

Annual report and accounts 2002

P&O PRINCESS *Cruises* plc



Stock ticker: LSE: POC
NYSE: POC

Certain statements contained in this annual report are 'forward-looking statements' that involve risks, uncertainties and assumptions with respect to P&O Princess Cruises and its subsidiaries, including certain statements concerning the dual listed company combination with Carnival Corporation, profit forecasts, working capital, future results, strategies, plans and goals and other events which have not yet occurred. These statements are intended to qualify for the safe harbours from liability provided by Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, which are part of the U.S. Private Securities Litigation Reform Act of 1995. You can find many (but not all) of these statements by looking for 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 statements, events or transactions described herein not to occur and/or P&O Princess Cruises' actual results, performance or achievements to differ materially from those expressed or implied in this report. These factors include, but are not limited to, economic and business conditions in general and conditions in the cruise and land-based vacation industries including increases in capacity offered by cruise ship and land-based vacation alternatives and competition from other cruise ship operators and other vacation alternatives, the impact of operating internationally, the international political and economic climate, armed conflict, terrorist attacks and other world events and negative media publicity and their impact on the demand for cruises, accidents and other incidents at sea affecting the health, safety and security of passengers, and changes in the tax, environmental and other regulatory regimes under which the Company operates. In addition, the paragraph entitled 'Risk Factors' in P&O Princess Cruises Annual Report on Form 20-F for the year ended December 31, 2002, filed on or after the date of this report with the U.S. Securities and Exchange Commission contain important cautionary statements and a discussion of many of the factors that could materially affect the accuracy of the Company's forward-looking statements and/or adversely affect its respective businesses, results of operations and financial position, which statements and factors are incorporated herein by reference.

Subject to any continuing obligations under applicable law or any relevant listing rules, P&O Princess Cruises expressly disclaims any intention or obligation to disseminate, after the date of this report, 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.

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A word from your Chairman

P&O Princess has enjoyed great success over the past few years as part of the P&O Group and then, after the demerger two years ago, as an independent company. During that time P&O Princess has grown considerably and further modernised its fleet, expanded its North American, European and Australian businesses and established a position in the fast growing German cruise sector. As we have done this, we have continued to record good financial results. All this has been achieved through the creativity, professionalism and dedication of our management and seafarers and staff to whom I would like to pay special tribute.

On 8 January 2003, your Board approved and recommended Carnival Corporation's offer to combine with P&O Princess.

The UK parent company of the combined group will be called Carnival PLC and the Dual Listed Company (DLC) structure will enable all shareholders to continue to invest in the cruise industry – an industry that is one of the fastest growing sectors of the leisure market and has significant growth potential in the major vacation markets of North America, Europe, Australasia and South America.

The combined group will be the world's largest cruise company. Its strength will include having some of the finest cruise brands in the world such as Carnival, Holland America, Cunard, Costa, Princess Cruises, P&O Cruises, Swan Hellenic and AIDA. Each of these brands will continue to focus on its target market and in particular, P&O Cruises will continue to operate with the best of British traditions. The combination will provide our passengers with a truly broad range of brands and greater choice.

As I will be standing down from the board of P&O Princess on the expected completion of the combination with Carnival in Spring 2003, I would like to take this opportunity to thank my Board colleagues for their wise counsel and dedicated efforts.

Finally, on a personal note, I have known Micky Arison for many years. We share similar values and pride in our respective companies and I have every confidence in the future of the combined group.

THE LORD STERLING OF PLAISTOW, GCVO, CBE, CHAIRMAN

February 6, 2003



A word from your Chief Executive

Since becoming an independent company in October 2000, P&O Princess Cruises has expanded by around 30%, grown its brands and launched new cruise lines within the fast growing German and UK cruise sectors. It has modernised its fleet and introduced new ways to give passengers more personal choice and greater flexibility within their cruise holiday experience. Its cost structure has improved through the introduction of larger and more cost effective ships and through management action, including the integration of systems and purchasing across its global operations.

We believe that the cruise industry has strong long-term growth potential underpinned by demographic trends and high levels of customer satisfaction. Through continued investment in its well-known local brands, and with its modern fleet and strong global reach, your company has improved its potential for continued success.

