

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

P&O PRINCESS CRUISES PLC
Form S-4/A
March 14, 2003

As filed with the Securities and Exchange Commission on March 14, 2003
Registration No. 333-102443

=====

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 2
to
Form S-4/F-4

REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

CARNIVAL CORPORATION
P&O PRINCESS CRUISES PLC
(Exact name of Registrant as specified in its charter)

Republic of Panama	4600	59-156976
England and Wales (State or other jurisdiction of incorporation or organization)	4600 (Primary Standard Industrial Classification Code Number)	None (I.R.S. Employer Identification No.)

Carnival Corporation 3655 N.W. 87th Avenue Miami, Florida 33178-2428 (305) 599-2600	P&O Princess Cruises plc 77 New Oxford Street London, England WC1A 1PP +44 (0) 20 7805 1200
--	--

(Address, including zip code, and telephone number, including area code, of
Registrant's principal executive offices)

Arnaldo Perez, Esq. General Counsel Carnival Corporation 3655 N.W. 87th Avenue Miami, Florida 33178-2428 (305) 599-2600	Mona Ehrenreich, Esq. c/o Princess Cruise Lines, Ltd. 24305 Town Center Drive Santa Clarita, CA 91355 (661) 753-0000
--	---

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

Mark S. Bergman, Esq. Paul, Weiss, Rifkind, Wharton & Garrison LLP Alder Castle, 10 Noble Street London EC2V 7JU +44 (0) 20 7367 1600	Duncan C. McCurrach, Esq. Sullivan & Cromwell LLP 125 Broad Street New York, NY 10004 (212) 558-4000
---	--

Approximate date of commencement of proposed sale to public: As soon as
practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the commission, acting pursuant to said Section 8(a), may determine.

=====

EXPLANATORY NOTE

This registration statement comprises (i) a filing on Form S-4 by Carnival Corporation ("Carnival") with respect to the shares of common stock, par value \$0.01, of Carnival offered to shareholders of P&O Princess Cruises plc ("P&O Princess") in exchange for up to 20 per cent. of the issued share capital of P&O Princess, and (ii) a filing on Form F-4 by P&O Princess with respect to the ordinary shares of 50 cents each of P&O Princess (including the ordinary shares underlying the American Depositary Shares of P&O Princess) deemed offered to shareholders of P&O Princess by virtue of the shareholder vote at the P&O Princess extraordinary general meeting to approve the dual listed company transaction described in this registration statement.

SUBJECT TO COMPLETION, DATED 14 MARCH 2003

The information contained in this document is not complete and may be changed. Carnival may not sell the Carnival shares offered in connection with the Partial Share Offer until the registration statement filed with the U.S. Securities and Exchange Commission is effective. This document is not an offer to sell securities, and it is not soliciting an offer to buy securities, in any jurisdiction where the offer or sale is not permitted.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the Partial Share Offer, the DLC transaction or the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised, in the United Kingdom, under the Financial Services and Markets Act 2000. This document should be read in conjunction with the accompanying Form of Acceptance or Letter of Transmittal (as appropriate).

If you have sold or otherwise transferred all your P&O Princess shares or P&O Princess ADSs, please send this document, the Form of Acceptance or the Letter of Transmittal (as appropriate) and any accompanying documents, as soon as possible, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Application will be made for the Carnival shares offered in connection with the Partial Share Offer to be listed on the NYSE, where they will trade together with the currently outstanding Carnival shares under the symbol "CCL".

Partial Share Offer

by

Carnival Corporation

to acquire up to 20 per cent. of the issued share capital of

P&O Princess Cruises plc

Merrill Lynch International and UBS Limited, a subsidiary of UBS AG, are acting as joint financial advisers and joint corporate brokers exclusively to Carnival and no-one else in connection with the DLC transaction and the Partial Share Offer and will not be responsible to anyone other than Carnival for providing the protections afforded to clients respectively of Merrill Lynch International and UBS Limited, as the case may be, or for providing advice in relation to the DLC transaction and the Partial Share Offer.

Schroder Salomon Smith Barney is acting as sole financial adviser for P&O Princess and no one else in connection with the DLC transaction and will not be responsible to anyone other than P&O Princess for providing the protections afforded to clients of Schroder Salomon Smith Barney, or for providing advice in relation to the DLC transaction.

YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS SET OUT ON PAGES 27 TO 34 OF THIS DOCUMENT.

THE PROCEDURE FOR ACCEPTANCE OF THE PARTIAL SHARE OFFER IS SET OUT ON PAGES 76 TO 80 OF THIS DOCUMENT AND IN THE ACCOMPANYING FORM OF ACCEPTANCE AND LETTER OF TRANSMITTAL.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THE DISCLOSURES IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IF YOU HOLD P&O PRINCESS SHARES IN CERTIFICATED FORM THEN, TO ACCEPT THE PARTIAL SHARE OFFER, THE FORM OF ACCEPTANCE MUST BE COMPLETED AND RETURNED AS SOON AS POSSIBLE AND, IN ANY EVENT, SO AS TO BE RECEIVED BY COMPUTERSHARE INVESTOR SERVICES PLC AT THE PAVILIONS, BRIDGWATER ROAD, BRISTOL, BS13 8FB, OR BY HAND ONLY TO 7/TH/ FLOOR, JUPITER HOUSE, TRITON COURT, 14 FINSBURY SQUARE, LONDON, EC2A 1BR, NO LATER THAN 10:00 A.M., LONDON TIME, ON 17 APRIL 2003 OR BY HAND ONLY TO REPRESENTATIVES OF COMPUTERSHARE INVESTOR SERVICES PLC AT THE P&O PRINCESS EGM TO BE HELD AT 10:00 A.M., LONDON TIME ON 16 APRIL 2003.

IF YOU HOLD P&O PRINCESS SHARES IN UNCERTIFICATED FORM THEN, TO ACCEPT THE PARTIAL SHARE OFFER, YOU SHOULD COMPLY WITH THE PROCEDURE FOR ACCEPTANCE SET OUT IN PAGES 85 TO 88 OF THIS DOCUMENT AND ENSURE THAT AN ELECTRONIC ACCEPTANCE IS MADE WHICH SETTLES NO LATER THAN 10:00 A.M., LONDON TIME, ON 17 APRIL 2003.

IF YOU HOLD P&O PRINCESS ADSs THEN, TO ACCEPT THE PARTIAL SHARE OFFER, YOU

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

SHOULD COMPLY WITH THE PROCEDURE FOR ACCEPTANCE SET OUT IN PAGES 108 TO 110 OF THIS DOCUMENT AND, IF YOU HOLD YOUR P&O PRINCESS ADSs IN CERTIFICATED FORM, ENSURE THAT A COMPLETED LETTER OF TRANSMITTAL IS RECEIVED BY THE U.S. EXCHANGE AGENT AT COMPUTERSHARE TRUST COMPANY OF NEW YORK, 88 PINE STREET, 19/TH/ FLOOR, NEW YORK, NEW YORK 10005, NO LATER THAN 5:00 A.M., NEW YORK CITY TIME, ON 17 APRIL 2003.

IF YOU HOLD YOUR P&O PRINCESS ADSs IN BOOK ENTRY FORM THROUGH YOUR BROKER OR OTHERWISE AND WISH TO ACCEPT THE PARTIAL SHARE OFFER, YOU SHOULD COMPLETE THE INSTRUCTION FORM SENT TO YOU BY YOUR INSTITUTION AND RETURN IT TO YOUR INSTITUTION NO LATER THAN 5:00 A.M., NEW YORK CITY TIME, ON 17 APRIL 2003.

The Partial Share Offer is not being, and will not be, made, directly or indirectly, in or into, or by the use of the mails or any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facilities of a national securities exchange of Australia, Belgium, Canada, France, Germany, Ireland, Japan, New Zealand, Singapore, South Africa, Spain or The Netherlands and the Partial Share Offer should not be accepted by any such use, means, instrumentality or facility or from within Australia, Belgium, Canada, France, Germany, Ireland, Japan, New Zealand, Singapore, South Africa, Spain or The Netherlands. Doing so may render invalid any purported acceptance. Accordingly, neither this document nor the accompanying Form of Acceptance or Letter of Transmittal are being, nor may they be, mailed or otherwise forwarded, distributed or sent in, into or from (whether by use of the mails or any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facilities of a national securities exchange) of Australia, Belgium, Canada, France, Germany, Ireland, Japan, New Zealand, Singapore, South Africa, Spain or The Netherlands. All P&O Princess shareholders (including, without limitation, nominees, trustees or custodians) who would, or otherwise intend to or who may have a contractual or legal obligation to, forward this document and/or the accompanying Form of Acceptance and Letter of Transmittal to any jurisdiction other than the United Kingdom or the United States, should read the further details in this regard which are contained in paragraph 7 of Part B of Appendix I of this document and the relevant provisions of the Form of Acceptance and Letter of Transmittal before taking any action. The Carnival shares to be issued pursuant to the Partial Share Offer have not been, and will not be, registered under the relevant securities laws of Japan and the relevant clearances have not been, and will not be, obtained from the securities commission of any province of Canada or from the relevant bodies in Belgium, France, Germany, Ireland, New Zealand, Singapore, South Africa, Spain or The Netherlands. No prospectus in relation to the Carnival shares has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission. Accordingly, the Carnival shares to be issued pursuant to the Partial Share Offer are not being, and may not be, offered, sold, resold, delivered or distributed, directly or indirectly, in or into Australia, Belgium, Canada, France, Germany, Ireland, Japan, New Zealand, Singapore, South Africa, Spain or The Netherlands (except pursuant to an exemption, if available, from any applicable registration requirements or otherwise in compliance with all applicable laws).

CONTENTS

EXPECTED TIMETABLE OF EVENTS FOR THE PARTIAL SHARE OFFER AND THE DLC TRANSACTION	1
SHAREHOLDER HELPLINE	1
IMPORTANT INFORMATION	2

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

PART I	SUMMARY	5
	Section A These materials	5
	Section B Summary information on the Combined Group, Carnival and P&O Princess	6
	Section C Summary of the terms of the Partial Share Offer	7
	Section D Summary of the DLC transaction	13
	Section E Carnival selected historical financial and operating data	19
	Section F P&O Princess selected historical financial data	21
	Section G Selected unaudited pro forma financial data in accordance with U.S. GAAP	23
	Section H Comparative per share data and stock prices	25
PART II	RISK FACTORS	27
PART III	INFORMATION ON THE COMBINED GROUP	35
	Section A Description of the Combined Group	35
	Section B Unaudited pro forma financial information of the Combined Group	48
	Section C Where you can find additional information about the Combined Group and the DLC transaction	71
PART IV	INFORMATION ON CARNIVAL	72
PART V	INFORMATION ON P&O PRINCESS	73
PART VI	THE PARTIAL SHARE OFFER	74
	Section A The Partial Share Offer	74
	Section B Form of Acceptance	85
	Section C Brokerage Account Election Form	89
Appendix I	CONDITIONS AND FURTHER TERMS OF THE PARTIAL SHARE OFFER	90
	Part A Conditions of the Partial Share Offer	91
	Part B Further terms of the Partial Share Offer	92
	Part C Procedures for tendering P&O Princess ordinary shares	102
	Part D Procedures for tendering P&O Princess ADSs	108
Appendix II	DETAILS OF THE DLC TRANSACTION	111
	Part A Background to the DLC Transaction and Partial Share Offer	111
	Part B Advice of P&O Princess' Financial Adviser	115
	Part C Considerations in respect of the DLC transaction	122

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Appendix III MATERIAL DIFFERENCES AMONG THE EXISTING RIGHTS OF HOLDERS OF P&O PRINCESS SHARES, THE RIGHTS OF HOLDERS OF CARNIVAL SHARES FOLLOWING IMPLEMENTATION OF THE DLC STRUCTURE AND THE RIGHTS OF HOLDERS OF P&O PRINCESS SHARES FOLLOWING IMPLEMENTATION OF THE DLC STRUCTURE	124
Appendix IV ADDITIONAL INFORMATION ON CARNIVAL AND P&O PRINCESS	149
Definitions	156

EXPECTED TIMETABLE OF EVENTS FOR THE PARTIAL SHARE OFFER AND THE DLC TRANSACTION

Posting of this document	
Carnival Special Meeting	10:00 a.m. (New York)
P&O Princess EGM	10:00 a.m. (London)
Expected closing date of the Partial Share Offer	10:00 a.m. (London)
Completion of the DLC transaction	
Reorganisation of the P&O Princess shares	10:00 p.m. (London)
Dealings commence in consolidated P&O Princess shares	8:00 a.m. (London)
Settlement	

These expected dates and times are indicative only and may be subject to change.

SHAREHOLDER HELPLINE

If you have any queries in relation to the DLC transaction and/or the Partial Share Offer, you may call the UK shareholder helpline from within the UK on 0800 953 0083 between 9:00 a.m. and 5:30 p.m. (London time) on any business day until completion of the DLC transaction. If you are calling from the U.S., the helpline number is 1 866 203-2636. If you are calling from anywhere else, the helpline number is +44 870 889 3147 (calls will be charged at the applicable rate). For legal reasons, the helpline will only be able to assist you with information contained in this document and the helpline cannot provide advice on the merits of the proposals or give any financial advice. Calls may be monitored for quality control purposes.

1

IMPORTANT INFORMATION

Certain definitions

Certain words and terms used in this document are defined in the section headed "Definitions" on pages 156 to 160 of this document.

Cautionary note concerning factors that may affect future results

Certain statements contained in this document are "forward-looking statements" that involve risks, uncertainties and assumptions with respect to P&O Princess and Carnival and their respective subsidiaries and the Combined Group, including certain statements concerning the transactions described in this document, future results, plans and goals and other events which have not yet occurred. You can find many (but not all) of these statements by looking for

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

words like "will", "may", "believes", "expects", "anticipates", "forecast", "future", "intends", "plans" and "estimates" and for similar expressions.

Because forward-looking statements involve risks and uncertainties, there are many factors that could cause the transactions described in this document not to occur and/or each of P&O Princess', Carnival's and the Combined Group's actual results, performance or achievements to differ materially from those expressed or implied in this document. These factors include, but are not limited to:

- .. shareholder approvals of the DLC transaction;
- .. achievement of expected benefits from the DLC transaction;
- .. risks associated with the combination of Carnival's and P&O Princess' businesses by means of the DLC structure;
- .. liquidity and index inclusion as a result of the implementation of the DLC structure, including a possible mandatory exchange;
- .. risks associated with the uncertainty of the tax status of the DLC structure;
- .. general economic and business conditions which may impact levels of disposable income of consumers and the net revenue yields for the cruise brands of Carnival, P&O Princess and the Combined Group;
- .. conditions in the cruise and land-based vacation industries, including competition from other cruise ship operators and providers of other vacation alternatives and increases in capacity offered by cruise ship and land-based vacation alternative capacities;
- .. the impact of operating internationally;
- .. the international political and economic climate, armed conflict, terrorist attacks and other world events and negative publicity and their impact on the demand for cruises;
- .. accidents and other incidents at sea affecting the health, safety, security and vacation satisfaction of passengers;
- .. the ability of Carnival, P&O Princess and the Combined Group to implement their shipbuilding programmes and brand strategies and to continue to expand their businesses worldwide;
- .. the ability of Carnival, P&O Princess and the Combined Group to attract and retain shipboard crew;
- .. the ability to obtain financing on terms that are favourable or consistent with Carnival's, P&O Princess' and the Combined Group's expectations;
- .. the impact of changes in operating and financing costs, including changes in foreign currency and interest rates and security, fuel, food and insurance costs;
- .. changes in the tax, environmental and other regulatory regimes under which each company operates; and
- .. the ability of a small group of shareholders effectively to control the outcome of shareholder voting.

These risks and other risks are detailed in the section entitled "Risk factors"

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

in Part II of this document and in Carnival's and P&O Princess' SEC reports. That section and those reports contain important

2

cautionary statements and a discussion of many of the factors that could materially affect the accuracy of each company's forward-looking statements and/or adversely affect their respective businesses, results of operations and financial positions, which statements and factors are incorporated in this document by reference.

Forward-looking statements should not be relied upon as a prediction of actual results. Subject to any continuing obligations under applicable law or any relevant listing rules, Carnival and P&O Princess expressly disclaim any obligation to disseminate, after the date of this document, any updates or revisions to any such forward-looking statements to reflect any change in expectations or events, conditions or circumstances on which any such statements are based.

Shareholder disclosure obligations

Any person who, alone or acting together with any other person(s) pursuant to an agreement or understanding (whether formal or informal) to acquire or control securities of Carnival or P&O Princess, owns or controls, or becomes the owner or controller, directly or indirectly, of one per cent. or more of any class of securities of Carnival or P&O Princess is generally required under the provisions of Rule 8 of the Takeover Code to disclose to a Regulatory Information Service and the Panel every dealing in such securities during the period from 16 December 2001, the date of Carnival's announcement of its original offer for P&O Princess, until the completion of the DLC transaction. Dealings by Carnival or P&O Princess or by their respective "associates" (within the definitions set out in the Takeover Code) in any class of securities of Carnival or P&O Princess must also be disclosed. Please consult your financial adviser immediately if you believe this rule may be applicable to you.

Disclosure should be made on an appropriate form before 12 noon (London time) on the business day following the date of the dealing transaction. These disclosures should be registered with a Regulatory Information Service (e.g. the Company Announcements Office of the London Stock Exchange (fax number: +44 20 7588 6057)) and to the Panel (fax number: +44 20 7256 9386).

Rules prohibiting tendering borrowed stock

Under applicable U.S. securities laws, you must have a "net long position" in P&O Princess shares at least equal to the number of shares you tender both at the time of tender and at completion of the Partial Share Offer. Your net long position is equal to the excess, if any, of your long position in P&O Princess shares over your short position in P&O Princess shares, in each case as defined in the applicable regulations. For the purposes of these rules, borrowed shares will count towards both your long position and your short position in P&O Princess shares. Accordingly, borrowing shares will not increase your net long position. The effect of these rules is to restrict your ability to tender borrowed shares in the Partial Share Offer. The application of these rules can be complex. If you have any questions regarding whether you will have a net long position in P&O Princess shares upon participating in the Partial Share Offer, you should contact your legal or financial advisers prior to tendering your shares.

Financial information

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

The extracts from the consolidated financial statements of, and the other financial information about, Carnival and P&O Princess appearing or incorporated by reference in this document are presented in U.S. dollars. Carnival's historical financial statements are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and P&O Princess' historical financial statements are prepared in accordance with UK generally accepted accounting principles, or UK GAAP. U.S. GAAP and UK GAAP differ from one another in some significant respects. A description of the principal differences between U.S. GAAP and UK GAAP as they relate to P&O Princess is contained in Part C of Section B of Part III of this document and in the notes to the P&O Princess consolidated financial statements for the year ended 31 December 2002 which are incorporated by reference in this document.

Unaudited pro forma financial information of the Combined Group that gives effect to the DLC transaction and that has been prepared in accordance with U.S. GAAP is contained in Part A of Section B of Part III of this document. Unaudited pro forma financial information on the Combined Group that gives effect to the DLC transaction and that has been prepared in accordance with UK GAAP is contained in Part B of Section B of Part III of this document.

3

Incorporation of documents by reference

Carnival and P&O Princess have filed a registration statement on Form S-4/F-4 to register with the SEC:

- .. the Carnival shares to be delivered to P&O Princess shareholders in exchange for their P&O Princess shares and P&O Princess ADSs pursuant to the Partial Share Offer; and
- .. the P&O Princess shares deemed to be exchanged as a result of the DLC transaction.

This document is a part of that registration statement and constitutes a prospectus of Carnival and a prospectus of P&O Princess as well as Carnival's offer to exchange. In addition, Carnival has filed with the SEC a Tender Offer Statement on Schedule TO under the Exchange Act to furnish certain information about the Partial Share Offer.

This document incorporates important business and financial information about Carnival and P&O Princess, and about the DLC transaction and the Combined Group, by reference to documents that Carnival and P&O Princess have previously filed with the SEC and that are not included in or delivered with this document. This means that:

- .. incorporated documents are considered part of this document;
- .. Carnival and P&O Princess can disclose important information to you by referring you to those documents;
- .. information in this document automatically updates and supersedes information in earlier documents that are incorporated by reference in this document;
- .. information in a document incorporated by reference in this document automatically updates and supersedes information in earlier documents that are incorporated by reference in this document; and

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

.. information that Carnival and P&O Princess file with the SEC after the date of this document that is incorporated by reference in this document automatically updates and supersedes information in this document.

Any references to statutory safe harbours from liability for forward-looking statements in any of the documents we incorporate by reference in this document are specifically excluded from this document.

In connection with the P&O Princess EGM to approve the implementation of the DLC structure, P&O Princess has prepared a shareholder circular which is being distributed to you separately. That circular has been furnished to the SEC under cover of a Form 6-K, and certain portions of that circular are incorporated in this document by reference.

You may obtain copies of the Form S-4/F-4 and the Schedule TO (and any amendments or supplements to those documents) and copies of documents filed by Carnival with the SEC that are incorporated by reference in this document from Carnival as set forth in "Where you can find additional information about Carnival" in Part IV of this document and copies of the Form S-4/F-4 (and any amendments or supplements to that document) and copies of documents filed with, or furnished to, the SEC by P&O Princess that are incorporated by reference in this document from P&O Princess as set forth in "Where you can find additional information about P&O" in Part V of this document. As allowed by SEC rules, this document does not contain all the information you can find in the registration statement on Form S-4/F-4 or the exhibits to the registration statement.

You may also contact the U.S. Information Agent, Georgeson Shareholder, at: 17 State Street, 10th Floor, New York, NY 10004. You may also call the U.S. Information Agent toll-free from the U.S., at 1 866 203-2636. Calls from outside the U.S. will be charged at the applicable rate. IN ORDER TO ENSURE TIMELY DELIVERY OF THE DOCUMENTS, ANY REQUEST SHOULD BE MADE BY 7 APRIL 2003.

Applicable disclosure requirements

Investors should be aware that this document has been prepared to comply with both English and U.S. securities laws, regulations and requirements and accordingly may not be in the standard format and style for a document of this type.

4

PART I

SUMMARY

This summary highlights selected information from this document in question and answer format and does not contain all of the information that is important to you. To understand the DLC proposal fully, you should read this document and the other documents to which you are referred.

Section A. These materials

Why am I receiving these materials?

On 24 October 2002, Carnival announced the terms of a pre-conditional offer to enter into the DLC transaction with P&O Princess and make the Partial Share Offer for up to, in aggregate, a maximum of 20 per cent. of the issued share capital of P&O Princess. On 8 January 2003, P&O Princess and Carnival announced that the P&O Princess board had accepted and recommended Carnival's offer to

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

enter into the DLC transaction with P&O Princess.

