

24 October 2001

**P&O PRINCESS CRUISES PLC  
RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2001**

**Key points for the quarter**

- Earnings per share/ADS of 23.5c/\$0.94, an increase of 6% over Q3 2000
- Pre-tax profit increased by 5% before direct costs and other charges relating to the 11 September attacks in the US of \$12 million
- Passenger cruise days increased by 10%
- Like for like net revenue yields 5% lower than Q3 2000
- Underlying unit cost reduction of 6%, continuing the strong cost performance

**2001 Outlook**

- Notwithstanding the events of September 11, occupancy for cruises in Q4 expected to exceed 95%
- Full year earnings expected to be within the range of analysts' current forecasts of 38c to 40c a share

**2002 Outlook**

- Events of September 11 had an immediate adverse impact on net bookings. Subsequently there has been a return to more normal levels of booking activity, albeit driven by promotional activity (see pages 8 and 9)
- In response to changing demand patterns, various ship deployment changes have been announced which move a number of Princess ships to home ports in North America
- Our cost efficiency program has been accelerated – unit cost savings of 7% are budgeted for 2002 to add to the 5% expected to be achieved in 2001
- Earnings outlook for 2002 is uncertain at this time and will be significantly affected by the political and economic situation prevailing from January 2002 to March 2002, the primary booking period for the second and third quarters of 2002

Peter Ratcliffe, Chief Executive Officer of P&O Princess Cruises, commented:

“We are pleased with the quarter three results that we announced today. Earnings per share were 6% above the same period in the previous year. This result was achieved notwithstanding one-off charges of \$12m arising from the terrorist attacks of September 11.

The financial impact in the third quarter of this year was limited by our loss of profits insurance. We expect that the impact will also be relatively limited in the final quarter as we were already well booked and cancellations have not been as high as one might have expected in the circumstances. There has also been a good response to close-in promotions.

The earnings outlook for 2002 is, however, uncertain at this time and will be heavily influenced by the political and economic environment that prevails from January 2002 to March 2002. This is the most important booking period for quarters two and three, which make a disproportionate contribution to full year earnings.

We have been able to reduce our risk profile by taking advantage of the inherent flexibility of our business, by moving ships and adjusting itineraries so as to avoid sensitive areas and increase the percentage of our cruises with homeports in North America.

We had already embarked on a major cost efficiency programme prior to September 11 which, given the current business environment, we have now accelerated. We have new budgets in place for 2002 and we expect to deliver unit cost reductions of around 7% in 2002 in addition to the 5% savings made in 2001.

With our strong brands in the three major vacation markets in the world, together with our high quality fleet, and our strong balance sheet, we believe we are very well positioned to withstand any short term difficulties and move on to exploit the company's full potential. We continue to believe that cruising is a growth industry whose underlying fundamentals are strong.

May I once again thank all our staff and travel agent partners for their commitment and support in what has been a very trying and emotional last six weeks. To their great credit they have unwaveringly kept in focus our primary objective of providing our passengers with outstanding vacations in a safe, healthy and secure environment."

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**Analyst conference call**

We are holding a conference call for analysts and investors at 2.00pm BST. An audio webcast will be available on our website at [www.poprincesscruises.com](http://www.poprincesscruises.com)

## **About P&O Princess Cruises plc**

P&O Princess Cruises plc is one of the largest international cruise companies with some of the strongest cruising brand names: Princess Cruises in North America; P&O Cruises in the UK and in Australia; AIDA and A'ROSA in Germany and Swan Hellenic also in the UK. It is a leading provider of cruises to Alaska, the Caribbean, Europe, the Panama Canal and other Exotic destinations. The current complement of 18 ships offering 27,370 berths is set to grow in the next three years with 8 new ships on order.

P&O Princess Cruises has approximately 19,000 employees worldwide and in 2000 generated revenue of over \$2 billion (£1.4 billion). Headquartered in London, P&O Princess Cruises' ordinary shares are quoted on the London Stock Exchange and as ADSs on the New York Stock Exchange (under the symbol "POC").