The continued strength of our brands is testament to the professionalism and dedication of our staff

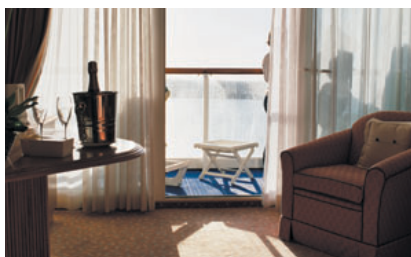
By combining with Carnival under a DLC structure to create the largest cruise vacation group in the world, your company will be even better placed to capture future growth in this industry. The new group will include some of the best known cruise brands globally and will be able to offer a wider range of vacation choices and be better placed to attract customers from land-based vacations to cruise vacations. The DLC structure allows a continued participation in the future of this industry for all our shareholders. With significant growth plans and a strong position in this industry, the combined group offers exciting career opportunities for its employees.

I would like to thank the staff of P&O Princess for their commitment

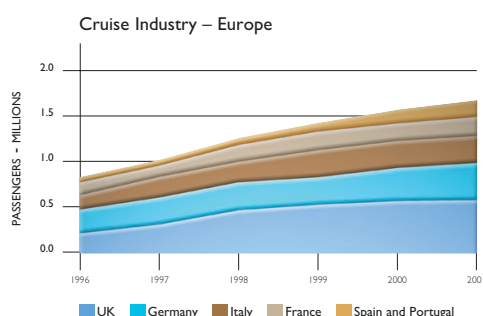
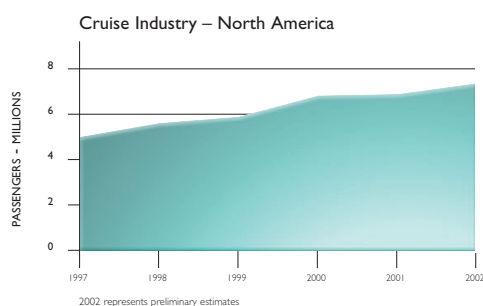
to the company. They have delivered outstanding vacations for our customers throughout this period of growth and development for the company. They have helped to improve the efficiency of all our operations and to deliver strong performance and enhanced shareholder value. Their contribution has been outstanding. The continued strength of our brands is testament to the professionalism and dedication of our staff.

PETER RATCLIFFE, CHIEF EXECUTIVE OFFICER

February 6, 2003



Background to the cruise industry



Cruising is one of the fastest growing segments of the travel industry. Over the last five years, demand for cruising within North America, the largest cruise sector in the world, has grown by an average of 8% per year. Although Europe is one of the largest vacation markets, the cruise industry there still remains relatively underdeveloped. Growth rates over the past five years have been even stronger in Europe than in North America and there is significant potential for future growth.

We believe that growth in cruising has been driven by demographic trends, together with high levels of customer satisfaction and the introduction of innovative new facilities onboard ships which continues to help generate increased demand.

Cruising today appeals to a broad spectrum of individuals encompassing all ages and interests. It has traditionally appealed to the middle and older segments of the population. These segments are forecast to expand over the next 10 years.

Cruise vacations generally have high levels of customer satisfaction, which we believe generates strong levels of repeat business. The cruise industry continues to introduce greater personal choice for its customers through the introduction of private balconies on outside cabins and multiple restaurants and entertainment amenities. We believe that these innovative new facilities and the increased levels of choice introduced onboard cruise ships are enhancing customer satisfaction levels.

We believe that the cruise industry has strong long-term growth potential, underpinned by demographic trends and high levels of customer satisfaction

Financial highlights

U.S.\$ million	12 months to December 31	
	2002	Restated (note 1) 2001
Turnover	2,526.8	2,451.0
Total operating profit	298.7	361.4
Profit before taxation	225.9	301.5
Basic earnings per share	30.2c	55.4c
Adjusted basic earnings per share*	47.1c	41.3c
Dividend per share	12.0c	12.0c

Each ADS represents an interest in four ordinary shares

* Adjusted basic earnings per share reflect the elimination of exceptional transaction costs in 2002 and exceptional tax items in 2001.

Description of P&O Princess Cruises

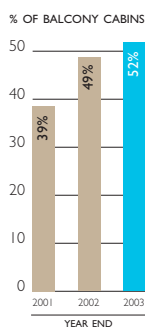
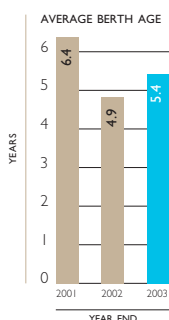
P&O Princess Cruises is a leading international cruise company with some of the best-known cruising brand names: Princess Cruises in North America; P&O Cruises, Ocean Village and Swan Hellenic in the UK; AIDA and A'ROSA in Germany; and P&O Cruises in Australia. It is a leading provider of cruises to Alaska, the Caribbean, Europe, the Panama Canal and other exotic destinations. The current complement of 20 ships and two river cruise vessels offering 33,100 berths is set to grow in the next two years with five new ocean cruise ships and two new river cruise vessels on order.