As a P&O Princess shareholder, you are entitled to vote on whether to approve the implementation of the DLC structure and to participate in the Partial Share Offer. The purpose of this document is to explain the terms and conditions of the Partial Share Offer and DLC transaction. See Section C below for questions and answers concerning the Partial Share Offer and Section D below for questions and answers concerning the DLC transaction.

You do not need to participate in the Partial Share Offer in order to participate as a shareholder in the Combined Group. If you would prefer to continue to hold P&O Princess shares and do not want to hold Carnival shares listed on the NYSE, you should not accept the Partial Share Offer. However, the board of P&O Princess urges you to exercise your voting rights to approve the DLC transaction.

If the DLC transaction is not completed due to lack of shareholder approval or for any other reason, the Partial Share Offer will not be completed.

5

Section B. Summary information on the Combined Group, Carnival and P&O Princess

The Combined Group

The Combined Group, which reflects the businesses of Carnival and P&O Princess that will be managed and operated as if they were a single economic enterprise, will be the largest cruise vacation group in the world, based on revenues, passengers carried and available capacity. It will have a wide portfolio of complementary brands, both by geography and product offering, and will include some of the best known cruise brands globally. Carnival and P&O Princess together had, as at 31 January 2003, a combined fleet of 65 cruise ships offering 99,982 lower berths, with 18 additional cruise ships with 42,260 lower berths scheduled to be added over the next three and a half years, and will be a leading provider of cruises to all major cruise destinations outside the Far East. Carnival and P&O Princess together carried approximately 4.7 million passengers in fiscal 2002.

Carnival

Carnival is a global cruise vacation and leisure travel company. Carnival offers a broad range of cruise brands serving the vacation market through Carnival Cruise Lines, Holland America Line, Costa Cruises, Cunard Line, Seabourn Cruise Line and Windstar Cruises. Carnival's various brands operate 45 cruise ships, offering a total of 67,282 lower berths, in Alaska, Australia, Bahamas, Bermuda, Canada, the Caribbean, Europe, the Hawaiian Islands, the Mexican Riviera, the Mediterranean, New England, the Panama Canal, South America and other exotic destinations worldwide. Carnival has 13 additional cruise ships on order, which will offer a further 30,580 lower berths. These ships are expected to enter service over the next three and a half years. In addition to its cruise operations, Carnival operates a tour business through Holland America Tours, which markets sightseeing tours both separately and as a part of its cruise/tour packages. Holland America Tours operates 13 hotels in Alaska and the Canadian Yukon, two luxury dayboats and a fleet of over 300 motorcoaches and 13 rail cars. Carnival's business strategy is to use this wide, diverse range of vacation options to attract passengers from other land-based vacation choices.

Carnival was incorporated under the laws of the Republic of Panama in November 1974 and is listed on the NYSE. Its shares trade under the symbol "CCL". The

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

address of Carnival's principal executive offices is 3655 N.W 87/th/ Avenue, Miami, Florida 33178-2428, and its telephone number is +1 305 599 2600.

P&O Princess

P&O Princess is a global cruise vacation company operating under the following brand names: Princess Cruises in North America; P&O Cruises, Ocean Village and Swan Hellenic in the UK; AIDA and A'ROSA in Germany; and P&O Cruises in Australia. P&O Princess provides cruises to Alaska, the Caribbean, Europe, the Mediterranean, the Panama Canal and other exotic destinations. The P&O Princess group had a fleet of 20 ocean cruise ships and two river boats offering a total of 33,100 lower berths as at 31 January 2003, with five additional ocean cruise ships and two river boats on order as of that date, offering a further 12,080 lower berths. The new ships are expected to be delivered over the next two years. P&O Princess' tour division, Princess Tours, is a tour operator in Alaska with five riverside lodges, a fleet of motorcoaches and Midnight Sun Express rail cars.

P&O Princess was incorporated and registered in England and Wales in July 2000 and P&O Princess shares are listed on the London Stock Exchange and P&O Princess ADSs are listed on the NYSE. Both P&O Princess shares and P&O Princess ADSs trade under the symbol "POC" on their respective exchanges. The address of P&O Princess' principal executive office is 11-12 Charles II Street, London SW1Y 4QU, England, and its telephone number is +44 20 7805 1200.

Where can I find more information about Carnival and P&O Princess?

You can find more information about Carnival and P&O Princess from various sources described in the sections entitled "Where you can find additional information about Carnival" and "Where you can find additional information about P&O Princess" in Parts IV and V of this document.

6

Section C. Summary of the terms of the Partial Share Offer

If you want to continue to hold your P&O Princess shares, you should not accept the Partial Share Offer, and the information in this Section C will not be relevant to you. Please see Section D for a discussion of the DLC transaction.

What is the Partial Share Offer?

In connection with the DLC transaction, Carnival is making an offer to P&O Princess shareholders to exchange all or part of their P&O Princess shares for Carnival shares, subject to an aggregate maximum of 20 per cent. of P&O Princess' issued share capital. This offer is referred to in this document as the "Partial Share Offer." Whether or not you accept the Partial Share Offer will not influence whether or not the DLC transaction will proceed. If the DLC transaction is not completed due to lack of shareholder approval or for any other reason, the Partial Share Offer will not be completed. If the DLC transaction is completed, then your participation in the Partial Share Offer will only affect how you participate in the Combined Group, whether through ownership of Carnival shares, P&O Princess shares or both. The Partial Share Offer is open to all shareholders of P&O Princess, whether you hold P&O Princess shares directly or in the form of P&O Princess ADSs. Please see "The Partial Share Offer" in Section A of Part VI of this document.

Why is Carnival making the Partial Share Offer?

The Partial Share Offer is being made in connection with the DLC transaction.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

It is designed to allow those P&O Princess shareholders who would prefer to hold their interest in the Combined Group through Carnival shares listed on the NYSE to exchange P&O Princess shares for Carnival shares if the DLC transaction is completed. The extent to which a P&O Princess shareholder will be able to do this will depend on how many shares are tendered into the Partial Share Offer. The board of directors of Carnival believes that the DLC transaction is advantageous for Carnival and in the best interests of Carnival and its shareholders. Carnival has agreed to enter into the DLC transaction with P&O Princess in order to create the Combined Group. The transaction will allow the Combined Group to offer a wider range of vacation choices for its passengers and is expected to enhance its ability to attract more passengers from land-based vacations.

What would I receive in exchange for my P&O Princess shares?

Under the terms of the Partial Share Offer, Carnival will issue 0.3004 Carnival shares for each P&O Princess share and 1.2016 Carnival shares for each P&O Princess ADS tendered. P&O Princess shareholders may elect to accept the Partial Share Offer in respect of all or a portion of their P&O Princess shareholdings. If more than 20 per cent. of the issued P&O Princess shares are tendered into the Partial Share Offer, then the proration procedures described in paragraph 4 of Section A of Part VI of this document will apply.

If the Partial Share Offer is oversubscribed, how will the scaling down work?

P&O Princess shareholders who tender at least 20 per cent. of the P&O Princess shares they hold will have at least 20 per cent. accepted. The extent to which tenders in excess of 20 per cent. are accepted will depend on how many P&O Princess shares each individual shareholder tenders and how many P&O Princess shares all P&O Princess shareholders tender. If less than 20 per cent. of the issued share capital of P&O Princess is tendered, all shares tendered by tendering P&O Princess shareholders will be accepted. If more than 20 per cent. is tendered, each tendering shareholder will have its 20 per cent. accepted. The remaining amount tendered will be accepted pro rata for each shareholder based on the proportion of the number of shares available once acceptances of up to 20 per cent. have been satisfied to the total number of shares tendered in excess of 20 per cent. See paragraph 4 of Section A of Part VI.

How will fractional P&O Princess shares and P&O Princess ADSs be treated in the Partial Share Offer?

Fractional entitlements to Carnival shares arising under the Partial Share Offer will be aggregated and sold in the market and the proceeds (converted into pounds sterling at the prevailing exchange rate)

7

remitted to the persons entitled to them, except that individual entitlements of less than (Pounds)3 will be retained for the benefit of the Combined Group.

Does the P&O Princess board recommend the Partial Share Offer?

No. The P&O Princess board is not making any recommendation as to whether you should tender or refrain from tendering your P&O Princess shares. The P&O Princess board is not making any recommendation because, once the DLC structure has been implemented, both P&O Princess shares and Carnival shares will represent an investment with respect to the Combined Group and the decision by each P&O Princess shareholder about which type of shares he or she should hold will depend upon the individual shareholder's particular preferences and circumstances. You must decide whether you want to receive Carnival shares and,

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

if so, how many P&O Princess shares to tender. To the best of the knowledge of P&O Princess, some, but not all, of its directors and executive officers intend to participate in the Partial Share Offer. If you are in any doubt about the Partial Share Offer or the action you should take, you should seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised, in the UK, under the Financial Services and Markets Act 2000.

P&O Princess shareholders should be aware of certain factors that could influence whether they wish to accept the Partial Share Offer:

- . Listing and index inclusion - P&O Princess shares will continue to be listed on the London Stock Exchange and are expected to remain included in the FTSE series of indices, while the Carnival shares issued to those accepting the Partial Share Offer will be listed on the NYSE and are expected to remain included in the S&P 500;
- . Relative market prices - the relative market prices of the shares of P&O Princess and Carnival may not exactly reflect the equalisation ratio and P&O Princess shares could therefore trade at either a premium or discount to the Carnival shares. This is because although the economic interests of the shares of the two companies will be contractually aligned in accordance with the equalisation ratio, the shares of the two companies will remain outstanding, will not be exchangeable for each other at the option of the shareholder and will primarily trade in separate markets with different characteristics and in different currencies;
- . Liquidity - the liquidity and aggregate market value of P&O Princess shares could decrease following the completion of the DLC transaction and the Partial Share Offer, and could be further reduced by any future repurchase or buy-backs of P&O Princess shares. However, under the terms of the DLC transaction, other than with the approval of both companies' shareholders, voting separately, neither Carnival nor P&O Princess may buy-back P&O Princess shares in the two-year period following the date on which the DLC structure is implemented and, after the end of this initial two-year period, neither Carnival nor P&O Princess may buy-back P&O Princess shares in excess of five per cent. of the then issued P&O Princess shares in each of the subsequent three years.

The liquidity of the market for the P&O Princess shares could also be adversely affected if they were to cease to be eligible for inclusion in the FTSE series of indices, including the FTSE 100, which could occur if P&O Princess' market capitalisation were to fall significantly compared to other constituents of the index; and

- . Taxation - the tax consequences of accepting the Partial Share Offer may differ according to the tax positions of different shareholders. See paragraphs 2 and 3 of Appendix IV, although shareholders are encouraged to seek their own advice in this regard.

Will any vote by Carnival shareholders be required to approve the issuance of the Carnival shares?

No. Carnival shareholders will not be required to approve the proposed issuance of the Carnival shares in the Partial Share Offer.

How long do I have to decide whether to accept the Partial Share Offer?

You initially will have until 10:00 a.m., London time, 5:00 a.m., New York City time, on 17 April 2003, to decide whether to accept the Partial Share Offer (at which time the Partial Share Offer will be declared unconditional), unless the

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Partial Share Offer is extended by Carnival. It is expected that 16 April 2003

8

will be the date of the P&O Princess EGM, and that there will be no need to extend the Partial Share Offer. In the event that the Partial Share Offer is extended, it is likely to be for a period of less than 14 days.

Can the Partial Share Offer be extended and under what circumstances?

Yes. If all of the conditions to the Partial Share Offer (including the completion of the DLC transaction) have not been either satisfied, fulfilled or, to the extent permitted, waived by Carnival by 10:00 a.m., London time, 5:00 a.m., New York City time, on 17 April 2003, Carnival will extend the period for acceptances for an additional period by making an announcement on a Regulatory Information Service. However, in no event will Carnival extend the Partial Share Offer after it is declared unconditional. See paragraph 3 of Part B of Appendix I to this document.

How do I participate in the Partial Share Offer?

If you hold P&O Princess shares in certificated form (that is, you hold a share certificate) and wish to accept the Partial Share Offer you must deliver the certificate(s) representing the P&O Princess shares you wish to tender, together with a completed Form of Acceptance, to Computershare Investor Services PLC, the UK Receiving Agent, as soon as possible and, in any event, so as to be received by no later than the time the Partial Share Offer expires. See paragraph 3(a) of Section A of Part VI of this document and the Form of Acceptance in Section B of Part VI.

If you hold P&O Princess shares in uncertificated form (that is, in CREST) and wish to accept the Partial Share Offer you must send (or, if you are a CREST sponsored member, procure that your CREST sponsor sends) a TTE instruction in accordance with the procedure set out in paragraph 3(b) of Section A of Part VI of this document, as soon as possible and, in any event, so as to be received by no later than the time the Partial Share Offer expires.

If you hold P&O Princess ADSs in book-entry form through your broker or otherwise and wish to accept the Partial Share Offer, you should contact the institution promptly and instruct it to accept the Partial Share Offer on your behalf not later than the time the Partial Share Offer expires. If you hold P&O Princess ADRs evidencing P&O Princess ADSs that are registered in your name and wish to accept the Partial Share Offer, you must complete and deliver the Letter of Transmittal to Computershare Trust Company of New York, the U.S. Exchange Agent, no later than the time the Partial Share Offer expires. See paragraph 3(c) of Section A of Part VI of this document.

Do not send your share certificate(s), P&O Princess ADRs, Forms of Acceptance or Letters of Transmittal to Carnival or P&O Princess. See Part VI and Parts B, C and D of Appendix I to this document.

If you wish to have your Carnival shares credited to an existing U.S. brokerage account rather than receiving a share certificate, you may do so provided that you have an existing U.S. brokerage account and validly complete and timely return the Brokerage Account Election Form.

If I accept the Partial Share Offer, can I still vote on the DLC transaction?

Yes. You are entitled to vote all of your P&O Princess shares in the vote on the DLC transaction, regardless of whether you tender any or all of your shares

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

in the Partial Share Offer.

Until what time can I withdraw my acceptance of the Partial Share Offer?

You can withdraw your acceptance at any time until the Partial Share Offer is declared unconditional. See paragraph 5 of Section A of Part VI and paragraph 4 of Part B of Appendix I to this document.

How do I withdraw my acceptance of the Partial Share Offer?

To withdraw your acceptance and P&O Princess shares or P&O Princess ADSs tendered, you must deliver a written notice of withdrawal with the required information to the UK Receiving Agent or the U.S. Exchange Agent while you still have the right to withdraw the P&O Princess shares or P&O Princess ADSs. See paragraph 4 of Part B of Appendix I to this document.

9

When will I receive my Carnival shares?

Assuming that the Partial Share Offer is declared unconditional, Carnival will provide the consideration for the P&O Princess shares taken up in the Partial Share Offer within 14 calendar days of the Partial Share Offer being declared unconditional. If proration is required, Carnival will determine the proration factor as soon as practicable following the Partial Share Offer becoming unconditional.

In what form will I receive my Carnival shares?

Unless you have an existing U.S. brokerage account and complete and return a Brokerage Account Election Form, you will receive a share certificate evidencing your Carnival shares. If you have an established U.S. brokerage account and validly complete and timely return a Brokerage Account Election Form, your Carnival shares will be credited to your U.S. brokerage account.

What is a U.S. brokerage account?

This is an account with a registered U.S. broker-dealer in which you can deposit securities. Rather than holding certificates, securities deposited in such an account will be evidenced in electronic form by book entry. Such securities can be traded, subject to applicable rules through a book entry transfer facility.

Does the closing of the Partial Share Offer require any regulatory approvals?

No. The closing of the Partial Share Offer does not require any regulatory approvals.

Can I tender borrowed stock?

Under applicable U.S. securities laws, you must have a "net long position" in P&O Princess shares at least equal to the number of shares you tender both at the time of tender and at completion of the Partial Share Offer. Your net long position is equal to the excess, if any, of your long position in P&O Princess shares over your short position in P&O Princess shares, in each case as defined by the applicable regulations. For the purposes of these rules, borrowed shares will count towards both your long position and your short position in P&O Princess shares. Accordingly, borrowing shares will not increase your net long position. The effect of these rules is to restrict your ability to tender borrowed shares in the Partial Share Offer. The application of these rules can be complex. If you have any questions regarding whether you will have a net

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

long position in P&O Princess shares upon participating in the Partial Share Offer, you should contact your legal or financial advisers prior to tendering your shares.

Do I have any appraisal rights with respect to P&O Princess shares?

Under English law, shareholders do not generally have appraisal rights as that concept is understood under U.S. corporate law or any similar specific statutory right to have a court determine the fair value of securities subject to a business combination. In many U.S. jurisdictions, shareholders who are disappointed with the consideration being offered for their shares in connection with a merger or consolidation of the company have the option to seek appraisal rights and have a court determine the fair value of their shares. In addition, as is common among UK companies, P&O Princess' articles of association do not contain any such rights.

Will I have to pay any fees or commissions?

If you are the registered or record owner of your P&O Princess shares and/or P&O Princess ADSs and you accept the Partial Share Offer, you will not have to pay brokerage fees or similar expenses. If you own your P&O Princess shares and/or P&O Princess ADSs through a broker or other nominee, and your broker accepts the Partial Share Offer on your behalf, your broker or nominee may charge you a fee for doing so. You should consult your broker or nominee to determine whether any charges will apply.

If I accept the Partial Share Offer, will this be a taxable transaction to me for UK or U.S. tax purposes?

The tax implications of the Partial Share Offer on P&O Princess shareholders will depend on each shareholder's particular circumstances. Holders of P&O Princess shares and P&O Princess ADSs

10

should consult their independent professional advisers in the light of their particular circumstances as to the UK tax and U.S. federal income tax consequences of the DLC transaction, the P&O Princess share reorganisation and the Partial Share Offer, as well as to the effect of any state, local or applicable foreign tax law.

UK tax

UK P&O Princess shareholders who accept the Partial Share Offer will make a taxable disposal or part disposal of their P&O Princess shares taken up by Carnival in the Partial Share Offer for the purposes of UK tax on chargeable gains. This disposal or part disposal may give rise to a liability to UK tax on chargeable gains depending on the shareholder's circumstances (including the availability of exemptions or allowable losses). Acceptance of the Partial Share Offer will give rise to the exchange of P&O Princess shares for shares issued by Carnival, and any future dividends received will therefore be Carnival dividends, which are taxed differently from P&O Princess dividends received by shareholders who are resident or ordinarily resident in the UK.

General information on the application of current UK tax law and Inland Revenue practice applicable to UK P&O Princess shareholders in respect of the Partial Share Offer is set out in paragraph 2 of Appendix IV.

U.S. federal income taxation

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

The exchange of P&O Princess shares or P&O Princess ADSs for Carnival shares pursuant to the Partial Share Offer will likely be a taxable transaction for U.S. federal income tax purposes in which U.S. P&O Princess shareholders recognise gain or, subject to the possible application of the "wash sale" rule as described below, loss in an amount equal to the difference between the fair market value of such Carnival shares received and the shareholder's adjusted tax basis in the P&O Princess shares or P&O Princess ADSs, as the case may be. If the P&O Princess shares or P&O Princess ADSs are deemed to be "substantially identical", for the purposes of the wash sale rule of the Internal Revenue Code and applicable Treasury Regulations, to the Carnival shares received by a U.S. holder pursuant to the Partial Share Offer, such holder will not be able to recognise a loss on such exchange. Any loss that is disallowed through the application of the wash sale rule would not be eliminated but would rather be deferred and a U.S. holder's holding period and tax basis in their P&O Princess shares exchanged pursuant to the Partial Share Offer would carry over to the Carnival shares received pursuant to such exchange. See paragraph 3 of Appendix IV to this document.

If I accept the Partial Share Offer, how will my rights as a Carnival shareholder differ from my rights as a P&O Princess shareholder?

P&O Princess is a company organised under the laws of England and Wales, while Carnival is a company organised under the laws of the Republic of Panama. Since the Partial Share Offer is conditional on approval of the DLC transaction, the rights accompanying the Carnival shares you receive will change to give effect to the DLC transaction. A summary of the material differences between the existing rights of P&O Princess shareholders and the rights of Carnival shareholders following implementation of the DLC structure is contained in Appendix III to this document.

What is the timing of the votes on the DLC transaction relative to the Partial Share Offer?

The vote of Carnival shareholders on the DLC transaction is scheduled for 14 April 2003, and the vote of P&O Princess shareholders on the DLC transaction is scheduled for 16 April 2003. The Partial Share Offer will be declared unconditional (that is, it will expire) at 10:00 a.m., London time, on the day after the P&O Princess EGM, unless the Partial Share Offer is extended as described above.

Who can answer questions I might have about the Partial Share Offer?

If you have any queries in relation to the DLC transaction and/or the Partial Share Offer, you may call the UK shareholder helpline from within the UK on 0800 953 0083 between 9:00 a.m. and 5:30 p.m., London time, on any business day until completion of the DLC transaction. If you are calling

11

from the U.S., the helpline number is 1 866 203-2636 (calls will be toll-free within the U.S.). If you are calling from anywhere else, the helpline number is +44 870 889 3147 (calls will be charged at the applicable rate). For legal reasons, the helpline will only be able to assist you with information contained in this document and the helpline cannot provide advice on the merits of the proposals or give any financial advice. Calls may be monitored for quality control purposes.

If I am a shareholder resident outside the UK or the U.S., what do I need to do?

P&O Princess shareholders that are citizens or residents of jurisdictions

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

outside the UK or the U.S., or who are nominees of, or custodians or trustees for, such persons, or who intend to forward this document to any jurisdiction outside the UK or the U.S., should refer to paragraph 7 of Part B of Appendix I and the relevant provisions of the Form of Acceptance and Letter of Transmittal.

12

Section D. Summary of the DLC transaction

This summary of the DLC transaction highlights selected information in question and answer format and does not contain all of the information that is important to you. To understand the DLC transaction fully, you should read the shareholder circular for the P&O Princess EGM and the other documents to which you are referred.

What is the DLC transaction?

The DLC transaction is a means of enabling P&O Princess and Carnival to combine their management and operations as if they were a single economic enterprise, while retaining their separate legal identities. This will be accomplished through contractual arrangements and amendments to each company's constitutional documents. In addition, the constitutional documents of the two companies will be harmonised, to the extent practicable and permitted by law, to ensure their corporate procedures are substantially similar. As part of the DLC transaction, P&O Princess intends to change its name to Carnival plc at the P&O Princess EGM. You will receive a shareholder circular in connection with the P&O Princess EGM to approve the implementation of the DLC structure, which describes the DLC transaction in greater detail.

What is the premium implied by the DLC transaction?

