

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

Please Note: This information was prepared March 14, 2003, prior to the close of the DLC transaction, and has not been updated for subsequent event since that date

The following unaudited pro forma financial information reflects 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.

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 financial statements included in P&O Princess' financial statements for the year ended 31 December 2002 describe the principal differences between U.S.GAAP and UKGAAP 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 "BusinessCombinations ".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 value 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.

Unaudited Pro Forma Statement of Operations
For the Year Ended 30 November 2002
(U.S. dollars in millions, except per share data)

	Carnival (U.S. GAAP)	Adjustments		Pro forma Combined Group (U.S. GAAP)
		P&O Princess (U.S. GAAP) ⁽¹⁾	Accounting policy adjustments	
Revenues	4,368.3	2,526.8	(3.9) ^(a)	6,891.2
Costs and expenses				
Operating	(2,311.9)	(1,576.6)	(5.2) ^(b)	(3,892.7)
Selling and administrative	(612.0)	(472.1)	1.0 ^(a) 4.3 ^(c)	105.1 ^(k) 1.9 ⁽ⁱ⁾ (972.8)
Depreciation and amortisation	(382.3)	(169.2)		(551.5)
Impairment charge	(20.0)	—		(20.0)
	<u>(3,326.2)</u>	<u>(2,217.9)</u>	<u>0.1</u>	<u>(5,437.0)</u>
Operating income	1,042.1	308.9	(3.8)	1,454.2
Nonoperating (expense) income				
Net interest expense	(78.6)	(77.3)		(157.4)
Other (expense) income, net	(4.2)	1.2		(3.0)
	<u>(82.8)</u>	<u>(76.1)</u>		<u>(160.4)</u>
Income before income taxes	959.3	232.8	(3.8)	1,293.8
Income tax benefit (expense)	56.6	(19.9)		2.8 ^(g) 39.5
Net income	<u>1,015.9</u>	<u>212.9</u>	<u>(3.8)</u>	<u>1,333.3</u>
Earnings per share⁽ⁿ⁾				
Basic (U.S.\$)	1.73			1.67
Diluted (U.S.\$)	1.73			1.67

(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.

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

	Adjustments				Pro forma Combined Group (U.S. GAAP)
	Carnival (U.S. GAAP)	P&O Princess (U.S. GAAP) ⁽¹⁾	Accounting policy adjustments	Business combination adjustments	
Assets					
Current assets					
Cash and cash equivalents	666.7	162.1			828.8
Short-term investments	39.0	—			39.0
Accounts receivable, net	108.3	125.9	3.4 ^(a)		237.6
Inventories	91.3	87.4			178.7
Prepaid expenses and other	148.3	165.3	18.9 ^(c) (16.5) ^(b)	(66.0) ^(g) 70.1 ^(l)	320.1
Fair value of derivative contracts	—	7.3			7.3
Fair value of hedged firm commitments	78.4	41.4		(41.4) ^(e)	78.4
Total current assets	<u>1,132.0</u>	<u>589.4</u>	<u>5.8</u>	<u>(37.3)</u>	<u>1,689.9</u>
Property and Equipment, Net	10,115.4	5,618.5			15,733.9
Goodwill and Intangible Assets, Net	681.1	75.4		2,924.4 ^(d) (75.4) ⁽ⁱ⁾	3,605.5
Other Assets	297.2	31.0		(17.6) ^(f) 13.9 ^(l) (30.2) ^(d-ii)	294.3
Fair Value of Hedged Firm Commitments	109.1	—			109.1
Fair Value of derivative contracts	—	54.6			54.6
	<u>12,334.8</u>	<u>6,368.9</u>	<u>5.8</u>	<u>2,777.8</u>	<u>21,487.3</u>
Liabilities and Shareholders' Equity					
Current liabilities					
Current portion of long-term debt	148.6	127.0			275.6
Accounts payable	268.7	184.2			452.9
Accrued liabilities	290.4	194.7	(0.1) ^(a)	29.0 ^(k) 29.8 ^(d-ii)	543.8
Customer deposits	770.6	467.2	15.5 ^(a)		1,253.3
Dividends payable	61.6	—			61.6
Fair value of derivative contracts	79.8	45.6			125.4
Fair value of hedged firm commitments	—	1.5		(1.5) ^(e)	—
Total current liabilities	<u>1,619.7</u>	<u>1,020.2</u>	<u>15.4</u>	<u>57.3</u>	<u>2,712.6</u>
Long-term Debt	3,012.0	2,569.7		(5.0) ^(f)	5,576.7
Deferred income and Other Long-Term Liabilities	170.8	28.1		85.0 ^(h)	283.9
Fair Value of Derivative Contracts	114.4	1.0			115.4
Fair Value of Hedged Firm Commitments	—	24.8		(24.8) ^(e)	—
Shareholders' Equity	7,417.9	2,725.1	(9.6) ^(d-iii)	2,665.3 ^(m)	12,798.7
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	<u>12,334.8</u>	<u>6,368.9</u>	<u>5.8</u>	<u>2,777.8</u>	<u>21,487.3</u>

