

26 July 2001

P&O PRINCESS CRUISES PLC
RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2001

Key points for the quarter

- Earnings per share/ADS of 12.9c/\$0.52, an increase of 7% over Q2 2000
- Pre-tax profit increased by 6% before a one-off relocation cost of \$7 million
- Passenger cruise days increased by 6%, including 19% growth in Europe and Australia
- Like-for-like net revenue yields 3% lower than Q2 2000, as forecast in our previous trading update
- Unit cost reductions of 5%, giving an average reduction for the year to date of 3%, ahead of our annual 2% target
- Successful introduction of Golden Princess and launch of a new premium destination brand, A'ROSA, in Germany

Outlook for the remainder of 2001

- Pricing environment remains competitive in North America, whilst trading conditions for our businesses in Europe and Australia remain positive
- Pace of bookings in line with 2000
- Overall like-for-like yield reduction for the year forecast at 3%
- Continued focus on cost efficiency
- Our expectations for 2001 full year earnings remain within the range of current market forecasts

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

“We are pleased to report increased earnings per share this quarter, notwithstanding lower yields due to the competitive trading conditions in North America, and the absorption of one-off relocation costs. We successfully grew the business, increasing passenger carryings by 6%, reduced our unit costs, and benefited from a lower tax rate. We see this pattern continuing, and expect that cost reductions and the lower tax rate will allow us to achieve increased earnings for the year as a whole, despite the lower yields in North America.

We continue to make progress across the business towards our strategic objectives. Golden Princess had a highly successful introduction to the fleet in May. Pacific Princess, for which we have entered into a contract for sale, will leave the fleet in 2002. With this and the other planned changes we are making, we believe that we will have one of the most competitive fleets in the industry in terms of both revenue

generation and cost structure. We have just launched our new premium brand, A'ROSA, in the German market. We have taken further steps to reduce our overall cost structure, including the recent announcement of our plan to consolidate the management of the P&O Cruises division into Southampton.

Whilst the industry is likely to continue to see competitive pricing conditions as it absorbs the current new build programs of the major operators, we are confident that our strategic moves and cost efficiency program will enable us to compete effectively both in North America and internationally. The prospects for growth remain strong and P&O Princess Cruises, with our leading positions in three of the world's largest vacation markets, is well placed to exploit that growth, delivering superior returns to shareholders as we do so."

For further information contact:

P&O Princess Cruises plc

Gwyn Hughes, Executive Vice President, Corporate Development
and Communications

+44 20 7805 1218
07801 039722

Caroline Keppel-Palmer, Investor Relations
and Corporate Communications Manager

+44 20 7805 1214
07730 732015

Gavin Anderson & Company

Byron Ousey

+44 20 7496 1446

Website

www.poprincesscruises.com

Analyst presentation

We are holding a simultaneous conference call and presentation for analysts at 2.00pm BST. An audio webcast of the presentation will be available on our website at 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 SIX MONTHS ENDED 30 JUNE 2001**

	Three months to 30 June		Six months to 30 June	
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Audited)
US\$ million				
Turnover (gross revenue)	647.6	642.0	1,189.7	1,161.0
Direct operating costs	(407.4)	(405.0)	(795.4)	(749.6)
Selling and administrative expenses	(92.5)	(91.4)	(177.1)	(171.9)
Depreciation and amortisation	(36.5)	(37.3)	(73.3)	(71.1)
	(536.4)	(533.7)	(1,045.8)	(992.6)
Total operating profit	111.2	108.3	143.9	168.4
Loss on disposal of ships	(1.9)	-	(1.9)	-
Profit on sale of businesses	-	0.2	-	0.2
Profit before interest	109.3	108.5	142.0	168.6
Net interest and similar items	(15.5)	(13.3)	(29.3)	(21.6)
Profit before taxation	93.8	95.2	112.7	147.0
Taxation	(4.7)	(12.4)	(5.6)	(19.1)
Profit after taxation	89.1	82.8	107.1	127.9
Equity minority interests	(0.1)	(0.4)	(0.1)	(0.8)
Profit for the period	89.0	82.4	107.0	127.1
Basic earnings per share	12.9c	12.1c	15.4c	18.6c
Basic earnings per ADS	\$0.52	\$0.48	\$0.62	\$0.74
Dividend per share	3.0c	-	6.0c	-
Dividend per ADS	\$0.12	-	\$0.24	-
Weighted average number of shares in issue (in millions)	692.6	681.6	692.6	681.6