The "look through" value per P&O Princess share under the DLC transaction, based on the closing price of \$26.00 per Carnival share on 23 October 2002, the last business day prior to the announcement of the DLC transaction, was 504 pence. This represents a premium of 59.1 per cent. to the closing middle-market price of 317 pence per P&O Princess share on 19 November 2001, the last business day prior to the announcement of the Royal Caribbean DLC transaction, a premium of 40.1 per cent. to the closing middle-market price of 360 pence per P&O Princess share on 14 December 2001, the last business day prior to the announcement of Carnival's first pre-conditional offer for P&O Princess and a premium of 10.8 per cent. to the closing middle-market price of 455 pence per P&O Princess share on 23 October 2002.

The "look through" value per P&O Princess share under the DLC transaction, based on the closing price of \$20.75 per Carnival share on 12 March 2003, the latest practicable day prior to the publication of this document, was 386 pence. This represents a premium of 21.9 per cent. to the closing middle-market price of 317 pence per P&O Princess share on 19 November 2001, the last business day prior to the announcement of the Royal Caribbean DLC transaction, a premium of 7.4 per cent. to the closing middle-market price of 360 pence per P&O Princess share on 14 December 2001, the last business day prior to the announcement of Carnival's first pre-conditional offer for P&O Princess and a discount of 15.1 per cent. to the closing middle-market price of 455 pence per P&O Princess share on 23 October 2002 and values the entire existing share capital of P&O Princess at approximately (Pounds)2.7 billion.

The look through value is, however, based upon the closing price of Carnival shares on the applicable date, and P&O Princess shares may trade at a discount to Carnival shares.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

What votes are required to approve the DLC transaction?

The DLC transaction must be approved by the shareholders of both P&O Princess and Carnival. P&O Princess shareholders must approve the resolution required to implement the DLC structure by not less than three-quarters of the votes that are cast at the P&O Princess EGM. Carnival shareholders must approve the resolutions required to implement the DLC structure by the affirmative vote of a majority of all outstanding Carnival shares entitled to vote at the Carnival Special Meeting. Micky Arison, other members of the Arison family and trusts for their benefit have entered into undertakings under which they will be required to cause shares beneficially owned by them representing approximately 47 per cent. of the voting power of Carnival to vote in favour of the resolutions to implement the DLC structure at the Carnival Special Meeting. These undertakings are irrevocable except in circumstances where the DLC proposal is withdrawn or lapses.

Does the P&O Princess board recommend the approval of the DLC transaction?

Yes. The P&O Princess directors consider the DLC transaction to be in the best interests of the P&O Princess shareholders as a whole and recommend that you vote in favour of the resolution to approve, among other matters, the DLC transaction at the P&O Princess EGM. Horst Rahe excused himself

13

from the vote due to a potential conflict of interest. As at the date of this document, the directors and executive officers of P&O Princess beneficially hold approximately 0.2 per cent. of P&O Princess' existing issued ordinary share capital. Such directors and executive officers intend to vote their beneficial holdings in favour of the resolution.

Does the Carnival board recommend the approval of the DLC transaction?

Yes. The Carnival board of directors has unanimously approved the DLC transaction and has recommended to its shareholders that they vote for the resolutions set out in its notice of the Carnival Special Meeting. As of 11 March 2003, the directors and executive officers of Carnival and their affiliates beneficially held an aggregate of 234,661,927 Carnival shares, which represent 39.8 per cent. of Carnival's outstanding shares entitled to vote. Such directors and executive officers intend to vote their beneficial holdings in favour of these resolutions.

What will happen to my P&O Princess shares?

Except to the extent that you elect to exchange P&O Princess shares for Carnival shares in the Partial Share Offer described above, following the completion of the DLC transaction you will continue to own your P&O Princess shares. P&O Princess shares will continue to have a primary listing on the London Stock Exchange and it is currently intended that P&O Princess ADSs will continue to be listed on the NYSE for the foreseeable future. The existing full index participation of P&O Princess in the FTSE 100 index is expected to be retained. However, the rights accompanying your P&O Princess shares will change to give effect to the DLC transaction described below.

The economic and voting interests represented by an individual share in each company will be equalised based on an "equalisation ratio". Initially, the equalisation ratio will be one P&O Princess share for each 0.3004 Carnival shares, which is the same as the exchange ratio in Carnival's pre-conditional share exchange offer of 7 February 2002. On completion of the DLC transaction, P&O Princess will reorganise and consolidate its share capital so that the

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

equalisation ratio will adjust to 1:1. This will be achieved by consolidating each 3.3289 existing P&O Princess shares of \$0.50 into one reorganised P&O Princess share of \$1.66 each. If you hold fewer than four P&O Princess shares, you will not receive any P&O Princess shares under the reorganisation. Instead, you will receive a cash sum reflecting the market value of your P&O Princess shares sold into the market. After this reorganisation one Carnival share will have the same rights to distributions of income and capital and the same voting rights as one P&O Princess share. Following the reorganisation of P&O Princess shares, the equalisation ratio will be subject to adjustment only in a limited number of circumstances. In no event will the take-up of the Partial Share Offer affect the equalisation ratio.

Why is the number of P&O Princess shares I hold reducing?

The number of P&O Princess shares in issue will be reduced as a result of the P&O Princess share reorganisation which will take effect at 10:00 p.m., London time, on the day that the Partial Share Offer becomes or is declared unconditional. This share reorganisation will not result in any change in your ownership percentage of P&O Princess shares. To enable the economic and voting rights of each share in P&O Princess to be equal to the economic and voting rights of each share in Carnival, P&O Princess' share capital is being reorganised on completion of the DLC transaction. This will be achieved by consolidating each 3.3289 existing P&O Princess shares of \$0.50 into one reorganised P&O Princess share of \$1.66 each. If you hold fewer than four P&O Princess shares, you will not receive any P&O Princess shares under the reorganisation. Instead, you will receive a cash sum reflecting the market value of your P&O Princess shares sold into the market. In addition, any entitlement to fractions of P&O Princess shares arising out of the reorganisation will be aggregated, consolidated and sold into the market and the net proceeds distributed to the relevant P&O Princess shareholders.

The current P&O Princess shareholders will hold approximately 26 per cent. of the equity in the Combined Group in the form of P&O Princess shares or, to the extent that they participate in the Partial Share Offer, Carnival shares.

14

What are P&O Princess ADSs?

In the U.S., P&O Princess shares trade on the NYSE in the form of P&O Princess ADSs. Each P&O Princess ADS currently represents four P&O Princess shares. Simultaneously with the reorganisation of P&O Princess shares, the ratio of P&O Princess shares to P&O Princess ADSs will also be adjusted to 1:1 in order to have a 1:1 ratio with Carnival shares. The rights of P&O Princess ADS holders are derivative of the rights of holders of P&O Princess shares because P&O Princess ADSs represent underlying P&O Princess shares. As described in the prospectus issued at the time the P&O Princess ADSs were offered to the public in the U.S., the rights of P&O Princess ADS holders are not, however, identical to the rights of holders of ordinary shares. For example, the rights of P&O Princess ADS holders are based on the deposit agreement with the ADS depository bank, as P&O Princess ADS holders are not in the P&O Princess share register and voting is effected through the ADS depository bank and not directly by the P&O Princess ADS holders. These differences are not impacted by the DLC transaction or the reorganisation of P&O Princess shares. P&O Princess ADS holders will be impacted to the same extent as holders of P&O Princess shares by the implementation of the DLC structure.

What will happen to my future dividends?

After the completion of the DLC transaction, P&O Princess shareholders will

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

continue to receive dividends declared by P&O Princess and Carnival shareholders will continue to receive dividends declared by Carnival. However, no dividend or other distribution may be made by either company in respect of its shares unless an equivalent per share dividend or other distribution (before taxes and other deductions) is made by the other company. Dividends and other distributions will be equalised on a per share basis in accordance with the equalisation ratio. The payment of dividends by P&O Princess in the future will depend on business conditions, its financial condition and earnings and the financial condition and earnings of the Combined Group, the ability of Carnival to pay an equivalent dividend and other factors. It is intended that the first dividend to be paid by the Combined Group will be declared in April 2003, with a record date in May 2003 and a payment date in June 2003.

What will happen to Carnival shares?

Carnival shareholders will continue to hold their Carnival shares. In addition, Carnival shareholders will be receiving trust shares of beneficial interest in a trust that Carnival will form, the trustee of which will hold a "special voting share" issued by P&O Princess. Through the special voting share, the votes of Carnival shareholders at Carnival shareholder meetings will be reflected at P&O Princess shareholder meetings on joint electorate actions and class rights actions. These voting rights are described below under "Will my voting rights change?" The trust shares will be paired with the Carnival shares and will be listed and traded on the New York Stock Exchange together with the Carnival shares.

Will P&O Princess shareholders also receive trust shares?

No. Carnival will issue a special voting share through which the votes of P&O Princess shareholders at P&O Princess shareholder meetings will be reflected at Carnival shareholder meetings, but it will be held by a special voting corporation rather than the trustee of a trust. However, the absence of these trust shares in respect of the Carnival "special voting share" will in no way affect the operation of the special voting share or the ability of P&O Princess shareholders to have their votes reflected at Carnival shareholder meetings for purposes of joint electorate actions and class rights actions.

Will my voting rights change?

Yes. On most matters that affect all of the shareholders of the Combined Group, the shareholders of P&O Princess and Carnival will effectively vote together as a single decision-making body on matters requiring the approval of shareholders of either company. These matters will be specified in the constitutional documents of each company as "joint electorate actions". Combined voting will be accomplished through a special voting share that will be issued by each company. Certain matters where the interests of the two shareholder bodies may diverge will be specified in the constitutional documents of each company as "class rights actions". These class rights actions will be voted on separately by the shareholders of each company. If either group of shareholders does not approve a class rights action, that action generally cannot be taken by either company.

15

What impact will the implementation of the DLC structure have on me for UK or U.S. tax purposes?

The tax consequences of the DLC transaction, the P&O Princess share reorganisation and the Partial Share Offer on P&O Princess shareholders will depend upon each shareholder's particular circumstances, including whether such

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

shareholder is a UK P&O Princess shareholder or a U.S. P&O Princess shareholder. Holders of P&O Princess shares and P&O Princess ADSs should consult with their tax advisers to determine the particular UK, U.S. federal, state, local, or other applicable foreign tax consequences of the DLC transaction, the P&O Princess share reorganisation and the Partial Share Offer.

UK P&O Princess shareholders

Under current UK tax law, UK P&O Princess shareholders who do not accept the Partial Share Offer will not be treated as having disposed of their P&O Princess shares for UK capital gains tax purposes by virtue of either the implementation of the DLC structure or the P&O Princess share reorganisation. UK P&O Princess shareholders who continue to hold P&O Princess shares after completion of the DLC transaction will be taxed on dividends received in respect of their P&O Princess shares on the same basis as that in effect prior to the DLC transaction.

UK P&O Princess shareholders who accept the Partial Share Offer will make a taxable disposal or part disposal of their P&O Princess shares for the purposes of UK tax on chargeable gains.

General information on the application of current UK tax law and Inland Revenue practice applicable to UK P&O Princess shareholders in respect of the DLC transaction, the P&O Princess share reorganisation and the Partial Share Offer is set out in paragraph 2 of Appendix IV.

U.S. P&O Princess shareholders

Although there is no U.S. federal income tax authority addressing the tax consequences of a dual listed company transaction, the DLC transaction should not give rise to taxable income or gain for U.S. P&O Princess shareholders for U.S. federal income tax purposes. However, the Internal Revenue Service may assert that U.S. P&O Princess shareholders received taxable income as a result of the various voting and equalisation provisions necessary to implement the DLC structure. Such voting and other rights, if any, received by shareholders are expected to have only nominal value and, therefore, the receipt of such rights by U.S. P&O Princess shareholders would only result in a nominal amount of income. It is possible, however, that the Internal Revenue Service may disagree with this conclusion.

The P&O Princess share reorganisation should not give rise to taxable gain or income to U.S. P&O Princess shareholders except with respect to gain, if any, upon the disposition of fractional shares. U.S. P&O Princess shareholders who dispose of fractional shares under the P&O Princess share reorganisation will recognise gain or loss in an amount equal to the difference between the cash received and the shareholder's adjusted tax basis in his/her P&O Princess shares or P&O Princess ADSs allocable to the fractional share, as the case may be.

The exchange of P&O Princess shares or P&O Princess ADSs for Carnival shares pursuant to the Partial Share Offer will likely be a taxable transaction for U.S. federal incomes tax purposes.

U.S. P&O Princess shareholders will be taxed on dividends received in respect of their P&O Princess shares or P&O Princess ADSs after completion of the DLC transaction on the same basis as they were prior to the DLC transaction.

General information on the application of current U.S. tax laws applicable to U.S. P&O Princess shareholders in respect of the DLC transaction, the P&O Princess share reorganisation and the Partial Share Offer, if accepted, is set out in paragraph 3 of Appendix IV.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

What percentage of the Combined Group will be controlled by existing P&O Princess shareholders?

If the DLC transaction is approved, existing P&O Princess shareholders will hold 26 per cent. of the equity of the Combined Group following its implementation. This percentage will not be affected by the take up of the Partial Share Offer. However, depending on the extent that P&O Princess shares are exchanged for Carnival shares under the Partial Share Offer, part of the interest in the Combined Group held by existing P&O Princess shareholders will be in the form of Carnival shares rather than

16

P&O Princess shares. If the Partial Share Offer is taken up in full, approximately 21 per cent. of the equity of the Combined Group will be held through P&O Princess shares and the balance of the equity in the Combined Group will be held through Carnival shares.

Will P&O Princess become a subsidiary of Carnival?

No. P&O Princess will continue to exist as a separate publicly quoted company and its shares will continue to be listed on the London Stock Exchange. The boards of Carnival and P&O Princess will be identical and the Combined Group will be managed by a single senior executive management team. The two companies will pursue a common set of business objectives established by the identical boards and single management team, who will evaluate these strategies and other operational decisions from the perspective of all shareholders.

Will there be any transfer of assets between P&O Princess and Carnival in connection with the DLC transaction?

The implementation of the DLC structure will not result in the transfer of any assets between P&O Princess and Carnival. Following completion of the DLC transaction, management of the Combined Group will determine whether assets will be owned by Carnival or P&O Princess as is most efficient and appropriate under the then prevailing circumstances. The Combined Group will comprise all of the assets held by P&O Princess and Carnival immediately prior to the implementation of the DLC transaction. No transfer of assets between the two companies will affect the equalisation ratio or the relative economic interests of P&O Princess shareholders and Carnival shareholders in the Combined Group.

What accounting treatment and reporting requirements will be applicable to the Combined Group?

It is expected that under U.S. GAAP the DLC transaction will be accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations". In accordance with the purchase method of accounting, the P&O Princess U.S. GAAP accounting policies will be conformed to Carnival's accounting policies upon completion of the DLC transaction.

Following the completion of the DLC transaction, P&O Princess will change its financial year end from 31 December to 30 November so that it will be the same as Carnival's current fiscal year end. The Combined Group intends to publish combined financial statements denominated in U.S. dollars and prepared in accordance with U.S. GAAP. It is envisaged that these combined financial statements will be included in a combined annual report. P&O Princess also expects to include summary balance sheet information and summary income statement information prepared in accordance with UK GAAP, without notes, in the combined annual report. P&O Princess shareholders will be able to request

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

an additional document containing P&O Princess financial statements prepared in accordance with UK GAAP, which together with the other published information would constitute the full annual report and financial statements.

In addition, Carnival and P&O Princess will file periodic and current reports with the SEC on a joint basis in accordance with the rules applicable to U.S. domestic reporting companies. The financial statements presented in the periodic reports will consist of combined financial statements of the Combined Group prepared in accordance with U.S. GAAP.

Who will be the directors and senior executive management team of the Combined Group?

Carnival and P&O Princess will be managed and operated as if they were a single economic enterprise. Although each of Carnival and P&O Princess will continue to exist as a separate company with its own board of directors and senior executive management, the boards and senior executive management of each company will be identical. The proposed directors of each of Carnival and P&O Princess following implementation of the DLC structure are set out in paragraph 8 of Section A of Part III. In addition to their normal fiduciary duties to the company and obligation to have regard to the interests of its shareholders, the directors of each company will be entitled to have regard to the interests of the other company and its shareholders. Micky Arison, the Chairman and Chief Executive

17

Officer of Carnival, will be Chairman and Chief Executive Officer of both Carnival and P&O Princess, Howard S. Frank, the Vice-Chairman and the Chief Operating Officer of Carnival, will be the Vice-Chairman and Chief Operating Officer of both Carnival and P&O Princess and Gerald R. Cahill, the Chief Financial Officer and Chief Accounting Officer of Carnival, will be the Chief Financial Officer and Chief Accounting Officer of both Carnival and P&O Princess. The headquarters of the Combined Group will be in Miami with a corporate office in London.

How will the directors of Carnival and P&O Princess be elected?

Resolutions relating to the appointment, removal and re-election of directors will be considered as a joint electorate action and voted upon by the shareholders of each company effectively voting together as a single decision-making body. No person may be a member of the board of directors of Carnival or P&O Princess without also being a member of the board of directors of the other company.

When will we elect the new directors of Carnival and P&O Princess?

Carnival and P&O Princess expect to hold their next annual meetings in June 2003 at which the re-election of each of the directors will be considered as joint electorate actions.

What corporate governance requirements will apply to the Combined Group?

Carnival and P&O Princess comply with, and the Combined Group will comply with, the applicable corporate governance requirements of the U.S. Sarbanes-Oxley Act of 2002 and the NYSE. These are the corporate governance rules applicable to U.S. public companies. P&O Princess will also continue to comply with the rules of the UK Listing Authority (including certain annual disclosure requirements regarding compliance with the Combined Code, appended to those rules) and the London Stock Exchange. It is expected that P&O Princess will, upon completion

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

of the DLC transaction, not comply with the recommendation of the Combined Code to have a separate chairman and chief executive officer.

When do you expect to complete the DLC transaction?

P&O Princess and Carnival are working to complete the DLC transaction as soon as possible. P&O Princess and Carnival hope to complete the DLC transaction as soon as practicable after the P&O Princess EGM and the Carnival Special Meeting if the required shareholder approvals are obtained at those meetings. In addition to shareholder approvals, the companies must satisfy all of the other closing conditions specified in the Implementation Agreement. Subject to these conditions, the completion of the DLC transaction is expected to take place early in the second quarter of 2003.

18

Section E. Carnival selected historical financial and operating data

The selected consolidated financial data presented below for fiscal 1998 through 2002 and as of the end of each such fiscal year are derived from Carnival's audited consolidated financial statements, and should be read in conjunction with the audited consolidated financial statements and the related notes, including those incorporated in this document by reference to Carnival's Annual Report on Form 10-K/A for the year ended 30 November 2002. Carnival's consolidated financial statements have been prepared in accordance with U.S. GAAP, using Carnival's accounting policies.

	Years ended 30 November				
	2002	2001	2000	1999	1998

	dollars in thousands, except per share and operating data)				
Statement of operations data/(a)/:					
Revenues	4,368,269	4,535,751	3,778,542	3,497,470	3,009,306
Operating income	1,042,059	891,731	982,958	1,019,699	896,524
Net income /(b)/	1,015,941/(c)/	926,200/(c)/	965,458	1,027,240	835,885
Earnings per share /(b)/					
Basic	1.73	1.58	1.61	1.68	1.40/
Diluted	1.73	1.58	1.60	1.66	1.40/
Dividends declared per share	.420	.420	.420	.375	.315/
Cash from operations	1,469,032	1,238,936	1,279,535	1,329,724	1,091,840
Capital expenditures	1,986,482	826,568	1,003,348	872,984	1,150,413
Other operating data:					
Available lower berth days/ (e)/	21,436	20,685	15,888	14,336	12,237
Passengers carried	3,549	3,385	2,669	2,366	2,045
Occupancy percentage /(f)/	105.2%	104.7%	105.4%	104.3%	106.3%

As of 30 November

2002/(a)/	2001/(a)/	2000/(a)/	1999

(U.S. dollars in thousands)			

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Balance sheet and other data:

Total assets	12,334,848/(g)/	11,563,552/(g)/	9,831,320	8,286,355
Long-term debt, excluding current portion	3,011,969	2,954,854	2,099,077	867,515
Total shareholders' equity	7,417,903	6,590,777	5,870,617	5,931,247
Debt to capital/ (h)/	29.9%	31.1%	28.6%	15.3%

(a) From June 1997 through 28 September 2000, Carnival owned 50 per cent. of Costa Cruises. On 29 September 2000, Carnival completed the acquisition of the remaining 50 per cent. interest in Costa. Carnival accounted for this transaction using the purchase accounting method. Prior to the fiscal 2000 acquisition, Carnival accounted for its 50 per cent. interest in Costa using the equity method. Commencing in fiscal 2001, Costa's results of operations have been consolidated in the same manner as Carnival's other wholly-owned subsidiaries. Carnival's 30 November 2000 and subsequent consolidated balance sheets include Costa's balance sheet. All statistical information prior to 2001 does not include Costa. See Notes 5 and 17 in Carnival's 2002 consolidated financial statements, which are incorporated by reference in this document.

(b) Effective 1 December 2001, Carnival adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", which requires that companies stop amortising goodwill and requires an annual, or when events or circumstances dictate a more frequent, impairment review of goodwill. Accordingly, as of 1 December 2001, Carnival no longer amortises its goodwill. If goodwill had not been recorded for periods prior to 1 December 2001, Carnival's adjusted net income and adjusted basic and diluted earnings per share would have been as follows (U.S. dollars in thousands, except per share data):

	Years Ended 30 November			
-	2001	2000	1999	1998
Net income	926,200	965,458	1,027,240	835,885
Goodwill amortisation	25,480	23,046	20,666	17,074
Adjusted net income	951,680	988,504	1,047,906	852,959
Adjusted earnings per share				
Basic	1.63	1.65	1.71	1.43
Diluted	1.62	1.64	1.70	1.43

(c) Carnival's net income for fiscal 2001 and 2002 includes an impairment charge of \$140 million and \$20 million, respectively, and fiscal 2001 includes a nonoperating net gain of \$101 million from the sale of Carnival's investment in Airtours. In addition, fiscal 2002 included a \$51 million income tax benefit as a result of a new Italian investment incentive, which allows Costa to receive an income tax benefit based on contractual expenditures during 2002 on construction of new ships. See Notes 4, 5 and 9 in Carnival's 2002 consolidated financial statements, which are incorporated by reference in this document.

(d) The 1998 per share amounts have been adjusted to reflect a two-for-one stock split effective 12 June 1998.

(e) Represents the total annual passenger capacity, assuming two passengers per cabin, that Carnival's ships offered for sale, which is computed by

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

multiplying passenger capacity by ship operating days.