*Statements in this report on financials relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performances or achievements of P&O Princess Cruises to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Such factors include general economic and business conditions, changes in cruise industry capacity and competition, changes in tax and other laws and regulations affecting P&O Princess Cruises and other factors, which are described in further detail in P&O Princess Cruises' filings with the Securities and Exchange Commission and the UK Listing Authority.*

**SUMMARISED GROUP PROFIT AND LOSS ACCOUNT FOR THE THREE MONTHS  
AND NINE MONTHS ENDED 30 SEPTEMBER 2001**

	Three months to 30 September		Nine months to 30 September	
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)
<b>US\$ million</b>				
Turnover (gross revenue)	776.0	778.1	1,965.7	1,939.1
Direct operating costs	(456.9)	(464.6)	(1,252.3)	(1,214.2)
Selling and administrative expenses	(94.7)	(87.8)	(271.8)	(259.7)
Depreciation and amortization	(38.2)	(36.8)	(111.5)	(107.9)
	(589.8)	(589.2)	(1,635.6)	(1,581.8)
Operating profit	186.2	188.9	330.1	357.3
Share of operating results of joint ventures	0.3	0.4	0.3	0.4
Total operating profit	186.5	189.3	330.4	357.7
Loss on disposal of ships	-	(0.7)	(1.9)	(0.7)
Profit on sale of businesses	-	-	-	0.2
Profit before interest	186.5	188.6	328.5	357.2
Net interest and similar items	(15.0)	(13.6)	(44.3)	(35.2)
Profit before taxation	171.5	175.0	284.2	322.0
Taxation	(8.6)	(22.8)	(14.2)	(41.9)
Profit after taxation	162.9	152.2	270.0	280.1
Equity minority interests	0.1	(1.6)	-	(2.4)
Profit for the period	163.0	150.6	270.0	277.7
Basic earnings per share	23.5c	22.1c	39.0c	40.8c
Basic earnings per ADS	\$0.94	\$0.88	\$1.56	\$1.63
Dividend per share	3.0c	-	9.0c	-
Dividend per ADS	\$0.12	-	\$0.36	-
Weighted average number of shares in issue (in millions)	692.6	681.2	692.6	681.2

	Three months to 30 September		Nine months to 30 September	
	2001	2000	2001	2000
<u>Operating statistics</u>				
Passenger cruise days (thousands)				
North America	1,687	1,504	4,622	4,471
Europe and Australia	839	784	2,474	2,027
Total	<u>2,526</u>	<u>2,288</u>	<u>7,096</u>	<u>6,498</u>
Occupancy				
North America	99.9%	101.6%	101.3%	100.5%
Europe and Australia	102.1%	101.4%	99.0%	98.5%
Total	<u>100.7%</u>	<u>101.5%</u>	<u>100.5%</u>	<u>99.9%</u>
Like-for-like change in net revenue yields	(5)%		(5)%	

**Passenger cruise days** represents the number of passengers who could be carried on board (defined by lower berth capacity) multiplied by the available cruise days. Cruises that begin in one accounting period and end in another have their pcdds apportioned accordingly; the financial results are treated similarly.

**Occupancy** is calculated by dividing the achieved passenger cruise days by the available passenger cruise days. Since the former includes upper berths whereas the latter includes only lower berths, the occupancy can exceed 100%.

**Net revenue** is defined as gross revenue (turnover) from the sale of cruises and on board revenue less the cost of sales (primarily travel agent commissions) and the flight component of a fly-cruise.

**Like for like** is defined as movements in net revenue yields after adjusting for changes in exchange rates and changes in the mix of cruises. For the year as whole like for like net revenue yield changes figures include adjustments for the effects in Q1 2000 of higher priced cruises over the Millennium.