	Three months to 30 June		Six months to 30 June	
	2001	2000	2001	2000
<u>Operating statistics</u>				
Passenger cruise days (thousands)				
North America	1,539	1,532	2,935	2,968
Europe and Australia	819	686	1,635	1,243
Total	<u>2,358</u>	<u>2,218</u>	<u>4,570</u>	<u>4,211</u>
Occupancy				
North America	101.3%	100.1%	102.1%	100.0%
Europe and Australia	99.3%	97.3%	97.4%	96.7%
Total	<u>100.6%</u>	<u>99.2%</u>	<u>100.4%</u>	<u>99.0%</u>
Like-for-like change in net revenue yields	(3)%		(4)%	

Commentary on second quarter results

Passenger cruise days in the quarter were 6% higher than in the same quarter in 2000. In North America, Princess' passenger cruise days were largely unchanged with the introduction of Golden Princess part way through the quarter offsetting the effect of the transfer of Pacific Sky (formerly Sky Princess) to Australia. For Europe and Australia, passenger cruise days grew by 19% due to the inclusion of Aurora (introduced part way through the second quarter of 2000) for the full quarter for P&O Cruises in the UK and the expansion in Australia through the replacement of Fair Princess with the larger Pacific Sky.

As forecast at the time of our last quarterly results, net revenue yields, including on board revenue, were 3% lower on a like-for-like basis than for the second quarter in 2000. This reduction was attributable principally to Princess which experienced competitive trading conditions, particularly in the Alaska trade where this year has seen a significant increase in capacity for the industry. Gross revenues for the quarter increased by 1%, reflecting the increase in passenger carryings, the lower net revenue yields and adverse exchange rates.

Underlying unit costs, after eliminating the effect of currency movements, were around 5% lower than in the second quarter of 2000. Unit cost savings were achieved in both operating costs and overheads. Included in costs is a \$7 million charge relating to the costs of relocating the offices of both Princess in Los Angeles, and P&O Cruises in the UK. In the latter case we have recently announced that we will be consolidating the management of the UK division in Southampton, closing our office in London. This follows on from the transfer of the customer service centre to Southampton which we previously announced. These two office relocations in the UK and the US will reduce our cost structure, and put us in a position to grow without significantly increasing premises costs, further reducing unit costs.

Operating profit for the quarter was \$111.2 million against \$108.3 million last year. We recorded a loss of \$1.9 million in respect of the disposal of Pacific Princess, for which we have recently entered into a contract for sale. She will be chartered back until she leaves the fleet in November 2002. Interest costs increased due to the increase in borrowings following delivery of Golden Princess. 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 \$89.0 million against \$82.4 million in the second quarter of 2000. Earnings per share/ADS were 12.9c/\$0.52 compared with 12.1c/\$0.48 for 2000.

The dividend for the quarter will be 3.0c per share, payable on 17 September 2001 to shareholders on the register on 17 August 2001. Unless they have elected otherwise, ordinary shareholders will receive their dividend in sterling, converted at the exchange rate on 31 August 2001. Elections to receive dividends in US dollars must be made by 23 August 2001. Holders of ADSs will receive their dividend of \$0.12 per ADS in US dollars.