19

(f) In accordance with cruise industry practice, occupancy percentage is calculated based upon two passengers per cabin even though some cabins can accommodate three or more passengers. The percentages in excess of 100 per cent. indicate that more than two passengers occupied some cabins.

(g) Effective 1 December 2000, Carnival adopted SFAS No. 133, which requires that all derivative instruments be recorded on Carnival's balance sheet. Total assets at 30 November 2001 and 2002 included \$567 million and \$178 million, respectively, which represents the fair value of hedged firm commitments. See Note 2 in Carnival's 2002 consolidated financial statements, which are incorporated by reference in this document.

(h) Represents the percentage of total debt to the sum of total debt and shareholders' equity.

20

Section F. P&O Princess selected historical financial data

The selected financial data of P&O Princess presented below for financial 1998 through 2002 and as of the end of each such financial year are derived from P&O Princess' audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements and notes to those accounts incorporated by reference in this document.

P&O Princess' consolidated financial statements are presented on the basis that P&O Princess' cruise business and subsidiaries were part of its business and subsidiaries for all years presented or, if not owned by P&O Princess at all times during such period, from the date such businesses and subsidiaries were acquired by P&O Princess and/or until the date on which P&O Princess disposed of them, as applicable.

P&O Princess' consolidated financial statements have been prepared using P&O Princess' accounting policies in accordance with UK GAAP, which differ in some respects from U.S. GAAP. The notes to the P&O Princess consolidated financial statements for the year ended 31 December 2002, which are incorporated by reference in this document, contain a description of the principal differences between U.S. GAAP and UK GAAP as they relate to P&O Princess and a reconciliation to U.S. GAAP of certain financial statement items.

	Years ended 31 December (rest		
	2002	2001	2000
	(U.S. dollars in milli		
	except per share and per ADS i		
Selected profit and loss information:			
UK GAAP			
Turnover	2,526.8	2,451.0	2,423.9
Net operating costs	(2,228.1) / (b) /	(2,089.7)	(2,050.8)

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Group operating profit	298.7	361.3	373.1
Share of operating results of joint ventures	--	0.1	0.5
	-----	-----	-----
Total operating profit	298.7	361.4	373.6
Non-operating profit/(loss)	1.2	(1.9)	(6.5)
	-----	-----	-----
Profit on ordinary activities before interest	299.9	359.5	367.1
Net interest and similar items	(74.0)	(58.0)	(49.1)
	-----	-----	-----
Profit on ordinary activities before taxation	225.9	301.5	318.0
Taxation/(c)/	(17.1)	81.7/(f)/	(57.2)
	-----	-----	-----
Profit on ordinary activities after taxation	208.8	383.2	260.8
Equity minority interests	--	(0.1)	(2.6)
	-----	-----	-----
Profit for the financial year attributable to shareholders	208.8	383.1	258.2
	-----	-----	-----
Basic earnings per ordinary share (cents)	30.2	55.4/(f)/	38.1
Diluted earnings per share (cents)	30.0	55.2/(f)/	38.1
Basic earnings per ADS (cents)	120.8	221.6	152.4
Diluted earnings per ADS (cents)	120.0	220.8	152.4
Fixed charge cover/(d)/	2.9	3.8	4.8
Dividend per share (cents)	12.0	12.0	12.0
Dividend per ADS (cents)	48.0	48.0	48.0
U.S. GAAP			
Net income//	212.9	425.2/(e) (f)/	253.7
Basic earnings per share (cents)/(g)/	30.7	61.5	37.1
Diluted earnings per share (cents)/(g)/	30.6	61.2	37.1
Basic earnings per ADS (cents)	122.8	246.0	148.4
Diluted earnings per ADS (cents)	122.4	244.8	148.4

(a) Prior to the de-merger of P&O Princess from The Peninsular and Oriental Steam Navigation Company in 2000, no combined financial statements had been prepared for the companies and businesses comprising P&O Princess. The financial information for financial years 1998 and 1999 has been extracted from KPMG Audit Plc's accountants' report on P&O Princess contained in the listing particulars dated 26 September 2000 which were prepared for the de-merger.

(b) Infiscal 2002, net operating costs under UK GAAP included U.S.\$117.0 million of transaction costs.

21

(c) At 1 January 2002, P&O Princess adopted FRS 19. The 2001 balance sheet was restated to reflect full provision for deferred tax, an increase in deferred tax liabilities of \$108.1 million. The tax credit for the year ended 31 December 2001 has been increased to reflect the elimination of the majority of future potential tax liabilities upon P&O Princess' election to enter the UK tonnage tax regime by \$96.8 million. The profit and loss account and balance sheet information for each of the three years ended 31 December 2000 have also been restated for the adoption of Financial Reporting Standard 19: Deferred Tax.

(d) Defined as profit before fixed charges (excluding capitalised interest) and taxation divided by fixed charges. Fixed charges consist of the net interest expense in the profit and loss account, interest capitalised in respect of ships and other fixed assets and an estimate of the interest implicit in operating lease rentals.

(e) At 1 January 2001, P&O Princess adopted SFAS No. 133. The cumulative effect of the change in this accounting policy at that date was a charge of \$9.0

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

million, which is included in net income for the financial year ended 31 December 2001. The basic and diluted earnings per share for financial 2001 is after the cumulative effect of the change in this accounting principle.

(f) Under UK GAAP, the year ended 31 December 2001 includes a tax credit of \$97.5 million, comprising a credit from the release of deferred tax on entry into the tonnage tax regime of \$192.5 million and tax charges arising from internal corporate restructuring of \$95.0 million. The U.S. GAAP tax credit for the year ended 31 December 2001 is for the release of deferred taxes.

(g) Effective 1 January 2002, P&O Princess adopted SFAS No. 142, which requires that companies stop amortizing goodwill and requires an annual, or when events or circumstances dictate a more frequent, impairment review of goodwill. Accordingly, as of 1 January 2002, P&O Princess no longer amortizes its goodwill. If goodwill had not been recorded for periods prior to 1 January 2002, P&O Princess' adjusted net income and adjusted basic and diluted earnings per share would have been as follows:

	Years Ended 31 December			
	2001	2000	1999	1998
	-----	-----	-----	-----
	(U.S. dollars in thousands, except per share data)			
Net income	425.2	253.7	267.7	222.4
Goodwill amortization	2.9	2.0	1.0	0.8
	-----	-----	-----	-----
Adjusted net income	428.1	255.7	268.7	223.2
	-----	-----	-----	-----
Adjusted earnings per share				
Basic	61.9	37.4	39.4	32.7
Diluted	61.6	37.4	39.4	32.7

	At 31 December (restated) / (c) /				
	2002	2001	2000	1999	1998
	-----	-----	-----	-----	-----
Selected balance sheet information:					
UK GAAP					
Fixed assets	5,772.8	4,418.3	3,959.5	3,258.3	2,949.7
Current assets	558.9	451.4	649.3	406.7	382.4
	-----	-----	-----	-----	-----
Total assets	6,331.7	4,869.7	4,608.8	3,665.0	3,332.1
	-----	-----	-----	-----	-----
Other creditors and provisions	(1,000.9)	(847.0)	(1,190.4)	(1,343.8)	(1,494.4)
Creditors: amounts falling due after one year	(2,516.8)	(1,393.1)	(1,062.7)	(216.7)	(139.7)
	-----	-----	-----	-----	-----
Total liabilities	(3,517.7)	(2,240.1)	(2,253.1)	(1,560.5)	(1,634.1)
Equity minority interests	(0.2)	(0.2)	(0.2)	(7.7)	--
	-----	-----	-----	-----	-----
Consolidated shareholders' funds	2,813.8	2,629.4	2,355.5	2,096.8	1,698.0
	-----	-----	-----	-----	-----
U.S. GAAP					
Total assets	6,368.9	4,996.3	4,460.7	3,571.3	3,252.1
Long-term obligations	(2,623.6)	(1,641.8)	(1,275.5)	(416.1)	(296.8)
Consolidated shareholders' equity	2,724.9	2,551.8	2,296.3	2,006.8	1,622.0
	-----	-----	-----	-----	-----

Section G. Selected unaudited pro forma financial data in accordance with U.S. GAAP

The following selected unaudited pro forma financial data give pro forma effect to the DLC transaction, after giving effect to the pro forma adjustments described in the notes accompanying the unaudited pro forma financial information of the Combined Group in accordance with U.S. GAAP included in Part A of Section B of Part III of this document. The unaudited pro forma financial data have been prepared from, and you should read the data in conjunction with, the historical consolidated financial statements, including the related notes, of Carnival and P&O Princess that have been incorporated by reference in this document.

The following selected unaudited pro forma financial data have been prepared in accordance with Carnival's accounting policies under U.S. GAAP. U.S. GAAP differs in certain respects from UK GAAP, and Carnival's accounting policies under U.S. GAAP differ in certain respects from P&O Princess' accounting policies under UK GAAP and U.S. GAAP. The notes to the P&O Princess consolidated financial statements for the year ended 31 December 2002, which are incorporated by reference in this document, describe the principal differences between U.S. GAAP and UK GAAP as they relate to P&O Princess.

Selected Unaudited Pro Forma Financial Data
For the Combined Group in U.S. GAAP
(U.S. dollars in millions, except per share data)

	For the Year Ended 30 November 2002
Pro Forma Combined Statement of Operations Data: -----	
Revenues	6,891.2
Costs and expenses	
Operating	(3,892.7)
Selling and administrative	(972.8)
Depreciation and amortisation	(551.5)
Impairment charge	(20.0)

	(5,437.0)

Operating income	1,454.2
Nonoperating (expense) income	
Net interest expense	(157.4)
Other expense	(3.0)

	(160.4)
Income before income taxes	1,293.8
Income tax benefit	39.5

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Net income	1,333.3
	=====
Earnings per share	
Basic earnings per share (U.S.\$)	1.67
Diluted earnings per share (U.S.\$)	1.67
Pro Forma Combined Balance Sheet Data:	
Assets	At 30 November
Current assets	2002

Cash and cash equivalents	828.8
Short-term investments	39.0
Accounts receivable, net	237.6
Inventories	178.7
Prepaid expenses and other	320.1
Fair value of derivative contracts	7.3
Fair value of hedged firm commitments	78.4

Total current assets	1,689.9
Property and Equipment, Net	15,733.9
Goodwill and Intangible Assets, Net	3,605.5
Other Assets	294.3
Fair Value of Hedged Firm Commitments	109.1
Fair value of derivative contracts	54.6

	21,487.3
	=====
Liabilities and Shareholders' Equity	
Current Liabilities	
Current portion of long-term debt	275.6
Accounts payable	452.9
Accrued liabilities	543.8
Customer deposits	1,253.3
Dividends payable	61.6
Fair value of derivative contracts	125.4

Total current liabilities	2,712.6
Long-Term Debt	5,576.7
Deferred Income and Other Long-Term Liabilities	283.9
Fair Value of Derivative Contracts	115.4
Shareholders' Equity	12,798.7

	21,487.3
	=====

Section H. Comparative per share data and stock prices

The following table sets forth selected historical and pro forma per share data for Carnival and historical and pro forma equivalent per share data for P&O Princess prepared in accordance with U.S. GAAP. The unaudited pro forma net income and book value data give effect to the transaction as if it was

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

completed on 30 November 2002 for balance sheet purposes and 1 December 2001 for statement of operations purposes and are based on the unaudited combined pro forma financial information of Carnival and P&O Princess prepared in accordance with U.S. GAAP included in Part A of Section B of Part III this document. The unaudited pro forma per share data should be read in conjunction with the historical audited and unaudited consolidated financial statements and related notes of Carnival incorporated by reference in this document and the historical audited and unaudited consolidated financial statements and related notes of P&O Princess incorporated by reference in this document. The P&O Princess pro forma equivalent per share data were calculated by multiplying the Carnival pro forma per share data by an exchange ratio of 0.3004.

The unaudited pro forma combined per share data may not be indicative of the operating results or financial position that would have occurred if the DLC transaction had been completed at the beginning of the period indicated, and may not be indicative of future operating results or financial position.

Statement of Operations Data:

	For the Year Ended 30 November 2002 ----- (in U.S. dollars)
CARNIVAL--HISTORICAL	
Net income per share:	
Basic	1.73
Diluted	1.73
Cash dividends per share	0.42
CARNIVAL--PRO FORMA	
Net income per share:	
Basic	1.67
Diluted	1.67
Cash dividends per share	0.42
For the Year Ended 31 December 2002 ----- (in U.S. dollars)	
P&O PRINCESS--HISTORICAL	
Net income per share/(1)/:	
Basic	0.307
Diluted	0.306
Cash dividends per share	0.12
For the Year Ended 30 November 2002 ----- (in U.S. dollars)	

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

P&O PRINCESS--PRO FORMA
EQUIVALENT
Net income per share:
 Basic 0.50
 Diluted 0.50
Cash dividends per share 0.126

Balance Sheet Data:

	At 30 November 2002	
	Historical	Pro Forma
CARNIVAL		
Book value per share	12.64	16.01

	Historical at 31 December 2002	Pro Forma Equivalent at 30 November 2002
P&O PRINCESS		
Book value per share	3.93	4.81

/(1)/The historical net income per share includes \$0.15 per share under U.S. GAAP related to \$105.1 million of P&O Princess transaction costs and break up fees related to the Royal Caribbean terminated transaction and the Carnival DLC transaction.

25

Comparative stock prices

The following table sets out (i) the closing middle-market quotations for P&O Princess shares as derived from the London Stock Exchange Daily Official List, (ii) the closing price per P&O Princess ADSs as reported on the NYSE Composite Transactions Tape, (iii) the closing stock price of Carnival shares as reported on the NYSE Composite Transactions Tape, (iv) the "equivalent per ordinary share price" (as defined below) of P&O Princess shares and (v) the "equivalent per ADS price" (as defined below) of P&O Princess ADSs on:

- .. 19 November 2001 (the last business day prior to the date of the announcement that P&O Princess and Royal Caribbean announced that they had entered into an agreement to implement a dual-listed company structure);
- .. 23 October 2002 (the last business day prior to the public announcement of Carnival's pre-conditional proposal for the DLC transaction and the Partial Share Offer); and

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

.. 12 March 2003 (the latest practicable date prior to the posting of this document).

The "equivalent per ordinary share price" of the P&O Princess shares and the "equivalent per ADS price" of P&O Princess ADSs represents the value that would have been received by a P&O Princess shareholder accepting the Partial Share Offer for each P&O Princess share or P&O Princess ADS at these prices of Carnival shares, calculated by multiplying the applicable middle-market quotation for Carnival shares by 0.3004 and 1.2016, respectively, which is the fraction of a Carnival share being offered in exchange for each of the issued P&O Princess shares and P&O Princess ADSs, respectively, in the Partial Share Offer.

	P&O Princess ordinary shares (in pence)	P&O Princess ADSs (in U.S. dollars)	Carnival common shares (in U.S. dollars)	P&O Princess equivalent share price (in pence)	P&O Princess equivalent per ADS price (in U.S. dollars)
19 November 2001	317.00	18.10	26.11	554.5	31.37
23 October 2002	455.00	29.35	26.00	504.3	31.24
12 March 2003	343.25	22.68	20.75	386.5	24.93

Since the announcement of Carnival's pre-conditional offer on 16 December 2001 to date, Carnival's share price has traded at prices ranging from approximately \$20 to \$35. The following table illustrates the implied value of a P&O Princess share over that range under the terms of the DLC transaction and the Partial Share Offer (using an exchange rate of \$1.62 =(Pounds)1.00).

CCL share price (\$)	20.00	21.00	22.00	23.00	24.00	25.00	26.00	27.00	28.00	29.00	30.00	31.00
Implied POC share price (p)	371	389	408	426	445	464	482	501	519	538	556	575

The foregoing table illustrates certain historical data with respect to the Carnival shares. Following completion of the DLC transaction, however, P&O Princess shares may not trade in accordance with the original equalisation ratio as expressed above or in line with Carnival shares. Please see the "Risk Factors" in Part II of this document.

26

PART II

RISK FACTORS

In addition to the other information contained or incorporated by reference in this document (including the risk factors contained in Carnival's Annual Report on Form 10-K for the year ended 30 November 2002 and P&O Princess' Annual Report on Form 20-F for the year ended 31 December 2001), P&O Princess shareholders should consider the following risk factors before deciding whether to accept the Partial Share Offer or how to vote on the DLC transaction.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Risks relating to the DLC transaction

Benefits from the DLC structure may not be achieved to the extent or within the time period currently expected, which could eliminate, reduce and/or delay the improvements in cost savings and operational efficiencies expected to be generated by the DLC structure

Following completion of the DLC transaction, P&O Princess and Carnival will be managed as if they were a single economic enterprise. Carnival and P&O Princess expect the combination under the DLC structure to enable them to achieve cost savings through synergies as well as enhanced operational efficiencies.

However, the companies may encounter substantial difficulties during this process that could eliminate, reduce and/or delay the realisation of the cost savings and synergies that they currently expect. Among other things, these difficulties could include:

- .. loss of key employees;
- .. inconsistent and/or incompatible business practices, operating procedures, information systems, financial controls and procedures, cultures and compensation structures between Carnival and P&O Princess;
- .. unexpected integration issues and higher than expected integration costs; and
- .. the diversion of management's attention from day-to-day business as a result of the need to deal with integration issues.

As a result of these difficulties, the actual cost savings and synergies generated by the DLC structure may be less, and may take longer to realise, than the companies currently expect.

The structure of the DLC transaction involves risks not associated with the more common ways of combining the operations of two companies and these risks may have an adverse effect on the economic performance of the companies and/or their respective share prices

The DLC structure is a relatively uncommon way of combining the operations and management of two companies and it involves different issues and risks than those associated with the other more common ways of effecting such a combination. In the DLC transaction, the combination will be effected primarily by means of contracts between the two companies and not by operation of a statute or court order. The legal effect of these contractual rights may be different than the legal effect of a merger or amalgamation under statute or court order and there may be difficulties in enforcing these contractual rights. In addition, the contracts will be enforceable only by the companies and not directly by their shareholders. Nevertheless, shareholders of either company might challenge the validity of the contracts or their lack of standing to enforce rights under these contracts, and courts may interpret or enforce these contracts in a manner inconsistent with the express provisions and intentions of Carnival and P&O Princess expressed in such contracts. In addition, shareholders of other companies might successfully challenge other dual listed company structures and establish legal precedents that could increase the risk of a successful challenge to the DLC transaction. The Combined Group will maintain two separate public companies and comply with both Panamanian corporate law and English company and securities laws and different regulatory and stock exchange requirements in the UK and the U.S. This is likely to require more administrative time and cost than is currently the case for each company, which may have an adverse effect on the Combined Group's operating efficiency.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

The shares of Carnival and P&O Princess may not trade in line with the equalisation ratio

The economic interests of the shares of Carnival and P&O Princess will be contractually aligned in accordance with the equalisation ratio. However, because the shares of the two companies will remain outstanding, will not be exchangeable for each other at the option of the shareholder and will primarily trade in separate markets with different characteristics and in different currencies, the relative market

27

prices of the shares of P&O Princess and Carnival may not exactly reflect the equalisation ratio. P&O Princess shares could trade at a discount to the Carnival shares because P&O Princess shares will represent between 21 and 26 per cent. of the equity of the Combined Group.

Courts may interpret or enforce the contracts and other instruments that effect the DLC structure in a manner inconsistent with the express provisions and intentions of Carnival and P&O Princess

Various provisions of the Equalization and Governance Agreement, the companies' articles and the cross guarantees are intended to ensure that, as far as practicable, the shareholders of the Combined Group are treated equitably in the event of insolvency of either or both companies and in accordance with the equalisation ratio, regardless of where the assets of the Combined Group reside. Courts may interpret or enforce these contracts in a manner inconsistent with the express provisions and intentions of Carnival and P&O Princess expressed in such contracts. For instance, a bankruptcy court may not choose to follow the companies' contractual way of allocating liabilities and assets. Therefore, were assets transferred between the two companies, a court, faced with the liquidation or dissolution of either company, may not adhere to the equalisation ratio and the rights of shareholders of the company from which assets were transferred may be adversely affected.

Economic returns on shares of Carnival and P&O Princess will be dependent upon the economic performance of the Combined Group and the inability of one company to pay dividends may limit or prevent the payment of dividends by the other

Upon implementation of the DLC structure, the dividends paid on shares of Carnival and P&O Princess will depend primarily on the economic performance of the assets of both companies of the Combined Group. Therefore, the past performance of P&O Princess shares and Carnival shares may not reflect the future performance of these shares. Additionally, if one company is unable to pay dividends on its shares, the other company must make such payments to the other and/or scale back its dividend in order to equalise the distributions in accordance with the equalisation ratio. After taking into consideration the actions necessary to equalise such distributions, both companies may be limited in their ability, or unable, to pay dividends.

The liquidity and market value of P&O Princess shares could decrease following the DLC transaction and the Partial Share Offer, and this could affect the inclusion of P&O Princess shares in the FTSE series of indices or their full weighting

As a result of the DLC transaction, P&O Princess shares will account for approximately 26 per cent. of the total outstanding equity of the Combined Group. To the extent P&O Princess shares are exchanged for Carnival shares under the Partial Share Offer this percentage would be further reduced to not less than 21 per cent. of the total outstanding equity of the Combined Group.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Any such exchange would reduce the liquidity of the market for P&O Princess shares below its level immediately prior to the DLC transaction. In addition, the liquidity of the market for P&O Princess shares would also be further reduced by any future repurchases or buy-back of P&O Princess shares by Carnival or P&O Princess. Reductions in liquidity could adversely affect the market value of the P&O Princess shares.

The liquidity of the market for the P&O Princess shares would also be adversely affected if they became no longer eligible for inclusion in the FTSE series of indices, including the FTSE 100 index. Based on the thresholds currently required to remain in the FTSE 100, this could occur if the aggregate market value of the outstanding P&O Princess shares falls significantly compared to other constituents of the index. In addition, in order to maintain its full weighting in the FTSE indices, including the FTSE 100, a minimum percentage of P&O Princess shares must qualify as free float as determined by FTSE International. Purchases of P&O Princess shares by Carnival, for example, would reduce the free float. Failure to be included and/or to receive full weighting in the FTSE indices could significantly reduce the demand for, and therefore the liquidity of, P&O Princess shares and lead to significant sales of P&O Princess shares. These could adversely affect the market value of P&O Princess shares.