One cruise was cancelled during the quarter as a result of the disruption to air travel within, into and out of the United States following events on 11 September. The revenue for this cruise was protected by insurance arrangements and has been included in the financial results and, consequently, the passenger cruise days for this cruise are included in the above operating statistics.

## **Operational impact of events on 11 September**

As explained in our statement issued on 19 September, the immediate impact on our business of events in the US on September 11 came in two areas. First, we have been diverting to Boston a number of cruises that were scheduled to start and finish in New York. Second, the short term disruption to air travel within, into and out of the United States caused difficulties for passengers travelling to and from our ships. One cruise, Golden Princess' final cruise of her European season, was effectively cancelled as a result and occupancy on other cruises was reduced.

We relaxed our normal cancellation policy for passengers who were unable to reach ships during the week after September 11 due to the air disruption. These passengers received a full refund mainly in the form of a credit for a future cruise. We incurred some additional hotel and flight costs for disembarking passengers whose travel arrangements were disrupted. These costs, including the cost of issuing future cruise credits, were largely covered by insurance. The net cost to the company, the largest part of which represents deductibles under the various insurance arrangements, was approximately \$5 million.

To accommodate the anticipated reduction in demand from North American passengers for cruises in the Indian Ocean, Middle East and Africa regions, and to take advantage of an anticipated shift in demand towards cruises closer to the United States, we have announced a number of changes to the deployment of the Princess fleet. The changes affecting Sea Princess and Royal Princess were detailed in our statement issued 25 September and there have been some subsequent changes, affecting principally Regal Princess and Sun Princess. The effect of these changes is summarized in a table on page 14. In summary, we have transferred capacity from Europe to Alaska and from the exotics and southern Caribbean trades to itineraries out of Los Angeles. Selling and administrative expenses in the quarter include an additional charge of \$7 million for promotion expenses relating to cruises that we are no longer operating due to these deployment changes. These expenses would normally be deferred and matched against future revenue but have now been written off.

In addition, as announced on 25 September, Pacific Princess will be withdrawn from service from November 2001 until May 2002 when she will resume sailings to Bermuda. Her withdrawal is not expected to have a material effect on results, as her contribution in this seasonally weak part of the year is not significant. Pacific Princess has been sold and will leave the fleet as scheduled in November 2002.

Changes have been made to a number of itineraries to exclude a number of ports in the eastern Mediterranean and in the Middle East. This has affected both some of Princess summer 2002 itineraries and a number of P&O Cruises (UK) itineraries in the fourth quarter of 2001. In addition, Oriana's world cruise during the first quarter of 2002 has been re-routed around the Cape of Good Hope rather than through the Suez Canal.

## **Commentary on third quarter results**

Passenger cruise days in the quarter were 10% higher than in the same quarter in 2000. In North America, Princess' passenger cruise days increased by 12% due to introduction of Golden Princess in May 2001, offset by the transfer of Pacific Sky to Australia. For Europe and Australia, passenger cruise

days grew by 7% due to the expansion in Australia through the replacement of Fair Princess with the larger Pacific Sky.

Net revenue yields, including onboard revenue, were 5% lower on a like-for-like basis than for the third quarter in 2000. This reduction was attributable to Princess which experienced competitive trading conditions, particularly in the Alaska trade where this year there has been a significant increase in capacity for the industry. In addition, not all of the revenue Princess lost as a result of the cancellation of one cruise and reduced passenger carryings on other cruises due to air disruption in the week after 11 September was covered by insurance, and occupancy for the remainder of the month was reduced by cancellations which affected onboard revenue.

Gross revenues for the quarter were virtually unchanged at \$776.0 million with the increase in passenger carryings being offset by the lower net revenue yields, a lower air/sea mix and adverse exchange rates.

Direct operating costs reduced by 2% to \$456.9 million, despite the increase in capacity. As well as benefiting from the lower air/sea mix, lower fuel prices and currency movements, underlying unit direct operating costs were some 6% lower than in the third quarter of 2000. Excluding the \$7 million additional charge for promotion expenses and the beneficial impact of currency movements, selling and administrative costs per unit were around 8% lower than in the third quarter of 2000. The underlying reduction in unit operating costs, across both direct operating costs and overhead costs, was around 6%.