Commentary on results for the year to date

In the first half of 2001, passenger cruise days increased by 9% over those in the first half of 2000. Within this, Princess' passenger cruise days were largely unchanged with the introduction of Golden Princess in May 2001 offsetting the effect of the transfer of Sky Princess to Australia. Europe and Australia grew by 32% due to the inclusion of Aurora (introduced in April 2000) for P&O Cruises in the UK for the full half year, 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, including on board revenue, were 4% lower than for the first half of 2000. Underlying unit costs, after eliminating the effect of currency movements, were 3% lower with continuing savings in operations costs and overheads.

Operating profit for the first half was \$143.9 million against \$168.4 million in 2000. Princess' operating profits decreased to \$111.2 million due to lower net revenue yields and with the comparison affected by the Millennium benefit in 2000, offset by continued unit cost reductions. Europe and Australia's operating profits decreased to \$32.7 million with increasing profits in the UK and Australian operations offset by the inclusion of the first quarter seasonal loss from Seetours (acquired in April 2000), the UK relocation costs charge and adverse exchange rate movements. 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 \$107.0 million against \$127.1 million in the first half of 2000. Earnings per share/ADS were 15.4c/\$0.62 compared with 18.6c/\$0.74 for 2000.

2001 outlook

Bookings for Princess in the last three months have maintained a good pace, but with pricing remaining lower than for 2000, particularly for cruises in the Alaskan trade. The overall tone of business for our operations in the UK, Germany and Australia remains positive.

Cruises for the third quarter are almost fully booked and we anticipate that the Group's net revenue yields for this quarter will be around 4% lower, on a like for like basis, compared with the third quarter of 2000. For the year as a whole, on the basis of current trends, we anticipate a reduction in Group net revenue yields on a like- for-like basis of 3%.

We are achieving lower costs across various areas of the business, ahead of our 2% target reduction for the year, and the results for the second half of 2001 will benefit from this. Our expectation for full year 2001 earnings per share is unchanged and remains within the range of current market forecasts.

Business developments

During the quarter we renegotiated the options we have with Chantiers for two new ships. The options can now be exercised at any time up to July 2002 and are for later deliveries, in the 2005/2006 period. We will continue to monitor demand for all our products with a view to balancing our future capacity increases with demand.

We have recently entered into a contract for the sale of Pacific Princess. She is being chartered back until she leaves the fleet in November 2002. With Arkona and Victoria already scheduled to leave the fleet next year, we have now disposed of all our pre-1984 built ships.

This latest change is a further step in making Princess' fleet one of the most competitive in the North American industry. Next year Star Princess, the first mega-ship in the industry to be positioned on the west coast, and Coral Princess, the first of our innovative new design ships from Chantiers, will join the fleet. Crown Princess and Ocean Princess will move to Germany and the UK respectively. These changes will enhance the overall earning power of Princess' fleet, in terms of both ticket and on board revenue. For example, over the course of 2002 the proportion of cabins with balconies in the Princess fleet will increase from 39% to 48%. They will also improve the cost structure of the fleet, with the average vessel size increasing by 13% to over 2,000 berths.

With significant increases in capacity expected for the industry as a whole next year, we anticipate a continuation of the competitive pricing conditions for the industry in North America. Nevertheless, we expect to be in a good position to counter this as a result of the improvements in the fleet's earning power and Princess' increase in capacity being limited to around 10% for 2002. Economic conditions will be a factor but with anticipated further progress on our cost reduction program, we believe we are well positioned to compete effectively in North America.

At the same time as limiting our North America capacity growth, the transfer of ships to the UK and Germany enables us to reinforce our position in the fast growing European cruise industry. As a further step in this process, last week we launched our new premium, destination oriented product for the German cruise sector, A'ROSA. Operated as part of Seetours, our existing German business, and alongside our highly successful AIDA club product, A'ROSA will be aimed exclusively at the German-speaking market. A'ROSA will offer relaxing vacations with an emphasis on "wellness" together with a wide range of dining and entertainment choices.