28

Changes under the Internal Revenue Code, the applicable U.S. income tax treaties, and the uncertainty of the DLC structure under the Internal Revenue Code may adversely affect the U.S. federal income taxation of the U.S. source shipping income of the Combined Group

Carnival and P&O Princess believe that substantially all of the U.S. source shipping income of each respective company and its subsidiaries qualifies for exemption from U.S. federal income tax, either under:

- .. Section 883 of the Internal Revenue Code;
- .. as appropriate in the case of P&O Princess and its UK resident subsidiaries, under the UK-U.S. Income Tax Treaty; or
- .. other applicable U.S. income tax treaties,

and should continue to so qualify after completion of DLC transaction. There is, however, no existing U.S. federal income tax authority that directly addresses the tax consequences of implementation of a dual listed company structure such as the DLC structure for purposes of Section 883 or any other provision of the Internal Revenue Code or any income tax treaty and, consequently, the matters discussed above are not free from doubt. See paragraph 11 of Section A of Part III under the heading "U.S. taxation".

To date no final U.S. Treasury regulations or other definitive interpretations of the relevant portions of Section 883 have been promulgated, although regulations have been proposed. Any such final regulations or official interpretations could differ materially from Carnival's and P&O Princess' interpretation of this Internal Revenue Code provision and, even in the absence of differing regulations or official interpretations, the Internal Revenue Service might successfully challenge either or both Carnival's and P&O Princess' interpretation. In addition, the provisions of Section 883 are subject to change at any time by legislation. Moreover, changes could occur in the future with respect to the trading volume or trading frequency of Carnival shares and/or P&O Princess shares on their respective exchanges or with respect to the identity, residence, or holdings of Carnival's and/or P&O Princess'

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

direct or indirect shareholders that could affect the eligibility of Carnival and its subsidiaries and/or certain members of the P&O Princess group otherwise eligible for the benefits of Section 883 to qualify for the benefits of the Section 883 exemption. Accordingly, it is possible that Carnival and its shipowning or operating subsidiaries and/or the members of the P&O Princess group whose tax exemption is based on Section 883 may lose this exemption. If any such corporation were not entitled to the benefit of Section 883, it would be subject to U.S. federal income taxation on a portion of its income, which would reduce the net income of such corporation.

As noted above, P&O Princess believes that substantially all of the U.S. source shipping income of P&O Princess and its UK resident subsidiaries qualifies for exemption from U.S. federal income tax under the UK-U.S. Income Tax Treaty. The UK-U.S. Income Tax Treaty has been renegotiated and signed but is pending ratification by the U.S. P&O Princess believes that substantially all of the U.S. source shipping income of the companies referred to above should qualify for exemption from U.S. federal income tax under such treaty if, and as of when, the pending treaty comes into force. In addition, certain companies of the Combined Group may rely on other U.S. income tax treaties for similar exemptions from U.S. taxation on U.S. source shipping income. Neither Carnival nor P&O Princess believe that the DLC transaction will affect the ability of these corporations to continue to qualify for such treaty benefits. There is, however, no authority that directly addresses the effect, if any, of DLC arrangements on the availability of benefits under any applicable U.S. income tax treaty and, consequently, the matter is not free from doubt.

These treaties may be abrogated by either applicable country, replaced or modified with new agreements that treat shipping income differently than under the agreements currently in force. If any of the corporations discussed in the paragraph above that currently qualify for exemption from U.S. source shipping income under any applicable U.S. income tax treaty do not qualify for benefits under the existing treaties or the existing treaties are abrogated, replaced or materially modified in a manner adverse to the interests of any such corporation and, with respect to U.S. federal income tax only, such corporation does not qualify for Section 883 exemption, such corporation may be subject to U.S. federal income taxation on a portion of its income, which would reduce the net income of any such corporation.

29

After the DLC transaction is completed, P&O Princess shares could be subject to a mandatory exchange into Carnival shares and this would adversely affect holders to the extent they are required, or prefer, to hold UK shares

In certain limited circumstances following implementation of the DLC structure, P&O Princess shares, other than those held by Carnival, may be subject to a mandatory exchange for Carnival shares at the then prevailing equalisation ratio. These circumstances include:

- .. a change in tax law that has a material adverse impact on the DLC structure which cannot be avoided by other commercially reasonable means; and
- .. the illegality or unenforceability of all or a substantial part of the DLC documents.

In both cases, board action is required and in the case of a change in tax law, shareholder approval is also required. Upon a mandatory exchange, P&O Princess shareholders would no longer hold their investment in the Combined Group in the form of P&O Princess shares listed on the London Stock Exchange and included in the FTSE series of indices, but would instead hold their investment in the form

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

of Carnival shares listed on the NYSE. The exchange by UK P&O Princess shareholders of P&O Princess shares for Carnival shares following mandatory exchange should not constitute a taxable disposal for the purposes of UK taxation on chargeable gains. However, the exchange would adversely affect the holders to the extent they are required, or prefer to hold shares in a UK company with its primary listing on the London Stock Exchange. Additionally, for UK resident or ordinarily resident shareholders dividends paid on Carnival shares are taxed differently than dividends paid on P&O Princess shares and this difference in tax treatment may adversely affect certain P&O Princess shareholders subject to a mandatory exchange.

Under current law, depending on the facts or circumstances at the particular time, the mandatory exchange offer may or may not be a taxable transaction for U.S. federal income tax purposes for U.S. P&O Princess shareholders.

A small group of shareholders will collectively own approximately 35 per cent. of the total combined voting power of the outstanding shares of the Combined Group and may be able to effectively control the outcome of shareholder voting

A group of shareholders, comprising certain members of the Arison family, including Micky Arison, and trusts established for their benefit, that currently beneficially owns approximately 47 per cent. of the voting power of Carnival, will own shares entitled to constitute a quorum at shareholder meetings and to cast approximately 35 per cent. of the total combined voting power of the outstanding shares of the Combined Group. Depending upon the nature and extent of the shareholder vote, this group of shareholders may have the power to effectively control, or at least to influence substantially, the outcome of shareholder votes and, therefore, the corporate actions requiring such votes.

Following completion of the DLC transaction, fewer shares of P&O Princess will be required to approve resolutions at P&O Princess shareholder meetings than would otherwise be the case because:

- .. P&O Princess shares acquired by Carnival in the Partial Share Offer (potentially up to 20 per cent. of its shares in issue) or otherwise generally will not have voting rights; and
- .. votes at P&O Princess shareholder meetings generally will be carried out based on the percentage of shares voting, rather than based on the number of shares in issue.

Provisions in the Carnival and P&O Princess constitutional documents may prevent or discourage takeovers and business combinations that shareholders in the Combined Group might consider in their best interests

Carnival's articles and by-laws and P&O Princess' articles contain provisions that may delay, defer, prevent or render more difficult a takeover attempt that shareholders in the Combined Group might consider to be in their best interests. For instance, these provisions may prevent shareholders in the Combined Group from receiving a premium to the market price of Carnival shares and/or P&O Princess shares offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of Carnival shares or P&O Princess shares if they are viewed as discouraging takeover attempts in the future.

Specifically, Carnival's articles of incorporation contain provisions that prevent third parties, other than the Arison family and trusts for their

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

benefit, from acquiring beneficial ownership of more than 4.9 per cent. of the outstanding Carnival shares without the consent of the Carnival board of directors and provide for the lapse of rights, and sale, of any shares acquired in excess of that limit. In addition, the Carnival and P&O Princess constitutional documents contain provisions that would apply some of the anti-takeover protections provided by the Takeover Code to both companies. No third party, other than the Arison family and related entities, may acquire additional shares or voting control over shares in either company, if such person would then be able to cast 30 per cent. or more of the votes which could be cast on a joint electorate action without making an equivalent offer for the other company. The combined effect of these provisions may preclude third parties from seeking to acquire a controlling interest in either company in transactions that shareholders might consider to be in their best interests and may prevent them from receiving a premium above market price for their shares. These provisions may only be amended by both sets of shareholders, voting separately as a class, in a class rights action.

Risks relating to the Combined Group's businesses

The Combined Group may lose business to competitors throughout the vacation market

The Combined Group will operate in the vacation market and cruising is one of many alternatives for people choosing a vacation. The Combined Group will therefore risk losing business not only to other cruise lines, but also to other vacation operators that provide other leisure options including hotels, resorts and package holidays and tours.

The Combined Group will face significant competition from other cruise lines, both on the basis of cruise pricing and also in terms of the nature of ships and services it will offer to cruise passengers. The Combined Group's principal competitors within the cruise vacation industry will include:

- .. Royal Caribbean, which owns Royal Caribbean International and Celebrity Cruises;
- .. Norwegian Cruise Line and Orient Lines;
- .. Disney Cruise Line;
- .. MyTravel's Sun Cruises, Thomson, Saga and Fred Olsen in the UK;
- .. Festival Cruises, Hapag-Lloyd, Peter Deilmann and Phoenix Reisen in Germany;
- .. Festival Cruises, Mediterranean Shipping Cruises, Royal Olympia Cruises and Louis Cruise Line in southern Europe;
- .. Crystal Cruises;
- .. Radisson Seven Seas Cruise Lines; and
- .. Silversea Cruises.

The Combined Group will also compete with land-based vacation alternatives throughout the world, including, among others, resorts and hotels located in Las Vegas, Nevada, Orlando, Florida, various Caribbean, Mexican, Bahamian and Hawaiian Island destination resorts and numerous vacation destinations throughout Europe and the rest of the world.

In the event that the Combined Group does not compete effectively with other vacation alternatives and cruise companies, its market share could decrease and its results of operations and financial condition could be adversely affected.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Overcapacity within the cruise and competing land-based vacation industry could have a negative impact on net revenue yields, increase operating costs, result in ship asset impairments and could adversely affect profitability

Cruising capacity has grown in recent years and Carnival and P&O Princess expect it to continue to increase over the next three and a half years as all of the major cruise vacation companies are expected to introduce new ships. In order to utilise new capacity, the cruise vacation industry will need to increase its share of the overall vacation market. The overall vacation market is also facing increases in land-based vacation capacity, which also will impact the Combined Group. Failure of the

31

cruise vacation industry to increase its share of the overall vacation market could have a negative impact on the Combined Group's net revenue yields. Should net revenue yields be negatively impacted, the Combined Group's results of operations and financial condition could be adversely affected, including the impairment of the value of its ship assets. In addition, increased cruise capacity could impact the Combined Group's ability to retain and attract qualified crew at competitive costs and, therefore, increase the Combined Group's shipboard employee costs.

The international political and economic climate and other world events affecting safety and security could adversely affect the demand for cruises and could harm the Combined Group's future sales and profitability

Demand for cruises and other vacation options has been and is expected to continue to be affected by the public's attitude towards the safety of travel, the international political climate and the political climate of destination countries. Events such as the terrorist attacks in the U.S. on September 11, 2001 and the threat of additional attacks, the outbreak of hostilities or war or concerns that such hostilities or war might break out, including the possibility of military action against Iraq, and national government travel advisories, together with the resulting political instability and concerns over safety and security aspects of travelling, have had a significant adverse impact on demand and pricing in the travel and vacation industry and may continue to do so in the future. Demand for cruises is also likely to be increasingly dependent on the underlying economic strength of the countries from which cruise companies source their passengers. Economic or political changes that reduce disposable income or consumer confidence in the countries from which the Combined Group will source its passengers may affect demand for vacations, including cruise vacations, which are a discretionary purchase. Decreases in demand could lead to price discounting which, in turn, could reduce the profitability of its business.

The debt rating of the Combined Group may be downgraded from Carnival's current rating, and for this or other reasons the Combined Group may not be able to obtain financing on terms that are favourable or consistent with its expectations

Access to financing for the Combined Group will depend on, among other things, the maintenance of strong long-term credit ratings. Carnival's debt is currently rated "A" by Standard & Poor's, "A2" by Moody's Investor Services and "A" by FitchRatings. P&O Princess' debt is currently rated "BBB" by Standard & Poor's, "Baa3" by Moody's and "BBB+" by FitchRatings. As a result of the DLC transaction, the debt rating of the Combined Group may be downgraded from Carnival's current ratings although it is expected to remain a strong investment grade rating.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Carnival and P&O Princess believe their current external sources of liquidity, including committed financings, and cash on hand, together with forecasted cash flows from future operations, will be sufficient to fund most or all of the capital projects, debt service requirements, dividend payments and working capital needs of the Combined Group.

The forecasted cash flow from future operations for the Combined Group, as well as the credit ratings of each of Carnival and P&O Princess, may be adversely affected by various factors, including, but not limited to, declines in customer demand, increased competition, overcapacity, the deterioration in general economic and business conditions, terrorist attacks, ship incidents, adverse publicity and increases in fuel prices, as well as other factors noted under these "Risk factors" and the "Cautionary note concerning factors that may effect future results" section of this document. To the extent that the Combined Group is required, or chooses, to fund future cash requirements, including future shipbuilding commitments, from sources other than cash flow from operations, cash on hand and current external sources of liquidity, the Combined Group will have to secure such financing from banks or through the offering of debt and/or equity securities in the public or private markets.

The future operating cash flow of the Combined Group may not be sufficient to fund future obligations, and the Combined Group may not be able to obtain additional financing, if necessary, at a cost that meets its expectations. Accordingly, the financial results of the Combined Group could be adversely affected.

If P&O Princess loses eligibility for inclusion in the FTSE 100 or Carnival is removed from the S&P 500, it may become more difficult for either company to access the equity capital markets

Carnival's shares will remain listed on the NYSE and are expected to continue to be included in the S&P 500. P&O Princess' shares will remain listed on the London Stock Exchange and are expected to remain

32

eligible for inclusion in the FTSE series of indices and are expected to continue to be included with full weighting in the FTSE 100. If P&O Princess loses eligibility for inclusion in the FTSE 100 or Carnival is removed from the S&P 500, it may become more difficult for either company to access the equity capital markets.

Conducting business internationally can result in increased costs

The Combined Group will operate the businesses of Carnival and P&O Princess internationally and plans to continue to develop its international presence. Operating internationally exposes the Combined Group to a number of risks, including:

- .. currency fluctuations;
- .. interest rate movements;
- .. the imposition of trade barriers and restrictions on repatriation of earnings;
- .. political risks;
- .. risk of increases in duties, taxes and governmental royalties; and
- .. changes in laws and policies affecting cruising, vacation or maritime businesses or the governing operations of foreign-based companies.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

If the Combined Group is unable to address these risks adequately, its results of operations and financial condition could be adversely affected.

Accidents and other incidents at sea or adverse publicity concerning the cruise industry or the Combined Group could affect the Combined Group's reputation and harm its future sales and profitability

The operation of cruise ships involves the risk of accidents, illnesses, mechanical failures and other incidents at sea, which may bring into question passenger safety, health, security and vacation satisfaction and thereby adversely affect future industry performance. Incidents involving passenger cruise ships could occur and could adversely affect future sales and profitability. In addition, adverse publicity concerning the vacation industry in general or the cruise industry or the Combined Group in particular could impact demand and, consequently, have an adverse impact on the Combined Group's profitability.

Operating, financing and tax costs are subject to many economic and political factors that are beyond the Combined Group's control, which could result in increases in operating and financing costs

Some of the Combined Group's operating costs, including fuel, food, insurance and security costs, are subject to increases because of market forces and economic or political instability beyond the Combined Group's control. In addition, interest rates and the Combined Group's ability to secure debt or equity financing, including in order to finance the purchase of new ships, are dependent on many economic and political factors. Actions by U.S. and non-U.S. taxing jurisdictions, could also cause an increase in the Combined Group's costs. Increases in operating, financing and tax costs could adversely affect the Combined Group's results because the Combined Group may not be able to recover these increased costs through price increases of its cruise vacations.

Environmental legislation and regulations could affect operations and increase operating costs

Some environmental groups have lobbied for more stringent regulation of cruise ships. Some groups also have generated negative publicity about the cruise industry and its environmental impact. The U.S. Environmental Protection Agency is considering new laws and rules to manage cruise ship waste. Alaskan authorities are currently investigating an incident that occurred in August 2002 on board Holland America's Ryndam involving a wastewater discharge from the ship. As a result of this incident, various Ryndam ship officers have received grand jury subpoenas from the U.S. Attorney's office in Alaska. If the investigation results in charges being brought, sanctions could include a prohibition of operations in Alaska's Glacier Bay National Park and Preserve for a period of time.

In addition, pursuant to a settlement with the U.S. government in April 2002, Carnival pled guilty to certain environmental violations. Carnival was sentenced under a plea agreement pursuant to which it

paid fines in fiscal 2002 totalling \$18 million to the U.S. government and other parties. Carnival accrued for these fines in fiscal 2001. Carnival was also placed on probation for a term of five years. Under the terms of the probation, any future violation of environmental laws by Carnival may be deemed a violation of probation. In addition, Carnival was required as a special term of probation to develop, implement and enforce a worldwide environmental

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

compliance programme. Carnival is in the process of implementing the environmental compliance programme and expects to incur approximately \$10 million in additional annual environmental compliance costs in 2003 and yearly thereafter as a result of the programme. If the DLC transaction is approved, the terms of the environmental compliance programme will become applicable to P&O Princess, resulting in higher environmental compliance costs for P&O Princess.

The Combined Group's costs of complying with current and future environmental laws and regulations, or liabilities arising from past or future releases of, or exposure to, hazardous substances or to vessel discharges, could increase the cost of compliance or otherwise materially adversely affect the Combined Group's business, results of operations or financial condition.

New regulation of health, safety and security issues could increase operating costs and adversely affect net income

The Combined Group is subject to various international, national, state and local health, safety and security laws, regulations and treaties. The International Maritime Organization, sometimes referred to as the IMO, which operates under the United Nations, has adopted safety standards as part of the Safety of Life at Sea, sometimes referred to as SOLAS, which is applicable to all of Carnival's and P&O Princess' ships. Generally SOLAS establishes vessel design, structural features, materials, construction and life saving equipment requirements to improve passenger safety and security.

In addition, ships that call on U.S. ports are subject to inspection by the U.S. Coast Guard for compliance with the SOLAS Convention and by the U.S. Public Health Service for sanitary standards. Carnival's and P&O Princess' ships are also subject to similar inspections pursuant to the laws and regulations of various other countries such ships visit. Finally, the U.S. Congress recently enacted the Maritime Transportation Security Act of 2002 which implements a number of security measures at U.S. ports, including measures that relate to foreign flagged vessels calling at U.S. ports.

Carnival and P&O Princess believe that health, safety and security issues will continue to be areas of focus by relevant government authorities both in the U.S. and abroad. Resulting legislation or regulations, or changes in existing legislation or regulations, could impact the operations of the Combined Group and would likely subject the Combined Group to increasing compliance costs in the future.

Delays in ship construction and problems encountered at shipyards could reduce the Combined Group's profitability

The construction of cruise ships is a complex process and involves risks similar to those encountered in other sophisticated construction projects, including delays in completion and delivery. In addition, industrial actions and insolvency or financial problems of the shipyards building the Combined Group's ships could also delay or prevent the delivery of its ships under construction. These events could adversely affect the Combined Group's profitability. However, the impact from a delay in delivery could be mitigated by contractual provisions and refund guarantees obtained by the Combined Group.

In addition, Carnival and P&O Princess have entered into forward foreign currency contracts to fix the cost in U.S. dollars of certain of Carnival's and P&O Princess' foreign currency denominated shipbuilding contracts. If any of the shipyards are unable to perform under the related contract, the foreign currency forward contracts related to that shipyard's shipbuilding contracts would still have to be honoured. This might require Carnival or P&O Princess to realise a loss on an existing contract without having the ability to have an offsetting gain on its foreign currency denominated shipbuilding contract, thus

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

adversely affecting the financial results of the Combined Group.

34

PART III

INFORMATION ON THE COMBINED GROUP

Section A. Description of the Combined Group

This description of the Combined Group assumes completion of the DLC transaction. The DLC transaction is conditional on certain events, including approval by the shareholders of both P&O Princess and Carnival.

The DLC transaction is a means of enabling P&O Princess and Carnival to combine their management and operations as if they were a single economic enterprise, while retaining their separate legal identities. This will be accomplished through contractual arrangements and amendments to each company's constitutional documents. In addition, the constitutional documents of the two companies will be harmonised, to the extent practicable and permitted by law, to ensure their corporate procedures are substantially similar. You will receive a shareholder circular in connection with the P&O Princess EGM to approve the implementation of the DLC structure, which describes the DLC transaction in greater detail.

1. The Combined Group

The Combined Group will be the largest cruise vacation group in the world, based on revenue, passengers carried and available capacity. It will have a wide portfolio of complementary brands, both by geography and product offering, and will include some of the best known cruise brands globally. The directors of each of Carnival and P&O Princess believe that the combination will allow the Combined Group to offer a wider range of vacation choices for its passengers and will enhance its ability to attract passengers from land-based vacations to cruise vacations.

As at 31 January 2003, Carnival and P&O Princess together had a combined fleet of 65 cruise ships offering 99,982 lower berths, with 18 additional cruise ships having 42,260 lower berths scheduled to be added over the next three and a half years. In addition, the Combined Group will be a leading provider of cruises to all major cruise destinations outside the Far East. The Combined Group will have one of the youngest and most modern fleets in the cruise industry, with an average vessel age (weighted by lower berths) of 7.5 years as of 31 January 2003. The Combined Group will also operate two private destination ports of call in the Caribbean for the exclusive use of its passengers and two river boats in Germany (with a further two on order at 31 January 2003), and will offer land-based tour packages as part of its vacation product alternatives. Carnival and P&O Princess together carried approximately 4.7 million passengers in fiscal 2002.

On a pro forma basis in accordance with U.S. GAAP, the Combined Group would have reported revenues of \$6.9 billion and net income of \$1.3 billion for the fiscal year ended 30 November 2002 (Carnival's fiscal year end). On the same basis, the Combined Group would have reported shareholders' equity of \$12.8 billion as at 30 November 2002. On a pro forma basis in accordance with UK GAAP, the Combined Group would have reported revenues of \$6.9 billion and net income of \$1.3 billion for the financial year ended 31 December 2002 (P&O Princess' financial year end) (in effect, the same periods as Carnival's but reflecting P&O Princess' different year-end). On the same basis, the Combined Group would have reported net assets of \$12.1 billion as at 31 December 2002.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

2. Brands

The Combined Group will offer thirteen complementary brands with leading positions in North America, the UK, Germany, Italy, France, Spain, Brazil, Argentina and Australia. These brands operate itineraries in the following regions: Alaska, Australia, Bahamas, Bermuda, Canada, the Caribbean, Europe, the Hawaiian Islands, the Mexican Riviera, the Mediterranean, New England, the Panama Canal, South America and other exotic destinations worldwide.

35

The Combined Group's principal brands will include:

Carnival Cruise Lines	-- primarily marketed in North America
Princess Cruises	
Holland America Line	
Cunard Line	
Windstar Cruises	
Seabourn Cruise Line	
P&O Cruises (UK)	--primarily marketed in the UK
Swan Hellenic	
Ocean Village	
AIDA	--primarily marketed in Germany
A'ROSA	
Costa Cruises	--primarily marketed in southern Europe and Germany
P&O Cruises (Australia)	--primarily marketed in Australia

Both Carnival and P&O Princess have historically managed their brands on a decentralised basis. The Combined Group intends to take a similar approach while integrating certain back office activities and taking other steps to achieve economies of scale and cost synergies.