Operating profit for the quarter was \$186.2 million against \$188.9 million last year. Adjusting for the \$12 million of costs relating to events on 11 September, \$5 million for the immediate disruption and the \$7 million additional charge for promotion costs, operating profit increased by 5%. Interest costs increased due to the increase in borrowings following delivery of Golden Princess, offset by lower average interest rates. The tax rate was 5%, against 13% last year, with deferred tax no longer being provided on the profits of P&O Cruises in the UK due to the planned entry into the tonnage tax regime. After interest, tax and minority interests, profits were \$163.0 million against \$150.6 million in the third quarter of 2000. Earnings per share/ADS were 23.5c/\$0.94 compared with 22.1c/\$0.88 for 2000.

The dividend for the quarter will be 3.0c per share, payable on 17 December 2001 to shareholders on the register on 16 November 2001. Unless they have elected otherwise, ordinary shareholders will receive their dividend in sterling, converted at the exchange rate on 30 November 2001. Elections to receive dividends in US dollars must be made by 22 November 2001. Holders of ADSs will receive their dividend of \$0.12 per ADS in US dollars.

### **Commentary on results for the year to date**

For the first nine months of 2001, passenger cruise days increased by 9% over the same period in 2000. Within this, Princess' passenger cruise days grew by 3% due to the introduction of Golden Princess in May 2001, offset by the effect of the transfer of Pacific Sky to Australia. Europe and Australia grew by 22% due to the inclusion of Aurora (introduced in April 2000) for P&O Cruises in the UK for the full period, the acquisition of Seetours in April 2000 which added Arkona to the German business, and the expansion in Australia, with the larger vessel Pacific Sky replacing Fair Princess.

Net revenue yields for the nine month period, including on board revenue, were 5% lower than for the equivalent period in 2000. Underlying unit costs, after eliminating the effect of currency movements, were 4% lower with continuing savings in operations costs and overheads.

Operating profit for the first nine months was \$330.1 million against \$357.3 million in 2000. The interest charge increased following the delivery of Golden Princess and the tax rate was 5% against 13% in 2000. After interest, tax and minority interests, profits were \$270.0 million against \$277.7 million in the first nine months of 2000. Earnings per share/ADS were 39.0c/\$1.56 compared with 40.8c/\$1.63 for 2000.

## **Booking Outlook**

### North America

Prior to September 11, Princess' booking volumes, compared to those of the previous year, had been increasing broadly in line with the increase in capacity. There were also positive signs of some yield stabilization after the reductions experienced in the fourth quarter of 2000 and the first three quarters of 2001.

After September 11, however there was both a significant reduction in the level of new bookings and a significant increase in cancellations. In the first two weeks after the attacks there was a net loss of some 8,000 bookings compared to an expected increase of approximately 12,000. In the second two weeks the situation improved with net bookings returning to the levels of previous years. However, after the start of military activity in Afghanistan and the anthrax scares, net bookings have reduced to 70% of the previous year's rate. Again however, we are seeing an improvement in this position.

It should be noted that the increased booking activity has to a significant extent been generated by marketing promotions which we have concentrated on cruises in the final quarter of this year, the first quarter of next year and on the redeployed ships.

### Europe and Australia

The European and Australian domestic sectors have been affected by the events of September 11 although to a lesser extent than has been the case in the United States.

In Europe net booking activity for the upcoming winter/spring period has been at 65% of the expected rate. The cruises in this period all involve long distance air flights to which there has been resistance from European consumers. These programs are, however, responding to promotions.

The summer UK season is proving to be very resilient with its concentration on round trip cruising from Southampton, England. Germany is a later booking market than the UK and it is therefore premature to assess the summer booking situation, although the pre-brochure launch bookings for AIDA have been strong. It is clear that the new A'ROSA brand will launch in June 2002 into a more difficult marketplace than originally envisaged. It should however benefit from the fact that it will provide round trip cruising from the German port of Rostock in the summer season.