Key statistics

Passengers carried in 2002	1,178,000
Fleet size (lower berths)	33,100
Employees	20,000



Overview of the Princess brand



Princess Cruises operates a fleet of eleven ships deployed on many different itineraries calling at more than 150 ports worldwide. Most cruises range from 7 to 14 days in length and destinations include the Caribbean, Alaska, Europe, the Panama Canal, Mexico, the South Pacific, South America, Hawaii, Asia, Canada, New England and Bermuda.



Photograph courtesy of the Hong Kong Tourism Board

Star Princess, the second sistership to Grand Princess, in Hong Kong Harbour

timeline: 2000

October 2000 London and New York Stock Exchange launch for P&O Princess Cruises plc



November 2000 Pacific Sky introduced to our Australian

Princess Cruises' ports of call and cruising areas 2002

- Coastal
- Inland



Naming ceremony for Tahitian Princess in Papeete, French Polynesia

Princess Cruises is the third largest cruise line in North America, measured in terms of berths, and is one of the best-known cruise brands. The brand targets experienced cruisers and travellers as well as first time cruisers and draws its passengers primarily from North America.

Princess has a destination focus and is a leading provider of cruises to Alaska, Europe, the Panama Canal and other exotic locations. Princess provides tour and shore excursion programmes and is a leading Alaska cruise and cruise tour operator with five wilderness lodges located throughout Alaska.

Princess' modern fleet offers customers a broad range of amenity-filled ships. The fleet has an industry-leading proportion of balcony cabins and has a wide variety of dining and entertainment options onboard.

The scheduled programme of fleet modernisation and the introduction of new ships will increase the proportion of balconied cabins across the fleet from 39% to 52% between December 31, 2001 and December 31, 2003 and will reduce the weighted average berth age of the fleet from 6.4 to 5.4 years over the same period.

Princess Cruises was among the first companies to recognise the increasing demand for personal choice in cruising and to create a product that caters for this trend, through introducing vessels characterised by a high proportion of balcony cabins and a wide variety of dining and entertainment choices. We have continued to innovate and give our passengers more opportunities to customise their holiday experience including through the introduction of our popular flexible dining programme - Personal Choice dining.

Princess Cruises' fleet

Vessel	Built	Gross tonnage	Capacity (lower berths)
Royal Princess	1984	45,000	1,200
Regal Princess	1991	70,000	1,590
Sun Princess	1995	77,000	2,020
Dawn Princess	1997	77,000	2,000
Grand Princess	1998	109,000	2,590
Sea Princess	1998	77,000	2,010
Pacific Princess*	1999	30,000	670
Tahitian Princess	1999	30,000	670
Golden Princess	2001	109,000	2,600
Star Princess	2002	109,000	2,600
Coral Princess	2003	92,000	1,970

* Pacific Princess is operating on a split deployment with P&O Cruises Australia

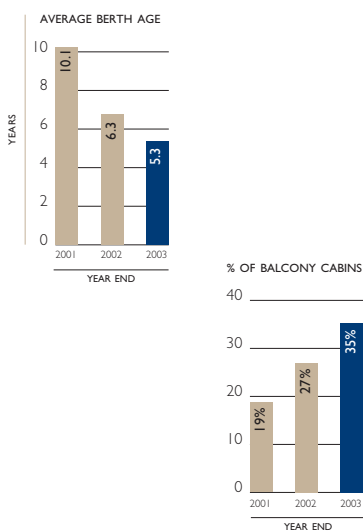
Upcoming ships

Vessel	Expected year of delivery	Gross tonnage	Capacity (lower berths)
Island Princess	2003	92,000	1,970
Diamond Princess	2004	110,000	2,670
Sapphire Princess	2004	110,000	2,670
Caribbean Princess	2004	116,000	3,100



P&O Cruises

Overview of the P&O Cruises UK brand



P&O Cruises is the largest cruise operator in the UK by number of berths and one of the best-known cruise brands. The four ship fleet consists of Aurora, Oriana, Arcadia and Oceana. P&O Cruises offers cruises to the Mediterranean, the Baltic and Norwegian Fjords, the Caribbean as well as around the world voyages.