3. Fleet

At 31 January 2003, Carnival and P&O Princess together operated a fleet of 65 cruise ships with an aggregate capacity of 99,982 lower berths. As of that date, Carnival and P&O Princess together had an additional 18 cruise ships on order, with an aggregate capacity of 42,260 lower berths, scheduled for delivery during the next three and a half years. In addition, the Combined Group will operate two river boats on the Danube and at 31 January 2003 had two new river boats on order representing a further 400 lower berths.

As at 31 January 2003, the fleet of the Combined Group (excluding river boats) would have had an average vessel age (weighted by lower berths) of 7.5 years and an average vessel size of approximately 1,540 lower berths. Based on the existing fleet and announced additions and withdrawals, and excluding river boats, the average vessel age (weighted by lower berths) of the Combined Group's fleet will be 8.7 years at 30 November 2006 and its average vessel size will have increased to approximately 1,720 lower berths.

36

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

The table below summarises the Combined Group's fleet capacity measured in lower berths by brand as at 31 January 2003 and the projected fleet capacity at 30 November 2006, taking into account existing cruise ships on order and announced transfers and withdrawals. In accordance with industry practice, capacity is based on two passengers occupying the lower berths in each cabin, even though some cabins can accommodate more than two passengers.

Lower berths

Brands	Capacity				Projected capacity at 30 November 2006
	at 31 January 2003	Vessel additions	Announced withdrawals/(4)/	Announced transfers	
Carnival Cruise Lines	38,348	11,046	--	--	49,394
Princess Cruises	19,920	10,410	--	(3,600)	26,730
Holland America Line	14,494	7,392	--	--	21,886
Cunard Line	2,458	4,588	--	--	7,046
Windstar Cruises	604	--	--	--	604
Seabourn Cruise Line	624	--	--	--	624
P&O Cruises (UK)	7,170	--	--	560/(3)/	7,730
Swan Hellenic/(1)/	360	676	(360)	--	676
Ocean Village/(2)/	--	160	--	1,450	1,610
Costa Cruises	10,754	7,554	--	--	18,308
AIDA	2,460	1,270	--	--	3,730
A'ROSA	1,590	--	--	1,590	3,180
P&O Cruises (Australia)	1,200	--	--	--	1,200
A'ROSA (River Cruises)	400	400	--	--	800
	-----	-----	-----	-----	-----
Total	100,382	43,496	(360)	--	143,518

-
- (1) The charter for the 360-berth Minerva ends in April 2003. The ship will be replaced by a new chartered ship, Minerva II, which was built in 2001 and has 676 lower berths.
 - (2) Arcadia, which is currently sailing in the P&O Cruises (UK) fleet, is due to be transferred to Ocean Village in the second quarter of 2003. Her refit will result in the creation of an additional 160 lower berths.
 - (3) This figure reflects the net result of the transfer of Adonia, with 2,010 lower berths, from the Princess fleet to the P&O Cruises (UK) fleet in the second quarter of 2003 and the redeployment of Arcadia, with 1,450 lower berths, to the Ocean Village fleet in the second quarter of 2003.
 - (4) The Combined Group is expected to withdraw additional capacity from service through 2006.

4. Strategy

Carnival and P&O Princess operate multi-brand strategies that are intended to differentiate themselves from their competitors and provide products and services appealing to the widest possible target audience across all major segments of the vacation industry.

Having established the contemporary Carnival Cruise Lines brand in 1972, Carnival entered the premium/luxury segment with the acquisition of Holland America Line/Windstar Cruises in 1989. Carnival continued to acquire and build brands and expand its geographic reach through the acquisition of the ultra luxury Seabourn brand, the contemporary European brand Costa Cruises and the premium/luxury British brand Cunard. These six brands are managed by four

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

distinct management groups which operate on a decentralised basis. Carnival has found this decentralised management approach to be highly successful and expects the Combined Group to be managed in a similar fashion.

Similarly, P&O Princess has established a multi-brand strategy targeting a wide customer base. From established positions in the UK and Australian cruise industries, P&O Princess improved its position in the North American cruise industry in the 1970s and 1980s through the acquisitions of Princess Cruises and Sitmar Cruises and in Germany through the acquisition in 1999 of a majority stake in AIDA Cruises, one of the best known cruise brands in Germany. P&O Princess acquired the remainder of AIDA Cruises in 2000 and commenced the operation of a new German brand, A'ROSA, in 2002. In the UK, P&O Princess has recently launched Ocean Village, a new brand for the contemporary segment.

The Combined Group will seek to be the leading global cruise vacation operator with brands appealing to the widest target audience, focused on sourcing passengers from developed vacation markets where cruising is one of the largest and fastest growing vacation alternatives. Carnival and P&O

37

Princess also expect to market certain of the Combined Group's brands to enter into and expand developing vacation markets.

In pursuit of this strategy, the companies of the Combined Group will seek to:

Build on brand strengths

The Combined Group will have some of the most widely recognised cruise brands in North America, Europe, South America (primarily Brazil and Argentina) and Australia and will be a leading provider of cruise vacations to all of the key cruise destinations outside the Far East, including Alaska, Australia, Bahamas, Bermuda, Canada, the Caribbean, Europe, the Hawaiian Islands, the Mexican Riviera, the Mediterranean, New England, the Panama Canal, South America and other exotic destinations worldwide. Carnival and P&O Princess intend to continue to grow the Combined Group's brands and broaden and develop the range of destinations, itineraries, tours and vacation alternatives offered by the Combined Group. The Combined Group intends to provide greater choice and options for its passengers among these well-recognised brands in order to continue to attract passengers from the wider vacation market.

Increase global presence

It is expected that the brand offerings and diversified fleet of the Combined Group will enable it to accelerate the entry of cruising into existing and new geographical vacation markets.

Both Carnival and P&O Princess believe that there is a significant opportunity to continue to build the Combined Group's presence in the relatively underdeveloped cruise vacation industry within continental Europe. The Combined Group will be one of the leading cruise vacation companies in the UK, Germany and southern Europe, which are three of the largest vacation markets outside of North America. In the UK, P&O Cruises and Cunard are two of the most recognised cruise brands. AIDA is one of the best known cruise brands in Germany, and Costa is one of the most widely recognised cruise brands in Europe.

Maximise growth through strategic deployment of its brands and fleet

The Combined Group expects to strategically deploy its diversified fleet in order to increase its global reach and enter new and developing markets. Such

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

strategic deployment is expected to allow the Combined Group to appeal to the largest target audience with brands, products and itineraries with the widest appeal in a particular geographic region.

Carnival and P&O Princess have traditionally constructed purpose-built ships for each of their brands, consistent with the passenger demographics and product features of the particular brand. In addition, in order to take advantage of the rapidly expanding demand in Europe for cruises, several vessels have been transferred within the Carnival and P&O Princess groups over the last several years. For example, Carnival's Tropicale was transferred to Costa and now operates as the Costa Tropicale and Holland America's Westerdam was transferred to Costa and now operates as the Costa Europa. P&O Princess has successfully deployed vessels in order to build its brands in the UK and Australia and to launch a new brand in Germany. For instance, in 2002 P&O Princess transferred the Ocean Princess and the Crown Princess to the P&O Cruises (UK) and A'ROSA brands in the UK and Germany, respectively, and intends to transfer the Sea Princess to the P&O Cruises (UK) fleet in 2003. In 2000, Princess Cruises' Sky Princess was redeployed to P&O Cruises (Australia) and now operates as the Pacific Sky.

Carnival and P&O Princess expect the Combined Group to continue to explore opportunities to utilise its vessels in such a manner consistent with providing the overall best return for the Combined Group.

Realise cost savings

Carnival has consistently been one of the most efficient cruise operators in the cruise vacation industry. Carnival believes it has been able to achieve these efficiencies through its decentralised management approach, economies of scale, highly experienced management team and the ability to disseminate best practices across its operating companies. Since its demerger from The Peninsular

38

and Oriental Steam Navigation Company in October 2000, P&O Princess has pursued a cost reduction programme aimed at bringing its cost structure more into line with other major cruise operators. This programme enabled underlying costs to be reduced by 13 per cent. per available berth day over two years.

Carnival and P&O Princess expect that the Combined Group will generate significant cost savings, estimated to be at least \$100 million on an annualised basis, commencing in the first full financial year following completion of the DLC transaction. Carnival and P&O Princess expect that these cost savings will be generated principally through the dissemination of best practices between the companies, economies of scale and the rationalisation of certain shoreside operations. Carnival and P&O Princess expect that the majority of cost savings will come from the following areas:

- .. rationalising each of sourcing and logistics, tour operations, certain back office functions and other offices and activities, such as sales and support offices globally;
- .. reducing selling, general and administrative costs from areas such as insurance, rent and other administrative costs;
- .. rationalising port activities;
- .. rationalising information technology across the group; and
- .. disseminating best practices across shipboard and shoreside operations.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

One-time cash costs of achieving these cost savings are expected to be approximately \$30 million.

5. Industry background

Since 1970, cruising has been one of the fastest growing segments of the vacation market. According to Cruise Lines International Association, or CLIA, a leading industry trade group, in 1970 approximately 0.5 million North American-sourced passengers took cruises of two consecutive nights or more. CLIA estimates that this number reached approximately 7.4 million passengers in 2002, a compound annual growth rate of approximately 9 per cent. since 1970.

Outside North America, the principal sources of passengers for the industry are the UK, Germany, Italy, France, Spain, South America and Australia. In all of these areas, cruising represents a smaller proportion of the overall vacation market than it does in North America but, based on industry data, is generally experiencing higher growth rates.

Cruising offers a broad range of products to suit vacationing passengers of many ages, backgrounds and interests. Cruise brands can be broadly divided into the contemporary, premium and luxury segments. The Combined Group will have significant product offerings in each of these segments. The contemporary segment is the largest segment and typically includes cruises that last seven days or less, have a more casual ambience and are less expensive than premium or luxury cruises. The premium segment is smaller than the contemporary segment and typically includes cruises that last from seven to 14 days. Premium cruises emphasise quality, comfort, style and more destination-focused itineraries and the average pricing on these cruises is typically higher than those in the contemporary segment. The luxury segment is the smallest segment and is typically characterised by smaller vessel size, very high standards of accommodation and service, generally with higher prices than the premium segment. Notwithstanding these marketing segment classifications, there is overlap and competition among cruise segments.

The Combined Group will provide cruise vacations in most of the largest vacation markets in the world: North America, the UK, Germany and southern Europe. A brief description of the principal vacation regions in which the Combined Group intends to operate is as follows:

North America

The largest vacation market in the world is North America. According to CLIA, approximately 7.4 million North American passengers took cruises for two consecutive nights or more in 2002.

39

Estimates of North American-sourced cruise passengers and the number of lower berths marketed in North America compiled by CLIA from 1997 to 2002 are as follows:

Calendar Year	Cruise Passengers/(1)/ Sourced in North America	Lower Berths Marketed in North America/(2)/
	1997	5,051,000

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

1998	5,428,000	138,000
1999	5,894,000	149,000
2000	6,882,000	166,000
2001	6,906,000	176,000
2002	7,400,000	193,000

- (1)Based on passengers carried for at least two consecutive nights for the calendar year (2002 estimates are preliminary).
- (2)As of the end of the calendar year. These figures include some ships which are marketed in North America and elsewhere.

The principal itineraries visited by North American cruise passengers in 2002 were the Caribbean, Bahamas and Mexico. In addition, North American cruise passengers visited Alaska, Europe, the Mediterranean, Bermuda, the Panama Canal and other exotic locations, including South America, Africa, the South Pacific, the Orient and India.

Based on the number of ships that are currently on order worldwide and scheduled for delivery between 2003 and 2006, Carnival and P&O Princess expect that the net capacity serving North American consumers will increase significantly over the next several years. Projections compiled by CLIA indicate that by the end of 2003, 2004 and 2005, North America will be served by 187, 197 and 199 ships, respectively, having an aggregate passenger capacity of approximately 213,000, 236,000 and 240,000 lower berths, respectively. These figures include some ships that are expected to be marketed in North America and elsewhere. CLIA's estimates of capacity do not include assumptions related to unannounced ship withdrawals due to factors such as the age of ships or changes in the location from where ships' passengers are predominately sourced and, accordingly, could indicate a higher percentage growth in North American capacity than will actually occur. Nonetheless, Carnival and P&O Princess expect that net capacity serving North American-sourced cruise passengers will increase over the next several years.

Europe

Carnival and P&O Princess estimate that Europe is one of the largest vacation markets, but cruising in Europe has achieved a much lower penetration rate than in North America. Carnival and P&O Princess estimate that approximately 2.3 million European-sourced passengers took cruise vacations in 2002 compared to approximately 7.4 million North American-sourced passengers. However, from 1990 to 2002, the number of cruise passengers sourced from Europe has been growing faster than the number of cruise passengers sourced from North America. From 1997 through 2001, the rate at which Europeans took a cruise grew at a compound annual growth rate of 12 per cent. compared to an 8 per cent. growth rate with respect to North Americans. With respect to the European countries from which the most cruise passengers are sourced, from 1997 through 2001 the compound annual growth rate in cruise passengers was 10 per cent. in the UK, 14 per cent. in France, 8 per cent. in Germany and 11 per cent. in Italy. Cruise vacation companies are continuing to expand their offerings in Europe. For example, more cruise vacations were marketed to European passengers in 2002 than in 2001. Carnival and P&O Princess expect that a number of additional new or existing ships will be introduced into Europe over the next several years.

Carnival and P&O Princess also believe that Europe will represent a significant area for the growth for the Combined Group because, among other things, the vacation markets in Europe are large but the level of penetration of cruising is low.

UK

The UK is one of the largest sources for cruise passengers in the world.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

According to G.P. Wild (International) Limited, approximately 0.8 million UK passengers took cruises in 2001. Cruising was relatively under-developed as a vacation option for UK consumers until the mid-1990s, but since then there has been strong growth in the number of cruise passengers sourced from the UK.

40

The number of UK cruise passengers increased by a compound annual growth rate of approximately 10 per cent. between 1997 and 2001. The main destination for UK cruise passengers is the Mediterranean. Other popular destinations for UK cruise passengers include the Caribbean, the Atlantic Islands (including the Canary Islands and the Azores) and Scandinavia. The Combined Group will have two of the most widely recognised brands in the UK: P&O Cruises (UK) and Cunard.

Germany

Germany is one of the largest sources for cruise passengers in continental Europe with approximately 0.4 million cruise passengers in 2001. Germany exhibited a compound annual growth rate in the number of cruise passengers carried of approximately 8 per cent. between 1997 and 2001. Carnival and P&O Princess believe that German cruising is an underdeveloped region for the cruise industry. The main destinations visited by German cruise passengers are the Mediterranean and the Caribbean. Other popular destinations for German cruise passengers include Scandinavia and the Atlantic Islands. The Combined Group will have four brands marketed in Germany: AIDA, A'ROSA, Costa and Cunard.

Southern Europe

The main regions in southern Europe for sourcing cruise passengers are Italy, France and Spain. Together, these countries generated approximately 0.7 million cruise passengers in 2001. Cruising in Italy, France and Spain exhibited a compound annual growth rate in the number of passengers carried of approximately 15 per cent. between 1997 and 2001. Carnival and P&O Princess believe that these regions are also relatively underdeveloped for the cruise industry. The Combined Group intends to increase its penetration in southern Europe through Costa Cruises, the largest and one of the most recognised cruise brands marketed in Europe.

South America

Cruising has been marketed in South America for many years, although the region remains in an early stage of development. Cruises from South America typically occur during the southern hemisphere summer months of November through March, and are primarily seven to nine days in duration. The Combined Group expects its presence in this region will be primarily represented through the Costa brand, which currently operates two vessels in this region, Costa Classica and Costa Tropicale, offering approximately 2,324 lower berths.

Australia

Cruising in Australia is relatively small but well established. Carnival and P&O Princess estimate that approximately 0.1 million Australians took cruise vacations in 2001. The Combined Group expects to continue to serve this region through the P&O Cruises (Australia) brand, which currently operates Pacific Sky and, for a portion of the year, Pacific Princess in this region, and through Cunard and Holland America, which market their world and other cruises in Australia.

Characteristics of the cruise vacation industry

Strong growth

Cruise vacations have experienced significant growth in recent years. The number of new cruise ships currently on order from shipyards indicates that the growth in supply of cruise capacity is set to continue for a number of years. As a result of this continuing growth in supply, continued growth in demand across the industry, particularly in North America, will be required in order to take up this increase in supply. Given the historical growth rate of cruising and the relative low penetration levels in major vacation markets, the Combined Group believes that there are significant areas for growth. However, in order for demand to meet available capacity, for the past few years there has been pressure on cruise pricing. See Part II, "Risk Factors - Risks relating to the DLC transaction."

41

Wide appeal of cruising

Cruising appeals to a broad demographic range of passengers. Industry surveys estimate that the principal passengers for cruising in North America (defined as households with income of \$40,000 or more headed by a person who is at least 25 years old) now comprise approximately 128 million people. About half of these individuals have expressed an interest in a cruise as a vacation alternative.

Relatively low penetration levels

North America has the highest cruising penetration rates per capita. Nevertheless, CLIA estimates that only 15 per cent. of the U.S. population has ever taken a cruise. In the UK, where there has been significant expansion in the number of cruise passengers carried over the last five years, cruising penetration levels per capita are only approximately three-fifths of those of North America. In the principal vacation regions in continental Europe, cruising penetration levels per capita are approximately one-fifth of those in North America. Elsewhere in the world cruising is at an early stage of development and has far lower penetration rates.

Satisfaction rates

Cruise passengers tend to rate their overall satisfaction with a cruise-based vacation higher than comparable land-based hotel and resort vacations. In North America, industry studies indicate that cruise passengers experience a high level of satisfaction with their cruise product, with 69 per cent. of cruisers finding the value of the cruise vacation experience to be as good as, or better than, the value of other vacations.

6. Competition

Carnival and P&O Princess compete, and the Combined Group will compete, both with a wide array of land-based vacation alternatives and with other cruise lines for consumers' disposable leisure time dollars.

The Combined Group will compete with land-based vacation alternatives throughout the world, including, among others, resorts and hotels located in Las Vegas, Nevada, Orlando, Florida, various Caribbean, Mexican, Bahamian and Hawaiian Island destination resorts and numerous vacation destinations throughout Europe and the rest of the world. Specifically, the Combined Group's land-based competitors will include, among many others, MyTravel, Club Mediterranee, GoGo Tours, Fairfield Communities Vacation Ownership Club, First Choice, Harrah's Entertainment, Hilton Hotels, Hyatt Hotels, Kuoni Travel,

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Mandalay Resort Group, Disney, Universal Studios, Marriott International Resorts and the Marriott Vacation Ownership Club, MGM Grand, Nouvelle Frontieres, Perillo Tours, Ritz-Carlton Hotels, Saga Tours, Six Flags, Starwood Hotels and Resorts, Sandals Resorts, Sun City Resorts, Thomas Cook, Trafalgar and companies in the TUI Group, as well as various other theme parks.

The Combined Group's primary cruise competitors in the contemporary and/or premium cruise segments for North American-sourced passengers will be Royal Caribbean, which owns Royal Caribbean International and Celebrity Cruises, Star Cruises plc, which owns Norwegian Cruise Line and Orient Lines, and Disney Cruise Line.

The Combined Group's primary cruise competitors for European-sourced passengers will be MyTravel's Sun Cruises, Fred Olsen, Saga and Thomson in the UK; Festival, Hapag-Lloyd, Peter Deilmann and Phoenix Reisen in Germany; and Mediterranean Shipping Cruises, Royal Olympia Cruises, Louis Cruise Line and Festival Cruises in southern Europe. The Combined Group will also compete for passengers throughout Europe with Norwegian Cruise Line, Orient Lines, Royal Caribbean International and Celebrity Cruises.

The Combined Group's primary competitors in the luxury cruise segment for its Cunard, Seabourn and Windstar brands will include Crystal Cruises, Radisson Seven Seas Cruise Line, and Silversea Cruises.

The Combined Group's brands also will compete with similar or overlapping product offerings across all of the Combined Group's segments.

42

7. Employees

The Combined Group is expected to have approximately 11,400 full and part-time/seasonal employees engaged in shoreside operations upon implementation of the DLC structure. Carnival and P&O Princess will also employ, in the aggregate, approximately 45,800 officers, crew and staff on its combined fleet of 65 cruise ships and two river boats. A significant proportion of employees that work in Carnival's and P&O Princess' ship, hotel, and motor coach operations are unionised and/or are party to collective bargaining agreements. Each of Carnival and P&O Princess consider its respective employee and union relations generally to be good.

The Combined Group is expected to source its shipboard officers primarily from Italy, Holland, the UK and Norway. The remaining crew positions are manned by persons from around the world. The Combined Group is expected to utilise various manning agencies in many countries and regions to help secure its shipboard employees.

Carnival confirms that, following implementation of the DLC structure, it will procure that the rights of all P&O Princess employees, including pension rights, will be fully safeguarded.

8. Board and management

Carnival and P&O Princess will be managed and operated as if they were a single economic enterprise. Although each of Carnival and P&O Princess will continue to exist as a separate company with its own board of directors and senior executive management, the boards and senior executive management of each company will be identical. In addition to their normal fiduciary duties to the company and obligation to have regard to the interests of its shareholders, the directors of each company will be entitled to have regard to the interests of

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

the other company and its shareholders. Micky Arison, the Chairman and Chief Executive Officer of Carnival, will be Chairman and Chief Executive Officer of both Carnival and P&O Princess and Howard S. Frank, the Vice Chairman and Chief Operating Officer of Carnival, will be the Vice Chairman and Chief Operating Officer of both Carnival and P&O Princess. Peter Ratcliffe, P&O Princess' Chief Executive Officer, will be an executive director of both Carnival and P&O Princess. In addition, Gerald R. Cahill, the Chief Financial Officer and Chief Accounting Officer of Carnival, will be the Chief Financial Officer and Chief Accounting Officer of both Carnival and P&O Princess. The Combined Group expects to take advantage of the best management practices across the two companies. The headquarters of the Combined Group will be in Miami with a corporate office in London.