The Australian sector is proving resilient. The travel trade in Australia has been affected by the terrorist incidents and has also been affected by the bankruptcy of Ansett airline. However Pacific Sky is benefiting significantly from its positioning in providing Sydney round trip cruising with the large majority of its passengers not having to take an air flight.

## Group

For the Group as a whole, based on our current booking position, we expect to sail over 95% full for Q4 2001, with average prices some 5% below Q4 2000. As a result, we expect to achieve like for like net revenue yields within 10% of those of Q4 2000.

It is much more difficult to assess the position for Q1 of next year as we are less than 60% booked for this period. There has been a disruption to the normal booking cycle and the political climate is still very uncertain. It is clear that we will have to use the price mechanism more than would normally be the case in order to maintain the required pace of bookings.

However, for 2002 as a whole the most important quarters for earnings are Q2 and Q3. We believe the outcome for these quarters will depend primarily on the political and economic circumstances that prevail in the January 2002 to March 2002 period which is the key booking period for these two quarters.

## Costs

Shortly after P&O Princess Cruises plc became an independent public company we put in place a cost control plan targeting a reduction in unit costs of 10 per cent over the period to 2004. Half of these savings were designed to come from management initiatives and half from economies of scale as our new ships were introduced. Prior to September 11 we were achieving cost reductions ahead of our original targets.

The recent events have caused us to accelerate this program and to intensify our search for efficiencies that do not affect either the onboard product or the safety and security of our passengers. We believe that as a result of this effort we will maintain the current pace of cost reductions through Q4 2001, to give a reduction for the year as a whole of around 5%. In addition, we have completed our budgets for 2002 and we anticipate an underlying unit cost reduction of 7% in 2002 as compared with 2001.

These cost savings will come from a wide variety of sources and take into account the increased cost of the enhanced level of security at which we are operating. There will be some increase in cost due to higher insurance costs, but, assuming the oil price remains around the current level, these should be more than offset by savings in fuel costs.

Interest costs will rise in 2002 as borrowings increase with the delivery of three new ships, but only to a limited extent. Two of the three ships are financed with 12-year export credit facilities with interest based on floating rates. We plan to fund the other ship through existing facilities that also carry interest at floating rates. Moreover, as announced on 25 September, we have converted the interest basis on some \$350 million of our existing borrowings from fixed to floating rates. As a result, we will benefit significantly from the recent reduction in short term interest rates, and, assuming rates stay low, this will reduce the impact of the increase in borrowings on interest costs.

### **Earnings outlook**

Analysts' forecasts have been reduced following events on 11 September. For 2001, the forecasts that have been revised are centred around the range 38-40c per share. We are comfortable with this range. Looking further out, we have less forward visibility than normal and it remains too early to comment on 2002 earnings expectations.

## SUMMARISED GROUP BALANCE SHEET

	As at 30 September 2001 (Unaudited)	As at 30 December 2000 (Audited)
<b>US\$ million</b>		
Goodwill	116.1	121.0
Ships	3,565.8	3,206.5
Ships under construction	457.5	401.5
Properties and other fixed assets	248.8	219.6
Investments	11.0	10.9
Stocks	70.9	79.8
Debtors	242.1	318.6
	4,712.2	4,357.9
Net borrowings	(1,379.9)	(967.0)
Other creditors and provisions	(699.2)	(927.1)
Equity minority interests	(0.3)	(0.2)
	2,632.8	2,463.6
Equity shareholders' funds	2,632.8	2,463.6
Debt/capital ratio	34%	28%
Net operating assets	3,517.9	3,177.1

The figures for the year to 31 December 2000 are extracted from the statutory accounts for that year, which have been delivered to the registrar of companies, and on which the auditors gave an unqualified report, without any statement under section 237 (2) or (3) of the Companies Act 1985.