The A'ROSA fleet will initially comprise one ocean going ship, A'ROSA BLU, and two river cruise vessels, A'ROSA DONNA and A'ROSA BELLA. Currently trading as Crown Princess within the Princess fleet, A'ROSA BLU will be refitted to meet German tastes and will, we believe, be the largest ship dedicated to the German cruise sector. The marketing campaign will start in September this year and the maiden voyages will be in summer 2002.

With the new build AIDAvita joining the existing AIDA vessel in May 2002, we are set for significant expansion in the fast growing German cruise sector next year, with further growth plans in place beyond that. We have made good progress in establishing the shoreside infrastructure to handle this growth. This will have some cost implications for 2002. In addition we anticipate some pressure on yields and promotion costs as we expand, but are well positioned to capitalize fully on our leading position in the German cruise sector.

P&O Cruises, Princess and Swan Hellenic continue to perform well in the United Kingdom. Plans are well advanced for the transfer of Ocean Princess (as Oceana) following Victoria's withdrawal from service in the fourth quarter of 2002. Pacific Sky (formerly Sky Princess) is similarly doing well in Australia and plans are in hand to increase carryings in the premium segment by selling the Princess product in Australia.

We recently announced the appointment of Phil Kleweno as President of Princess Cruises in the United States. Phil was previously a senior partner of the management-consulting firm Bain & Co. and has been closely involved in the strategic and operational development of Princess over the last five years. We believe that Phil's wide business experience and organizational and leadership skills will greatly benefit the company as we move forward with our growth plans in the years ahead.

SUMMARISED GROUP BALANCE SHEET

	As at 30 Jun 2001 (Unaudited)	As at 30 Jun 2000 (Audited)	As at 31 Dec 2000 (Audited)
US\$ million			
Goodwill	109.7	31.2	121.0
Ships	3,547.4	3,284.9	3,206.5
Ships under construction	368.4	273.3	401.5
Properties and other fixed assets	241.3	204.0	219.6
Investments	10.6	10.5	10.9
Stocks	83.4	88.3	79.8
Debtors	298.2	305.9	318.6
	4,659.0	4,198.1	4,357.9
Net borrowings	(1,303.7)	(836.2)	(967.0)
Other creditors and provisions	(870.4)	(1,019.9)	(927.1)
Equity minority interests	(0.3)	(8.3)	(0.2)
	2,484.6	2,333.7	2,463.6
Equity shareholders' funds	2,484.6	2,333.7	2,463.6
Debt/capital ratio	34.4%	26.4%	28.2%

SUMMARISED GROUP CASH FLOW STATEMENT

	Three months to 30 June		Six months to 30 June	
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Audited)
US\$ million				
Net cash inflow from operating activities	276.1	284.4	398.2	419.1
Returns on investments and servicing of finance	(31.4)	(17.1)	(42.8)	(26.6)
Taxation	(42.8)	(5.8)	(156.0)	(9.3)
Capital expenditure and financial investment				
Purchase of ships	(421.1)	(213.0)	(441.1)	(607.4)
Purchase of other fixed assets	(17.8)	(20.6)	(36.0)	(31.8)
Disposal of ships	1.4	1.5	16.6	2.9
Net cash outflow for capital expenditure and financial investment	<u>(437.5)</u>	<u>(232.1)</u>	<u>(460.5)</u>	<u>(636.3)</u>
Purchase of subsidiaries	-	(12.2)	-	(14.9)
Equity dividends paid	(103.5)	-	(103.5)	-
Net cash outflow before financing	<u>(339.1)</u>	<u>17.2</u>	<u>(364.6)</u>	<u>(268.0)</u>
Net cash inflow from financing	340.4	(68.1)	345.2	259.5
Increase/(decrease) in cash in the period	<u>1.3</u>	<u>(50.9)</u>	<u>(19.4)</u>	<u>(8.5)</u>
Movement in net borrowings:				
Net cash outflow before financing	(339.1)	17.2	(364.6)	(268.0)
Net investment by P&O	-	35.2	-	29.3
Amortisation of bond issue costs	(0.3)	-	(0.7)	-
Exchange movements in borrowings	3.3	37.6	28.6	34.6
Movement in net borrowings	<u>(336.1)</u>	<u>90.0</u>	<u>(336.7)</u>	<u>(204.1)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