Following completion of the DLC transaction, the directors of Carnival and P&O Princess and their respective functions will be:

Name	Function
-----	-----
Micky Arison / (1) /	Chairman and Chief Executive Officer
Howard S. Frank / (1) /	Vice-Chairman and Chief Operating Officer
Robert Dickinson / (1) /	Executive Director
Pier Luigi Foschi / (3) /	Executive Director
A. Kirk Lanterman / (1) /	Executive Director
Peter Ratcliffe / (2) /	Executive Director
Ambassador Richard G. Capen, Jr. / (1) /	Non-Executive Director
Arnold W. Donald / (1) /	Non-Executive Director
Baroness Hogg / (2) /	Non-Executive Director
Modesto A. Maidique / (1) /	Non-Executive Director
Sir John Parker / (2) /	Non-Executive Director
Stuart Subotnick / (1) /	Non-Executive Director
Uzi Zucker / (1) /	Non-Executive Director

Notes:

- (1) Existing Carnival director
- (2) Existing P&O Princess director
- (3) New director

On completion of the DLC transaction, Stuart Subotnick will be designated as the Senior Non-Executive Director. This is a newly-created position which the non-executive directors as a body will select, on an annual basis, from one of their number.

9. Dividends

Following completion of the DLC transaction, P&O Princess shareholders will continue to receive dividends declared by P&O Princess and Carnival shareholders will continue to receive dividends declared by Carnival. Dividends in respect of both P&O Princess shares and Carnival shares declared after completion of the DLC transaction will be paid at about the same time and in equalised amounts in accordance with the equalisation ratio disregarding any amounts required to be deducted or withheld in respect of taxes and the amount of any applicable tax credits.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Carnival will continue to pay dividends in U.S. dollars. P&O Princess shareholders will continue to have the option to elect to receive dividends in U.S. dollars or pounds sterling in accordance with P&O Princess' existing procedures.

It is intended that the first dividend to be paid by the Combined Group will be declared in April 2003, with a record date in May 2003 and a payment date in June 2003.

10. On-going reporting

It is expected that the DLC transaction will be accounted for under U.S. GAAP using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations". In accordance with the purchase method of accounting, the P&O Princess U.S. GAAP accounting policies will be conformed to Carnival's accounting policies upon completion of the DLC transaction.

Following implementation of the DLC structure, P&O Princess will change its financial year end to 30 November so that it will be the same as Carnival's current fiscal year end. The Combined Group intends to publish combined financial statements denominated in U.S. dollars and prepared in accordance with U.S. GAAP. It is envisaged these combined financial statements will be included in a combined annual report. P&O Princess also expects to include summary balance sheet information and summary income statement information prepared in accordance with UK GAAP, without notes, in the annual report. P&O Princess shareholders will be able to request an additional document containing P&O Princess financial statements prepared in accordance with UK GAAP, which together with the other published information would constitute the full annual report and financial statements.

Carnival and P&O Princess will file periodic and current reports with the SEC on a joint basis in accordance with the rules applicable to U.S. domestic reporting companies. The financial statements presented in the periodic reports will consist of combined financial statements of the Combined Group prepared in accordance with U.S. GAAP.

11. Taxation

Taxation of the Combined Group

UK taxation

Following the DLC transaction, P&O Princess will continue to be tax resident in the UK and should continue to qualify for the tonnage tax regime in respect of its relevant shipping profits. Further information relating to the UK tonnage tax regime is set out in the shareholder circular for the P&O Princess EGM.

In order for the tonnage tax regime to apply to relevant shipping profits, it is necessary, among other matters, that the strategic and commercial management of P&O Princess vessels currently within the tonnage tax regime remain located in the UK. P&O Princess believes that after implementation of the DLC transaction, sufficient strategic and commercial management activities will remain located in the UK to satisfy this test.

P&O Princess has been advised by its tax advisers that the DLC transaction should not affect the application of the motive test exemption to the UK's controlled foreign company rules, which currently applies to the non-UK resident Princess Cruises brand vessel owning and operating subsidiaries.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

U.S. taxation

Exemption under Section 883 of the Internal Revenue Code

In general, under Section 883, certain non-U.S. corporations are not subject to U.S. federal income tax or branch profits tax on certain U.S. source income derived from the international operation of a ship or ships. Carnival and many of its ship-owning and operating subsidiaries are non-U.S. corporations that are organised in foreign countries that the Internal Revenue Service has recognised as having granted an equivalent exemption to U.S. corporations for the purposes of Section 883 and that derive income from sources within the U.S. In addition, certain companies within the P&O Princess group are organised in foreign countries that the Internal Revenue Service has recognised as having granted an equivalent exemption to U.S. corporations for the purposes of Section 883 and which derive income from sources within the U.S.

A foreign corporation will qualify for the benefits of Section 883 if, in relevant part, (i) the foreign country in which the foreign corporation is organised grants an equivalent exemption to corporations organised in the U.S. and (ii) either (a) more than 50 per cent. of the value of the corporation's stock is owned, directly or indirectly, by individuals who are residents of that country or of another foreign country that grants an equivalent exemption to corporations organised in the U.S., referred to as the "stock ownership test" (such individuals are referred to as "Qualified Shareholders"), or (b) the foreign corporation meets the publicly-traded test described below. In addition, to the extent a foreign corporation's shares are owned by a direct or indirect parent corporation which itself meets the publicly-traded test, then in analysing the stock ownership test with respect to such subsidiary, stock owned directly or indirectly by such parent corporation will be deemed owned by individuals resident in the country of incorporation of such parent corporation.

A company whose shares are considered to be "primarily and regularly traded on an established securities market" in the U.S., the UK or another qualifying jurisdiction will meet the publicly-traded test (the "publicly-traded test"). Pursuant to recently revised proposed Treasury Regulations issued under Section 883, stock will be considered "primarily traded" on one or more established securities markets if, with respect to each class of stock of the particular corporation, the number of shares in each such class that are traded during a taxable year on any such market exceeds the number of shares in each such class traded during that year on any other established securities market. Stock of a corporation will generally be considered "regularly traded" on one or more established securities markets under the proposed regulations if (i) one or more classes of stock of the corporation that, in the aggregate, represent more than 50 per cent. of the total combined voting power of all classes of stock of such corporation entitled to vote and of the total value of the stock of such corporation are listed on such market; and (ii) with respect to each class relied on to meet the more than 50 per cent. requirement in (i) above, (x) trades in each such class are effected, other than in de minimis quantities, on such market on at least 60 days during the taxable year, and (y) the aggregate number of shares in each such class of the stock that are traded on such market during the taxable year is at least 10 per cent. of the average number of shares of the stock outstanding in that class during the taxable year. A class of stock that otherwise meets the requirements outlined in the preceding sentence is not treated as meeting such requirements for a taxable year if, at any time during the taxable year, one or more persons who own, actually or constructively, at least 5 per cent. of the vote and value of the outstanding shares of the class of stock, own, in the aggregate, 50 per cent. or more of the vote and value of the outstanding shares of the class of stock (the "5 per cent. Override Rule"). However, the 5 per cent. Override Rule does not apply (a) where the foreign corporation establishes that Qualified Shareholders own

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

sufficient shares of the closely-held block of stock to preclude non-Qualified Shareholders of the closely-held block of stock from owning 50 per cent. or more of the total value of the class of stock for more than half of the taxable year; or (b) to certain investment companies provided that no person owns, directly or through attribution, both 5 per cent. or more of the value of the outstanding interests in such investment company and 5 per cent. or more of the value of the shares of the class of stock of the foreign corporation.

Carnival will continue to qualify as a publicly-traded foreign corporation for these purposes after the DLC transaction and, consequently its foreign subsidiaries that are organised in foreign jurisdictions that grant an equivalent exemption will, subject to the discussion in the following paragraph, continue to qualify for Section 883 benefits. P&O Princess believes that it also should continue to qualify as a publicly-traded foreign corporation for these purposes after the DLC transaction and, consequently, that, if relevant, certain members of the P&O Princess group that are organised in foreign jurisdictions

45

that grant an equivalent exemption should, subject to the discussion in the following paragraphs, continue to qualify for Section 883 benefits.

It is possible that the Combined Group may be characterised for U.S. federal income tax purposes as a partnership between Carnival and P&O Princess or, conceivably, among their shareholders, notwithstanding the express intention of the parties that the DLC structure shall not constitute a partnership or other similar entity for any purpose. While either such characterisation could affect the technical application of certain rules, neither should have a material impact under Section 883 or applicable U.S. income tax treaties, as appropriate.

In addition, the DLC structure has a number of features, including the special voting shares and other features, with respect to which there is limited or no authority under the Internal Revenue Code or the applicable U.S. income tax treaties. Although the Internal Revenue Service could take a different position, Carnival and P&O Princess believe that the special voting share structure is not inconsistent with the publicly-traded test of Section 883 and that the DLC transaction should not adversely affect their respective abilities, nor the abilities of their respective subsidiaries, to qualify for the benefits of Section 883 or any applicable U.S. income tax treaties, as appropriate.

Exemption under applicable U.S. income tax treaties

Article 8 of the UK-U.S. Income Tax Treaty provides substantially the same exemption from tax for UK resident companies for U.S.-source shipping income as Section 883. P&O Princess and its UK resident subsidiaries should continue to qualify for such benefits after the DLC transaction has been completed. Although the UK-U.S. Income Tax Treaty has been renegotiated and signed (though it still has not entered into force as it is pending ratification by the U.S.), the provisions of Article 8, as renegotiated, are essentially the same as the provisions in the existing treaty. Unlike the current treaty, however, the pending UK-U.S. Income Tax Treaty contains a Limitations on Benefits article that requires one of certain alternative tests to be satisfied in order for a party to be eligible for benefits under the treaty. P&O Princess believes that it and its UK resident subsidiaries should satisfy the Limitation on Benefits article if, and as of when, the pending treaty comes into force. The pending treaty also contains other limitations that would deny the availability of treaty benefits for income earned through certain entities. While these other limitations would apply to income earned through certain P&O Princess entities,

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

P&O Princess believes, based on its current circumstances, that it will be able to reorganise by, for example, moving the affected operations into a UK entity or one formed in another equivalent exemption jurisdiction such that the relevant U.S. source shipping income should qualify for an exemption from U.S. federal income tax, either under the pending treaty or pursuant to Section 883.

In addition, certain members of the Combined Group rely on other U.S. income tax treaties for similar exemptions from U.S. taxation on U.S.-source shipping income. Carnival and P&O Princess do not believe that the DLC transaction will affect the ability of these corporations to continue to qualify for such treaty benefits.

There is, however, no authority that directly addresses the impact of a dual listed company arrangement or the availability of benefits under Section 883 or any applicable U.S. income tax treaty and, consequently, the matters discussed above are not entirely free from doubt.

Taxation in the absence of an exemption under Section 883 or any applicable U.S. income tax treaty

Shipping income that is attributable to transportation of passengers which begins or ends in the U.S. is considered to be 50 per cent. derived from U.S. sources. Shipping income that is attributable to transportation of passengers which begins and ends in foreign countries is considered 100 per cent. derived from foreign sources and not subject to U.S. federal income tax. Shipping income that is attributable to the transportation of passengers which begins and ends in the U.S. without stopping at an intermediate foreign port is considered to be 100 per cent. derived from U.S. sources.

The legislative history of the transportation income source rules suggests that a cruise that begins and ends in a U.S. port, but that calls on more than one foreign port, will derive U.S. source income only from the first and last legs of the cruise. Because there are no regulations or other IRS interpretations of these rules, the applicability of the transportation income source rules in the aforesaid manner is not free from doubt.

46

In the event that Carnival or P&O Princess or any of their respective subsidiaries were to fail, in part or in whole, to meet the requirements of Section 883 of the Internal Revenue Code or Article 8 of the UK-U.S. Income Tax Treaty or other applicable U.S. income tax treaty, as appropriate, then the non-exempt U.S. source shipping income of any such corporation would be subject to either the four per cent of gross income tax regime of Section 887 of the Internal Revenue Code (the "four per cent. tax regime") or the net income and branch profits tax regimes of Section 882 and Section 884 of the Internal Revenue Code (collectively, the "net tax regime").

The net tax regime is only applicable where the relevant foreign corporation has, or is considered to have, a fixed place of business in the U.S. that is involved in the earning of U.S.-source shipping income and substantially all of this shipping income is attributable to regularly scheduled transportation. Under the net tax regime, U.S.-source shipping income, net of applicable deductions, would be subject to a corporate tax of up to 35 per cent. and the net after-tax income would be potentially subject to a further branch tax of 30 per cent. In addition, interest paid by these corporations, if any, would generally be subject to a 30 per cent. branch interest tax.

Under the four per cent. tax regime, which should be the tax regime applicable to vessel owning subsidiaries, the U.S.-source shipping income of each of the

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

vessel owning subsidiaries would be subject to a four per cent. tax imposed on a gross basis, without benefit of deductions. Under the four per cent. tax regime, the maximum effective rate of tax on the gross shipping income of these subsidiaries attributable to transportation that either begins or ends in the U.S. would not exceed two per cent.

German and Australian taxation

P&O Princess' German and Australian branches' tax position should not be affected by the DLC transaction. The majority of their profits should continue to be exempt from local tax by virtue of the UK/Germany and UK/Australia double tax treaties.

Equalisation payments

Carnival and P&O Princess do not anticipate that any material amounts of equalisation payments are likely to be made between them in accordance with the Equalisation and Governance Agreement for the foreseeable future. However, if it becomes necessary to make equalisation payments, any such payments received in the UK are likely to be taxable. Further, the treatment from a U.S. federal income tax perspective of such equalisation payments is not without doubt. The payment is to be grossed up in respect of any tax thereon. On the basis that payments will not be material, any tax cost should not be significant.

Taxation of shareholders

UK tax

General information on the application of current UK tax law and Inland Revenue practice applicable to UK P&O Princess shareholders in respect of the DLC transaction, the P&O Princess share reorganisation and if accepted, the Partial Share Offer is set out in paragraph 2 of Appendix IV.

Holders of P&O Princess shares and P&O Princess ADSs should consult their independent professional advisers in the light of their particular circumstances as to the UK tax consequences of the DLC transaction, the P&O Princess share reorganisation and the Partial Share Offer as well as to the effect of any other state, local or applicable foreign tax law.

U.S. federal income taxation

General information on the application of current U.S. federal income tax laws applicable to U.S. P&O Princess shareholders in respect of the DLC transaction, the P&O Princess share reorganisation, and, if accepted, the Partial Share Offer is set out in paragraph 3 of Appendix IV.

Holders of P&O Princess shares and P&O Princess ADSs should consult their independent professional advisers in the light of their particular circumstances as to the U.S. federal income tax consequences of the DLC transaction, the P&O Princess share reorganisation and the Partial Share Offer, as well as to the effect of any state, local or applicable foreign tax law.

Section B. Unaudited pro forma financial information of the Combined Group

Part A. Unaudited pro forma financial information of the Combined Group in accordance with U.S. GAAP

Introduction

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

The following unaudited pro forma financial information gives pro forma effect to the proposed DLC transaction, after giving effect to the pro forma adjustments described in the accompanying notes. The unaudited pro forma financial information has been prepared from, and you should read it in conjunction with, the historical consolidated financial statements, including the related notes, of Carnival and P&O Princess that are incorporated by reference in this document. For more information on how to obtain copies of information incorporated by reference, see "Incorporation of documents by reference" on page 4 of this document.

The unaudited pro forma financial information has been prepared in accordance with U.S. GAAP and in accordance with Carnival's accounting policies under U.S. GAAP. U.S. GAAP differs in certain respects from UK GAAP, and Carnival's accounting policies under U.S. GAAP differ in certain respects from P&O Princess' accounting policies under UK GAAP and U.S. GAAP. The notes to the P&O Princess consolidated financial statements for the year ended 31 December 2002 which are incorporated by reference in this document, describe the principal differences between U.S. GAAP and UK GAAP as they relate to P&O Princess.

It is expected that under U.S. GAAP the DLC transaction will be accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations". The business combination adjustments include provisional estimates of the fair value of the identifiable assets and liabilities acquired. On completion of the DLC transaction, adjustments will be made to these provisional estimates to reflect their estimated fair values at that time. In accordance with the purchase method of accounting, the P&O Princess U.S. GAAP accounting policies will be conformed to Carnival's accounting policies upon completion of the DLC transaction.

The unaudited pro forma statement of operations for the year ended 30 November 2002 has been prepared as if the DLC transaction had occurred on 1 December 2001. The unaudited pro forma balance sheet as of 30 November 2002 has been prepared as if the DLC transaction had occurred on that date. The historical financial information for P&O Princess used in the unaudited pro forma financial information of the Combined Group is as at and for the year ended 31 December 2002.

The following unaudited pro forma financial information:

- .. has been included for illustrative purposes only and, because of its nature, may not give a true picture of the results and the financial position of the Combined Group;
- .. does not purport to represent what the combined results of operations actually would have been if the DLC transaction had occurred on 1 December 2001 or what those results will be for any future periods. The pro forma adjustments are based upon currently available information;
- .. does not reflect the results of business operations or trading since 30 November 2002 for Carnival and 31 December 2002 for P&O Princess; and
- .. has not been adjusted to reflect any net transaction benefits referred to in other sections of this document.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

(U.S. dollars in millions, except per share data)

	Pro forma adjustments			
	Carnival (U.S. GAAP)	P&O Princess (U.S. GAAP) / (1) /	Accounting policy adjustments	Business combination adjustments
	-----	-----	-----	-----
Revenues	4,368.3	2,526.8	(3.9) / (a) /	
Costs and expenses				
Operating	(2,311.9)	(1,576.6)	(5.2) / (b) / 1.0 / (a) /	
Selling and administrative	(612.0)	(472.1)	4.3 / (c) /	105.1 / (k) / 1.9 / (i) /
Depreciation and amortisation	(382.3)	(169.2)		
Impairment charge	(20.0)	--		
	-----	-----	-----	-----
	(3,326.2)	(2,217.9)	0.1	107.0
	-----	-----	-----	-----
Operating income	1,042.1	308.9	(3.8)	107.0
Nonoperating (expense) income				
Net interest expense	(78.6)	(77.3)		(1.5) / (f) /
Other (expense) income, net	(4.2)	1.2		
	-----	-----	-----	-----
	(82.8)	(76.1)		(1.5)
	-----	-----	-----	-----
Income before income taxes	959.3	232.8	(3.8)	105.5
Income tax benefit (expense)	56.6	(19.9)		2.8 / (g) /
	-----	-----	-----	-----
Net income	1,015.9	212.9	(3.8)	108.3
	=====	=====	=====	=====
Earnings per share / (n) /				
Basic (U.S.\$)	1.73			
Diluted (U.S.\$)	1.73			

(1) P&O Princess information is for the year ended 31 December 2002

See accompanying notes to unaudited pro forma financial information of the Combined Group in accordance with U.S. GAAP.

49

Unaudited Pro Forma Balance Sheet
As of 30 November 2002
(U.S. dollars and shares in millions)

	Pro forma adjustments			
	Carnival (U.S. GAAP)	P&O Princess (U.S. GAAP) / (1) /	Accounting policy adjustments	Business combination adjustments
	-----	-----	-----	-----

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Assets				
Current Assets				
Cash and cash equivalents	666.7	162.1		
Short-term investments	39.0	--		
Accounts receivable, net	108.3	125.9	3.4 / (a) /	
Inventories	91.3	87.4		
Prepaid expenses and other	148.3	165.3	18.9 / (c) /	(66.0) /
			(16.5) / (b) /	70.1 / (
Fair value of derivative contracts	--	7.3		
Fair value of hedged firm commitments	78.4	41.4		(41.4) /
	-----	-----	-----	-----
Total current assets	1,132.0	589.4	5.8	(37.3)
Property and Equipment, Net	10,115.4	5,618.5		
Goodwill and Intangible Assets, Net	681.1	75.4		2,924.4 / (
				(75.4) /
Other Assets	297.2	31.0		(17.6) /
				13.9 / (
				(30.2) /
Fair Value of Hedged Firm Commitments	109.1	--		
Fair Value of Derivative Contracts	--	54.6		
	-----	-----	-----	-----
	12,334.8	6,368.9	5.8	2,777.8
	=====	=====	=====	=====
Liabilities and Shareholders' Equity				
Current liabilities				
Current portion of long-term debt	148.6	127.0		
Accounts payable	268.7	184.2		
Accrued liabilities	290.4	194.7	(0.1) / (a) /	29.0 / (
				29.8 / (
Customer deposits	770.6	467.2	15.5 / (a) /	
Dividends payable	61.6	--		
Fair value of derivative contracts	79.8	45.6		
Fair value of hedged firm commitments	--	1.5		(1.5) /
	-----	-----	-----	-----
Total current liabilities	1,619.7	1,020.2	15.4	57.3
Long-Term Debt	3,012.0	2,569.7		(5.0) /
Deferred Income and Other Long-Term Liabilities	170.8	28.1		85.0 / (
Fair Value of Derivative Contracts	114.4	1.0		
Fair Value of Hedged Firm Commitments	--	24.8		(24.8) /
Shareholders' Equity	7,417.9	2,725.1	(9.6) / (d-iii) /	2,665.3 / (
Common stock: 960 shares, 750 shares and 1,185 shares authorized; 586.8 shares, 693.5 shares and 799.4 shares issued and outstanding for Carnival, P&O Princess and Pro Forma Combined Group, respectively				
	-----	-----	-----	-----
	12,334.8	6,368.9	5.8	2,777.8
	=====	=====	=====	=====

(1) P&O Princess information is as of 31 December 2002

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

See accompanying notes to unaudited pro forma financial information of the Combined Group in accordance with U.S. GAAP.

50

Notes to the unaudited pro forma financial information of the Combined Group in accordance with U.S. GAAP

1. Basis of Presentation

The unaudited pro forma financial information has been prepared on the basis that the DLC transaction will be accounted for using the purchase method of accounting under U.S. GAAP with Carnival as the acquirer. The pro forma financial information is based upon the U.S. GAAP accounting policies of Carnival.

The historical financial information in relation to Carnival as at and for the year ended 30 November 2002 has been derived from the financial information on Carnival that is incorporated by reference in this document.

The historical financial information in relation to P&O Princess as at and for the year ended 31 December 2002 has been derived from the financial information on P&O Princess that is incorporated by reference in this document after making certain adjustments. The adjustments, which are set out in note 2, relate to the conversion of such information on P&O Princess' accounting policies under UK GAAP to P&O Princess' accounting policies under U.S. GAAP.

2. Conversion of P&O Princess' financial information to U.S. GAAP

This note provides details of adjustments required to convert P&O Princess' previously reported financial information as at and for the year ended 31 December 2002 that was prepared in accordance with P&O Princess' accounting policies under UK GAAP to information in accordance with U.S. GAAP. Further details of the adjustments are set out in P&O Princess' financial statements for the year ended 31 December 2002, which are incorporated by reference in this document.