Net borrowings of US\$1,379.9 million at 30 September 2001 comprises short term debt of US\$45.3 million and long term debt of US\$ 1,475.1 million, less cash of US\$140.5 million.

## SUMMARISED GROUP CASH FLOW STATEMENT

	Three months to 30 September		Nine months to 30 September	
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)
<b>US\$ million</b>				
Net cash inflow from operating activities	78.6	47.1	459.7	466.2
Returns on investments and servicing of finance	(9.1)	(8.8)	(51.9)	(35.4)
Taxation	-	(4.1)	(138.9)	(13.4)
Capital expenditure and financial investment				
Purchase of ships	(109.8)	(70.4)	(550.9)	(677.8)
Purchase of other fixed assets	(8.7)	(0.9)	(44.7)	(32.7)
Disposal of ships	30.0	10.6	46.6	13.5
Net cash outflow for capital expenditure and financial investment	(88.5)	(60.7)	(549.0)	(697.0)
Purchase of subsidiaries	-	0.1	-	(14.8)
Equity dividends paid	(20.9)	-	(124.4)	-
Net cash outflow before financing	(39.9)	(26.4)	(404.5)	(294.4)
Net cash (outflow)/ inflow from financing	(78.2)	65.8	267.0	325.3
(Decrease)/increase in cash in the period	(118.1)	39.4	(137.5)	30.9
Movement in net borrowings:				
Net cash outflow before financing	(39.9)	(26.4)	(404.5)	(294.4)
Issues of stock	0.2	-	0.2	-
Net investment by P&O	-	(2.8)	-	26.5
Amortization of bond issue costs	(0.5)	-	(1.2)	-
Exchange movements in borrowings	(36.0)	(38.0)	(7.4)	(3.4)
Movement in net borrowings	(76.2)	(67.2)	(412.9)	(271.3)

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Nine months to 30 September 2001 (Unaudited)
<b>US\$ million</b>	
Profit for the period	270.0
Exchange movements	(37.9)
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Total recognized gains and losses	232.1
Dividends	(63.2)
New shares issued	0.3
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Net increase to shareholders' funds	169.2
Shareholders' funds at beginning of period	2,463.6
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Shareholders' funds at end of period	2,632.8
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## CAPACITY INCREASES

The estimated passenger cruise days for 2001 and 2002 by quarter and in total are shown below. This information takes account of the newbuild programme, ship transfers and the company's current projections for ship withdrawals.

The planned capacity deployment for the group is as follows:

Passenger cruise days (millions)	Q1	Q2	Q3	Q4	Total
2001					
North America					
Alaska	-	0.45	0.80	-	1.25
Caribbean	0.78	0.36	0.24	0.78	2.16
Europe	-	0.31	0.44	0.03	0.78
Mexico	-	0.04	-	0.18	0.22
Panama Canal	0.31	0.21	0.07	0.24	0.83
Exotics and others	0.31	0.17	0.13	0.34	0.95
Total North America	1.40	1.54	1.68	1.57	6.19
UK	0.55	0.56	0.57	0.55	2.23
Germany	0.15	0.15	0.16	0.16	0.62
Australia	0.11	0.11	0.11	0.11	0.44
Total 2001	2.21	2.36	2.52	2.39	9.48
2002					
North America					
Alaska	-	0.58	1.00	-	1.58
Caribbean	0.83	0.40	0.24	0.66	2.13
Europe	-	0.20	0.29	0.01	0.50
Mexico	0.23	0.17	0.05	0.42	0.87
Panama Canal	0.32	0.23	-	0.18	0.73
Exotics and others	0.32	0.16	0.16	0.34	0.98
Total North America	1.70	1.74	1.74	1.61	6.79
UK	0.56	0.55	0.57	0.64	2.32
Germany	0.13	0.19	0.37	0.36	1.05
Australia	0.11	0.11	0.11	0.09	0.42
Total 2002	2.50	2.59	2.79	2.70	10.58