US\$ million	Six months to 30 June	
	2001 (Unaudited)	2000 (Audited)
Profit for the period	107.0	127.1
Exchange movements	(43.8)	(11.5)
	63.2	115.6
Total recognised gains and losses		
Dividends	(42.4)	-
New shares issued	0.2	-
Net investment by P&O	-	29.3
	21.0	144.9
Net increase to shareholders' funds		
Shareholders' funds at beginning of period	2,463.6	2,188.8
	2,484.6	2,333.7
Shareholders' funds at end of period		

NOTES

1 Segmental analysis

	Six months to 30 June	
Turnover	2001	2000
US\$million	(Unaudited)	(Audited)
North America	847.0	881.0
Europe and Australia	342.7	280.0
	1,189.7	1,161.0

	Six months to 30 June	
Operating profit	2001	2000
US\$million	(Unaudited)	(Audited)
North America	111.2	132.3
Europe and Australia	32.7	36.1
	143.9	168.4

	As at 30 Jun 2001	As at 30 Jun 2000	As at 31 Dec 2000
Net operating assets	(Unaudited)	(Audited)	(Audited)
US\$ million			
North America	2,479.6	2,131.7	2,200.0
Europe and Australia	883.8	931.5	977.1
	3,363.4	3,063.2	3,177.1

Net operating assets exclude goodwill and ships under construction.

2 Taxation

	Six months to 30 June	
	2001	2000
	(Unaudited)	(Audited)
US\$million		
United Kingdom	95.7	(2.4)
Overseas	(101.3)	(16.7)
	<hr/>	<hr/>
	(5.6)	(19.1)
	<hr/>	<hr/>

3 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. The 2001 interim results will be posted to stockholders on 8 August 2001 and will be available for inspection from that date at the registered office of the Company at 77 New Oxford Street, London WC1A 1PP.

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.

Passenger cruise days (millions)	North America	UK	Germany	Australia	Total
Quarter 1 2001	1.40	0.55	0.15	0.11	2.21
Quarter 2 2001	1.54	0.56	0.15	0.11	2.36
Quarter 3 2001	1.68	0.57	0.16	0.10	2.51
Quarter 4 2001	1.61	0.55	0.16	0.11	2.43
Total 2001	6.23	2.23	0.62	0.43	9.51
Quarter 1 2002	1.76	0.56	0.13	0.11	2.56
Quarter 2 2002	1.75	0.54	0.20	0.11	2.60
Quarter 3 2002	1.74	0.57	0.37	0.09	2.77
Quarter 4 2002	1.65	0.64	0.36	0.11	2.76
Total 2002	6.90	2.31	1.06	0.42	10.69

The planned capacity deployment within North America is as follows:

Passenger cruise days (millions)	Q1	Q2	Q3	Q4	Total
2001					
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	0.38	0.99
Total	1.40	1.54	1.68	1.61	6.23
2002					
Alaska	-	0.53	0.85	-	1.38
Caribbean	0.98	0.44	0.23	0.67	2.32
Europe	0.01	0.33	0.41	0.04	0.79
Mexico	0.04	0.11	0.04	0.24	0.43
Panama Canal	0.29	0.22	0.04	0.25	0.80
Exotics and others	0.44	0.12	0.17	0.45	1.18
Total	1.76	1.75	1.74	1.65	6.90

Definitions

Passenger cruise days (pcds) means 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 pcds apportioned accordingly; the financial results are treated similarly.

Occupancy is calculated by dividing the achieved pcds by the offered pcds. 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.