(i) Profit and loss accounts

For the year ended 31 December 2002

	P&O Princess UK GAAP	U.S. GAAP adjustments	P&O Princess U.S. GAAP

(U.S. dollars in millions)			
Revenues	2,526.8		2,526.8
Costs and expenses			
Operating	(1,576.6)		(1,576.6)
Selling and administrative	(477.6)	5.5	(472.1)
Depreciation and amortisation	(173.9)	4.7	(169.2)
	-----	-----	-----
	(2,228.1)	10.2	(2,217.9)
	-----	-----	-----
Operating income	298.7	10.2	308.9
Non-operating (expense) income			
Net interest expense	(74.0)	(3.3)	(77.3)

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Other income	1.2		1.2
	-----	----	-----
	(72.8)	(3.3)	(76.1)
	-----	----	-----
Income before income taxes	225.9	6.9	232.8
Income tax expense	(17.1)	(2.8)	(19.9)
	-----	----	-----
Net income	208.8	4.1	212.9
	=====	=====	=====

51

Notes to the unaudited pro forma financial information of the Combined Group in accordance with U.S. GAAP--(Continued)

(ii) Net assets

As of 31 December 2002

	P&O Princess UK GAAP	U.S. GAAP adjustments	P&O Princess U.S. GAAP
	-----	-----	-----
	(U.S. dollars in millions)		
Assets			
Current assets			
Cash and cash equivalents	162.1	--	162.1
Accounts receivable, net	125.9	--	125.9
Inventories	87.4	--	87.4
Prepaid expenses and other	183.5	(18.2)	165.3
Fair value of derivative contracts	--	7.3	7.3
Fair value of hedged firm commitments	--	41.4	41.4
	-----	-----	-----
Total current assets	558.9	30.5	589.4
Property and Equipment, Net	5,629.4	(10.9)	5,618.5
Goodwill and Intangible Assets, Net	127.1	(51.7)	75.4
Other Assets	16.3	14.7	31.0
Fair Value of Derivative Contracts	--	54.6	54.6
	-----	-----	-----
	6,331.7	37.2	6,368.9
	=====	=====	=====
Liabilities and Shareholders' Equity			
Current liabilities			
Current portion of long-term debt	120.3	6.7	127.0
Accounts payable	184.2	--	184.2
Accrued liabilities	215.5	(20.8)	194.7
Customer deposits	467.2	--	467.2
Fair value of derivative contracts	--	45.6	45.6
Fair value of hedged firm commitments	--	1.5	1.5
	-----	-----	-----
Total current liabilities	987.2	33.0	1,020.2
Long-Term Debt	2,516.8	52.9	2,569.7
Deferred Income and Other Long-Term Liabilities	13.7	14.4	28.1
Fair Value of Derivative Contracts	--	1.0	1.0
Fair Value of Hedged Firm Commitments	--	24.8	24.8
Shareholders' Equity	2,814.0	(88.9)	2,725.1

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

-----	-----	-----
6,331.7	37.2	6,368.9
=====	=====	=====

3. Accounting policy adjustments

The pro forma financial information has been prepared in accordance with the accounting policies of Carnival under U.S. GAAP, which differ in certain respects from the U.S. GAAP accounting policies of P&O Princess as noted below. Upon completion of the DLC transaction, Carnival and P&O Princess will perform a detailed review of their accounting policies and financial statement classifications. As a result of this detailed review, it may become necessary to make certain reclassifications to the Combined Group's financial statements to conform the P&O Princess financial statements to the Carnival accounting policies and classifications. Although Carnival and P&O Princess do not expect that this detailed review will result in material changes to accounting policies or classifications other than as noted below, no such assurance can be given at this time.

(a) Cruise revenues and expenses

P&O Princess' accounting policy is initially to record deposits received on sales of cruises as deferred income and recognise them, together with revenues from onboard activities and all associated direct costs of a voyage, on a pro rata basis at the time of the voyage. Carnival's accounting policy is to recognise these items generally upon completion of voyages with durations of ten days or less and on a pro rata basis for voyages in excess of ten days. For the year ended

52

Notes to the unaudited pro forma financial information of the Combined Group in accordance with U.S. GAAP--(Continued)

and as of 30 November 2002 adjustments of \$(2.9) million, (affecting revenues by \$(3.9) million and operating expenses by \$1.0 million) and \$(12.0) million (affecting accounts receivable by \$(3.4) million accrued liabilities by \$(0.1) million and customer deposits by \$15.5 million) have been made to conform P&O Princess' policy to Carnival's policy.

(b) Dry-docking

P&O Princess' accounting policy is to capitalise dry-docking costs and amortise them to operating expense using the straight-line method through the date of the next scheduled dry-dock, which typically is over two to three years. Carnival's dry-dock accounting policy is the same as P&O Princess' except that the capitalised dry-dock costs are amortised to expense generally over one year. For the year ended and as of 30 November 2002 adjustments of \$(5.2) million and \$(16.5) million have been made to conform P&O Princess' policy to Carnival's policy.

(c) Marketing and promotion costs

P&O Princess' accounting policy under U.S. GAAP is to expense all marketing and promotion costs as incurred. Carnival expenses all such costs as incurred except for brochures and media production costs, which are recorded as prepaid expenses and charged to expense as the brochures are consumed or upon the first airing of the advertisement, respectively. For the year ended and as of 30 November 2002 adjustments of \$4.3 million and

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

\$18.9 million have been made to conform P&O Princess' policy to Carnival's policy.

4. Business combination adjustments

(d) Purchase consideration and related goodwill and intangible assets are as follows:

	(U.S.\$m)	Notes
Purchase consideration	5,380.8	(i)
Costs of acquisition	60.0	(ii)

Total purchase consideration	5,440.8	
Less fair value of net assets acquired	(2,516.4)	(iii)

Excess of purchase consideration over net assets acquired	2,924.4	(iv)
	=====	

-
- (i) The purchase consideration is expected to be based upon the average of the quoted closing market price of Carnival's shares beginning two days before and ending two days after 8 January 2003, the date its DLC transaction offer announcement was agreed to by the P&O Princess board. In addition, the number of P&O Princess shares is adjusted for the proposed share reorganisation of 3.3289 existing P&O Princess shares for one new P&O Princess share, including P&O Princess stock options, which will vest in full on completion of the DLC transaction. A Carnival share price of \$25.31 has been used for purposes of this pro forma presentation and an estimated number of P&O Princess shares in issue of 212.6 million after adjusting for the the share reorganisation.
- (ii) Represents Carnival's estimated direct costs of carrying out the proposed DLC transaction, including costs related to the registration of Carnival shares pursuant to the Partial Share Offer, of which \$30.2 million has been incurred by Carnival and is included as other assets. An adjustment has been made to remove this \$30.2 million from other assets as it will be included in the purchase consideration upon completion of the DLC transaction. Of the total \$60.0 million of acquisition costs \$29.8 million had not been incurred as of 30 November 2002 and, accordingly, an adjustment has been made to increase accrued liabilities for this amount.
- (iii) Based upon preliminary estimates of the fair value of the identifiable assets acquired and liabilities assumed given current information. On completion of the DLC transaction, adjustments will be made to these preliminary estimates to reflect their estimated fair values at that time. Carnival and P&O Princess expect to have independent appraisals performed to assist them in establishing the fair value of P&O Princess' ships and amortisable and non-amortisable intangible assets. However, based on the information currently available, it is not expected that the amount of separately identifiable amortisable intangible assets will be material to the Combined Group's financial statements. No assurance can be given that the preliminary fair value estimates included in this pro forma financial information will not be materially changed as a result of these valuations. Fair value adjustments are detailed in the notes and table below.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Group in accordance with U.S. GAAP--(Continued)

P&O Princess fair value of net assets acquired

	P&O Princess (U.S. GAAP)	Accounting policy adjustments (Note 3)	Fair value adjustments	Pro forma fair value

	U.S. \$m			
Assets				
Current Assets				
Cash and cash equivalents	162.1			162.1
Accounts receivable, net	125.9	3.4 / (a) /		129.3
Inventories	87.4			87.4
Prepaid expenses and other	165.3	18.9 / (c) / (16.5) / (b) /	70.1 / (l) / (66.0) / (g) /	171.8
Fair value of derivative contracts	7.3			7.3
Fair value of hedged firm commitments	41.4		(41.4) / (e) /	--
	-----	-----	-----	-----
Total current assets	589.4	5.8	(37.3)	557.9
Property and Equipment, Net	5,618.5			5,618.5
Goodwill and Intangible Assets, Net	75.4		(75.4) / (j) /	--
Other Assets	31.0		(17.6) / (f) / 13.9 / (l) /	27.3
Fair Value of Derivative Contracts	54.6			54.6
	-----	-----	-----	-----
	6,368.9	5.8	(116.4)	6,258.3
	=====	=====	=====	=====
Liabilities and Shareholders' Equity				
Current liabilities				
Current portion of long-term debt	127.0			127.0
Accounts payable	184.2			184.2
Accrued liabilities	194.7	(0.1) / (a) /	29.0 / (k) /	223.6
Customer deposits	467.2	15.5 / (a) /		482.7
Fair value of derivative contracts	45.6			45.6
Fair value of hedged firm commitments	1.5		(1.5) / (e) /	--
	-----	-----	-----	-----
Total current liabilities	1,020.2	15.4	27.5	1,063.1
Long-term Debt	2,569.7		(5.0) / (f) /	2,564.7
Other long-term liabilities	28.1		85.0 / (h) /	113.1
Fair Value of Derivative Contracts	1.0			1.0
Fair Value of Hedged Firm Commitments	24.8		(24.8) / (e) /	--
Shareholders' Equity	2,725.1	(9.6) *	(199.1) **	2,516.4
	-----	-----	-----	-----
	6,368.9	5.8	(116.4)	6,258.3
	=====	=====	=====	=====

(*) Represents the net shareholders' equity decrease due to accounting policy adjustments.

(**) Represents the net shareholders' equity decrease due to fair value adjustments.

(iv) The excess of purchase consideration over net assets acquired is primarily estimated to include the value attributed to P&O Princess' trademarks, brand names and goodwill. Carnival and P&O Princess believe that these trademarks and brand names have indefinite lives and, accordingly, based

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

on SFAS No. 142, "Goodwill and Other Intangible Assets", no adjustment for pro forma amortisation is required. It is not possible at this time to reasonably estimate the separate amounts attributable to identifiable intangible assets or goodwill since the measurement of these assets requires the expertise of an independent appraiser, who will not be engaged until after the completion of the DLC transaction. Accordingly, the entire amount of the excess of the purchase consideration has currently been allocated to goodwill, but is expected to be allocated between goodwill and other identifiable intangible assets such as brand names and trademarks, subsequent to the completion of the DLC transaction based primarily on the appraiser's valuation. However, since it is expected that the material intangibles that will be identified and valued will have indefinite lives, no material impact on the pro forma statement of operations is expected as a result of this presentation on the Combined Group's balance sheet, as neither goodwill nor these indefinite lived intangibles are allowed to be amortised.

- (e) A net adjustment of \$15.1 million has been made against the fair value of hedged firm commitments. These adjustments relate to contractual commitments for ships which were

54

Notes to the unaudited pro forma financial information of the Combined Group in accordance with U.S. GAAP--(Continued)

ordered, and hedged, at a time when the euro exchange rate was different, and hence, these contracts could be replaced today at a euro price that would convert to a different U.S. dollar cost at current exchange rates.

Otherwise, the book value, including prepaid dry-dock costs, and fair value of ships in use and under construction are preliminarily estimated to be the same in all material respects. However, Carnival intends to have an appraisal of all the P&O Princess ships, so it is possible that the fair value of some of P&O Princess' ships could be less than or greater than their carrying value.

- (f) An adjustment of \$5.0 million has been made to the book value of P&O Princess fixed interest rate long-term debt to reflect current interest rates, without giving effect to any possible changes in credit ratings. The fair value of this debt is based upon quoted market prices or the discounted present value of future amounts payable on the debt. The fair value adjustment is amortised over the remaining term of the debt as applicable, which results in a pro forma increase of \$1.5 million in interest expense for 2002. In addition, an adjustment has been made to write-off the book value of P&O Princess' historical deferred financing costs of \$17.6 million related to its existing borrowings, as such costs have been considered in determining the fair value of P&O Princess debt.
- (g) An adjustment of \$66.0 million has been made to the book value of other tax assets to reflect recoverable value to the Combined Group and to reverse \$2.8 million of P&O Princess' related tax expense.
- (h) An adjustment of \$85.0 million has been made to record the fair value of P&O Princess' pension plan liabilities. This relates to the Merchant Navy Officers Pension Fund and is calculated based on, among other things, P&O Princess' current share of total employer contributions.
- (i) On completion of the DLC transaction all awards and options granted under

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

the P&O Princess employee share incentive plans will vest in full. An adjustment has been made to reverse the P&O Princess employee share incentive and matching award charge of \$1.9 million for the year ended 30 November 2002.

- (j) An adjustment has been made to eliminate \$75.4 million of P&O Princess' historical goodwill related to prior business acquisitions.
- (k) P&O Princess expects to incur and expense approximately \$146.0 million of costs related to its terminated Royal Caribbean transaction and the completion of the DLC transaction with Carnival, including costs incurred to register P&O Princess ordinary shares with the U.S. Securities and Exchange Commission. Under U.S. GAAP, \$11.9 million was expensed in the year ended 31 December 2001, and \$105.1 million was expensed in 2002. An adjustment has been made to reverse this \$105.1 million in the pro forma statement of operations for 2002 since Carnival and P&O Princess believe that the Royal Caribbean and Carnival costs are non-recurring charges directly attributable in all material respects to the DLC transaction. Of the total \$146.0 million of P&O Princess' costs, \$29.0 million has not been incurred as at 31 December 2002 and an adjustment has been made to increase accrued liabilities for this amount.
- (l) An adjustment of \$84.0 million (\$70.1 million current and \$13.9 million long term) has been made to record the fair value of P&O Princess' contractual commitments to receive probable and estimable liquidated damages and business interruption insurance proceeds related to the delayed delivery of the Diamond Princess. This ship was initially scheduled for delivery in May 2003, but has been delayed as a result of a fire in October 2002.
- (m) The shareholders' equity adjustment of \$2,665.3 million represents the net equity increase due to the application of business combination adjustments, as detailed below:

	U.S.\$m	Notes
Excess of purchase consideration over net assets acquired	2,924.4	4 (d)
Reduction in P&O Princess shareholders' funds for fair value adjustments	(199.1)	4 (d-iii)
Costs of acquisition	(60.0)	4 (d-ii)

Shareholders' equity adjustment	2,665.3	
	=====	

Notes to the unaudited pro forma financial information of the Combined Group in accordance with U.S. GAAP--(Continued)

- (n) The pro forma weighted average number of shares has been calculated as if the DLC transaction had occurred on 1 December 2001 and after adjusting for the proposed P&O Princess share reorganisation of 3.3289 existing P&O Princess shares for one new P&O Princess share.

Based upon the weighted average number of shares outstanding of 706.6 million, including 14.2 million of share options which all vest upon completion of the DLC transaction (706.6 million diluted), or 212.3 million

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

(212.3 million diluted) after the proposed P&O Princess share reorganisation, for P&O Princess and 586.6 million (588.1 million diluted) for Carnival for the years ended 31 December 2002 and 30 November 2002, respectively, the pro forma weighted average number of shares for the Combined Group is calculated as 798.9 million (800.4 million diluted).

The pro forma earnings per share amounts have been calculated using the pro forma weighted average number of shares, calculated as described above, and the pro forma earnings for the Combined Group.

(o) Certain restructuring and integration expenses may be recorded subsequent to the completion of the DLC transaction. The amount of these charges has not yet been determined, although they have been preliminarily estimated to be approximately \$30 million, as they will be the subject of a detailed plan of restructuring and integration to be completed subsequent to the consummation of the DLC transaction. A portion of these charges may subsequently be determined to be part of the purchase consideration. These charges are not reflected in the unaudited pro forma financial information because they are not expected to have a continuing impact on the combined results.

56

Part B. Unaudited pro forma financial information of the Combined Group in accordance with UK GAAP

Introduction

The following unaudited pro forma financial information gives pro forma effect to the proposed DLC transaction, after giving effect to the pro forma adjustments described in the accompanying notes.

The unaudited pro forma financial information has been prepared based upon the accounting policies of P&O Princess under UK GAAP. It is expected that under the accounting policies of P&O Princess under UK GAAP the DLC transaction would be accounted for using acquisition accounting principles, with P&O Princess as acquiree. The business combination adjustments include provisional estimates of the fair value of the identifiable assets and liabilities acquired. On completion of the DLC transaction, adjustments will be made to these provisional estimates to reflect their estimated fair values at that time.

The unaudited pro forma profit and loss account for the year ended 31 December 2002 has been prepared as if the DLC transaction had occurred on 1 January 2002. The unaudited pro forma net asset statement as at 31 December 2002 has been prepared as if the DLC transaction had occurred on that date. The historical financial information for Carnival used in the unaudited pro forma financial information of the Combined Group is as at and for the year ended 30 November 2002.

The following unaudited pro forma financial information:

- .. has been included for illustrative purposes only and, because of its nature, may not give a true picture of the results and the financial position of the Combined Group;
- .. does not purport to represent what the combined results of operations actually would have been if the DLC transaction had occurred on 1 January 2002 or what those results will be for any future periods. The pro forma adjustments are based upon currently available information;
- .. does not reflect the results of business operations or trading since 31

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

December 2002 for P&O Princess and 30 November 2002 for Carnival; and

.. has not been adjusted to reflect any net transaction benefits referred to in other sections of this document.

57

Unaudited Pro Forma Profit and Loss Account

For the Year Ended 31 December 2002
(U.S. dollars in millions, except per share data)

	P&O Princess (UK GAAP)	Carnival (UK GAAP) / (1) /	Business combination adjustments (UK GAAP)	Pro fo Combin Grou (UK GA
	-----	-----	-----	-----
Turnover	2,526.8	4,374.3		6,90
Direct operating costs	(1,576.6)	(2,313.7)		(3,89
Selling and administrative expenses	(477.6)	(614.9)	117.0 / (g) / 3.7 / (e) /	(97
Depreciation and amortisation	(173.9)	(381.8)	4.3 / (f) /	(55
Impairment charge	--	(28.5)		(2
	-----	-----	-----	-----
Operating costs	(2,228.1)	(3,338.9)	125.0	(5,44
	-----	-----	-----	-----
Operating profit	298.7	1,035.4	125.0	1,45
Profit on disposal of fixed assets	1.2	--		
Profit on sale of businesses	--	4.2		
	-----	-----	-----	-----
Profit on ordinary activities before interest	299.9	1,039.6	125.0	1,46
Net interest and similar items	(74.0)	(78.6)	(1.5) / (c) /	(15
	-----	-----	-----	-----
Profit on ordinary activities before taxation	225.9	961.0	123.5	1,31
Taxation	(17.1)	56.6		3
	-----	-----	-----	-----
Profit on ordinary activities after taxation	208.8	1,017.6	123.5	1,34
Equity minority interests	--	--		
	-----	-----	-----	-----
Profit for the financial period attributable to shareholders	208.8	1,017.6	123.5	1,34
Ordinary dividends	(83.2)	(246.4)		(32
	-----	-----	-----	-----
Retained profit for the financial period	125.6	771.2	123.5	1,02
	=====	=====	=====	=====
Earnings per share / (j) /				
Basic earnings per share (U.S.\$)				1
Diluted earnings per share (U.S.\$)				1

(1) Carnival information is for the year ended 30 November 2002.

All profits and losses arise from continuing activities.

See accompanying notes to unaudited pro forma financial information of the Combined Group in accordance with UK GAAP.

Unaudited Pro Forma Net Asset Statement

As at 31 December 2002
(U.S. dollars in millions)

	P&O Princess (UK GAAP)	Carnival (UK GAAP) / (1) /	Business combination adjustments (UK GAAP)	Pro form Combined Group (UK GAAP)
	-----	-----	-----	-----
Fixed assets				
Intangible assets	127.1	662.3	(127.1) / (f) / 1,966.4 / (a) /	2,628.7
Tangible assets:				
Ships	5,380.0	9,638.3		15,018.3
Properties and other fixed assets	249.4	477.1		726.5
	5,629.4	10,115.4		15,744.8
Investments	16.3	--		16.3
	5,772.8	10,777.7	1,839.3	18,389.8
Current assets				
Stocks	87.4	89.2		176.6
Debtors due in less than one year	289.0	425.2	70.1 / (h) /	784.3
Debtors due in greater than one year	20.4	313.3	13.9 / (h) / (30.2) / (a-ii) /	317.4
Cash at bank and in hand	162.1	1,753.8		1,915.9
	558.9	2,581.5	53.8	3,194.2
Creditors: amounts falling due within one year	(987.2)	(1,597.1)	(29.0) / (g) / (29.8) / (a-ii) /	(2,643.1)
Net current (liabilities)/assets	(428.3)	984.4	(5.0)	551.1
Total assets less current liabilities	5,344.5	11,762.1	1,834.3	18,940.9
Creditors: amounts falling due after one year	(2,516.8)	(4,218.1)	(1.4) / (c) /	(6,736.3)
Provisions for liabilities and charges	(13.7)	--	(104.0) / (d) / (16.7) / (b) /	(134.4)
Net assets	2,814.0	7,544.0	1,712.2 / (i) /	12,070.2
	=====	=====	=====	=====

(1) Carnival information is as at 30 November 2002.

See accompanying notes to unaudited pro forma financial information of the Combined Group in accordance with UK GAAP.

Edgar Filing: P&O PRINCESS CRUISES PLC - Form S-4/A

Notes to the unaudited pro forma financial information of the Combined Group in accordance with UK GAAP:

1. Basis of preparation

The unaudited pro forma financial information has been prepared on the basis that the DLC transaction will be accounted for using acquisition accounting principles under UK GAAP with P&O Princess as the acquiree. The pro forma financial information is based upon the UK GAAP accounting policies of P&O Princess.

The historical financial information in relation to P&O Princess as at and for the year ended 31 December 2002 has been extracted without material adjustment from the financial information on P&O Princess that has been incorporated by reference in this document.

The historical financial information in relation to Carnival as at and for the year ended 30 November 2002 has been derived from the financial information of Carnival that has been incorporated by reference in this document, after making certain adjustments. The adjustments, which are set out in note 2, relate to the conversion of such information on Carnival's accounting policies under U.S. GAAP to P&O Princess' accounting policies under UK GAAP.

2. Conversion of Carnival's financial information to UK GAAP

This note provides details of adjustments required to convert Carnival's previously reported financial information as at and for the year ended 30 November 2002 that was prepared in accordance with Carnival's accounting policies under U.S. GAAP to information in accordance with P&O Princess' accounting policies under UK GAAP. A description of the adjustments is set out in Part C of this Section B.

(a) Profit and loss accounts

Year ended
30 November 2002

(U.S. dollars in millions)