debt will reduce by £69 million and net operating assets will increase by approximately £75 million as at 31 December 2004. The property has subsequently been sold and consequently Group debt will reduce by £146 million, with net operating assets reducing by the same amount, upon completion of the sale in 2005;
- IFRS 2 : Share Based Payments – the fair value of all stock option grants and employee/executive matching awards will be expensed in the income statement. This is estimated to result in an additional charge to the income statement of approximately £2 million per annum;
- The presentation of the primary statements will differ under IFRS. In particular, the treatment of joint ventures and associates will differ in the income statement, with the Group’s share of the post-tax results of such entities reported as a single line item; and
- Other impacts will include adjustments to deferred tax, possible adjustments to leases, the non-accrual of dividends and, from 2005, the marking to market of certain financial instruments under IAS 39, the impact of which is subject to movements in the financial markets.

The above analysis assumes that the amended IAS 19 will be endorsed by the EU.

P&O TRADING STATISTICS : OCTOBER TO DECEMBER 2004

Below are the fourth quarter trading statistics for P&O's ports and ferries businesses. A first quarter trading update (January to March 2005) is provisionally scheduled for 28 April 2005.

PORTS

	Throughput ⁽¹⁾ (TEU ⁽²⁾ '000)			
	Q4		Full Year	
	2004	2003	2004	2003
By Region				
Asia	1,517	1,202	5,792	4,631
Americas	564	475	2,178	1,780
Europe	978	972	3,913	3,246
ANZ	561	483	1,918	1,688
Total⁽³⁾	3,620	3,132	13,801	11,345

(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.

(3) Throughput in Q4 2004 was 16% higher than in Q4 2003 with 13% attributable to organic growth. This meant that, for the full year, growth in throughput was 22% with 15% attributable to organic growth.

FERRIES

Carryings ('000)	Q4 ⁽²⁾		Full Year ⁽²⁾		Proforma ⁽³⁾	
	2004	2003	2004	2003	2004	2003
Freight Units						
Short Sea	261	236	999	959	999	959
Other Routes	243	225	937	886	830	762
Total	504	461	1,936	1,845	1,829	1,721
Cars + coaches						
Short Sea	316	382	1,494	1,614	1,494	1,614
Other Routes	140	161	831	846	391	400
Total	456	543	2,325	2,460	1,885	2,014
Passengers						
Short Sea	1,987	2,192	9,277	9,681	9,277	9,681
Other Routes	682	724	3,495	3,512	1,946	1,970
Total	2,669	2,916	12,772	13,193	11,223	11,651

(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 continuing routes only and consequently the data has been restated to exclude the routes closed or discontinued during 2003/4. These are the Mostyn-Dublin, Dublin-Cherbourg and Fleetwood-Larne routes on the Irish Sea.

(3) Proforma carryings are restated to exclude those routes which either have, or are proposed to be, closed per the Ferries fundamental business review announced on 28 September 2004. These are the Portsmouth-Cherbourg, Portsmouth-Caen, Rosslare-Cherbourg and Portsmouth-Le Havre route.

(ends)