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

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

**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 Carnival financial information.

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 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.

(i) Profit and loss accounts

For the year ended 31 December 2002

	<u>P&O Princess UK GAAP</u>	<u>U.S. GAAP adjustments</u>	<u>P&O Princess U.S. GAAP</u>
	(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)
	<u>(2,228.1)</u>	<u>10.2</u>	<u>(2,217.9)</u>
Operating income	298.7	10.2	308.9
Nonoperating (expense) income			
Net interest expense	(74.0)	(3.3)	(77.3)
Other income	1.2	—	1.2
	<u>(72.8)</u>	<u>(3.3)</u>	<u>(76.1)</u>
Income before income taxes	225.9	6.9	232.8
Income tax expense	(17.1)	(2.8)	(19.9)
Net income	<u>208.8</u>	<u>4.1</u>	<u>212.9</u>

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
	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

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), respectively, 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 and adjustments of \$(5.2) million and \$(16.5) million, respectively, 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 \$18.9 million, respectively, 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>(U.S.\$m)</u>	<u>Notes</u>
Purchase consideration	5,380.8	<i>(i)</i>
Costs of acquisition	<u>60.0</u>	<i>(ii)</i>
Total purchase consideration	5,440.8	
Less fair value of net assets acquired	<u>(2,516.4)</u>	<i>(iii)</i>
Excess of purchase consideration over net assets acquired	<u>2,924.4</u>	<i>(iv)</i>

- (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 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 in 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 values 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.

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

P&O Princess fair value of net assets acquired

	P&O Princess (US GAAP)	Accounting policy adjustments (Note 3)	Fair value adjustments	Pro forma fair value
	US \$m	US \$m	US \$m	US \$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)	70.1 ^(l)	171.8
		(16.5) ^(b)	(66.0) ^(e)	
Fair value of derivative contracts	7.3			7.3
Fair value of hedged firm commitments	41.4		(41.4) ^(e)	—
Total current assets	<u>589.4</u>	<u>5.8</u>	<u>(37.3)</u>	<u>557.9</u>
Property and equipment, net	5,618.5			5,618.5
Goodwill and intangible assets, net	75.4		(75.4) ⁽ⁱ⁾	—
Other assets	31.0		(17.6) ^(f)	27.3
			13.9 ^(l)	
Fair value of derivative contracts	<u>54.6</u>			<u>54.6</u>
	<u>6,368.9</u>	<u>5.8</u>	<u>(116.4)</u>	<u>6,258.3</u>
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	<u>1,020.2</u>	<u>15.4</u>	<u>27.5</u>	<u>1,063.1</u>
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	<u>2,725.1</u>	<u>(9.6)^(*)</u>	<u>(199.1)^(**)</u>	<u>2,516.4</u>
	<u>6,368.9</u>	<u>5.8</u>	<u>(116.4)</u>	<u>6,258.3</u>

(*) 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 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 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.

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

- (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 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 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 December 31, 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 December 31, 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>US\$m</u>	<u>Notes</u>
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	<u>(60.0)</u>	4(d-ii)
Shareholders' equity adjustment	<u>2,665.3</u>	

- (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.

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

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 (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.