Our latest UK superliner, Oceana,
in the Caribbean



Aruba - one of the ports of call on the P&O Cruises' Caribbean itinerary



P&O Cruises' Winter Caribbean programmes open up to British passengers exotic destinations such as Mexico



The P&O Cruises fleet is undergoing a period of significant change. Oceana was introduced in November 2002, replacing Victoria. Adonia will be introduced to the fleet in May 2003, coinciding with the transfer of Arcadia to our new brand, Ocean Village. These changes will result in a fleet providing a wider choice of dining and entertainment options and a higher proportion of cabins with balconies than other ships specifically deployed in the UK cruise industry. Between

December 31, 2001 and December 31, 2003 the weighted average berth age of the fleet will decrease from over 10 years to under 6 years and the proportion of cabins with balconies in the fleet will increase from 19% to 35%.

P&O Cruises is introducing ways in which it can provide its passengers with increased flexibility and choice and throughout 2002 operated bistro-style dining options on all its ships for the first time.

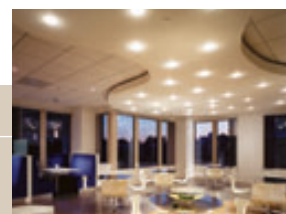
P&O Cruises' fleet

Vessel	Built	Gross tonnage	Capacity (lower berths)
Arcadia	1989	64,000	1,450
Oriana	1995	69,000	1,830
Aurora	2000	76,000	1,870
Oceana	2000	77,000	2,020

Upcoming ships

Vessel	Year of introduction	Gross tonnage	Capacity (lower berths)
Adonia*	2003	77,000	2,010

* Currently sailing as Sea Princess, built in 1998





Overview of the AIDA brand

AIDA is one of the best-known brands in the fast growing German cruise industry. With its two club ships, AIDAcara and AIDAvita, AIDA offers cruises to the Mediterranean, Canary Islands and the Caribbean.



The successful introduction of AIDAvita in May 2002 doubled capacity in our AIDA brand



Grenada in the Caribbean - both AIDAcara and AIDAvita make calls here



AIDA fleet

Vessel	Built	Gross tonnage	Capacity (lower berths)
AIDAcara	1996	39,000	1,190
AIDAvita	2002	42,000	1,270

Upcoming ships

Vessel	Year of delivery	Gross tonnage	Capacity (lower berths)
AIDAaura	2003	42,000	1,270



AIDA's style of cruising is referred to as 'club cruising' and has an emphasis on informality and activity. AIDA caters exclusively to German-speaking passengers, the majority of

whom come from Germany. The brand targets younger package holiday customers who would otherwise typically take a land-based vacation.

A third AIDA vessel, AIDAaura, is scheduled to join the AIDA fleet in April 2003.



Grand Princess, to our Princess fleet

July 2001 Launch of shore power connection in Juneau, Alaska, enabling our ships to turn

continued overleaf



Overview of the Swan Hellenic brand

Swan Hellenic fleet

Vessel	Built	Gross tonnage	Capacity (lower berths)
Minerva	1996	13,000	360

Upcoming ship

Vessel	Year of introduction	Gross tonnage	Capacity (lower berths)
Minerva II *	2003	30,000	676

* Replacing Minerva, built in 2001

Swan Hellenic operates a programme of discovery cruises and tours. Itineraries include the Mediterranean, North America, South America and the Caribbean.



Minerva II will be introduced to our successful British discovery cruise brand, Swan Hellenic in April 2003, replacing the existing ship

Swan Hellenic is a brand focused on British discovery cruises. This distinct brand has a loyal following amongst its customers.

The introduction of the 2001 built Minerva II from April 2003 to replace the existing ship, Minerva, will improve the cost structure of the product and provide more choice for customers. Over two thirds of

Minerva II's cabins have balconies - a much higher proportion than the current ship. With its faster service speed, the new ship will be able to offer a wider range of destinations in its discovery itineraries.





Overview of the Ocean Village brand

Ocean Village is a new cruise brand which has been established to provide informal, contemporary and affordable holidays at sea. Its cruise product will emphasise informality, health and well-being.

Upcoming ship

Vessel	Year of introduction	Gross tonnage	Capacity (lower berths)
Ocean Village*	2003	64,000	1,610

* Currently sailing as Arcadia, built in 1989



Ocean Village, our new brand, will start operations in May 2003

The Ocean Village brand is specifically targeted at a younger customer base, with the aim of further expanding the appeal of cruising in the UK. Initially, Ocean Village will have one ship. The ship, currently called Arcadia and part of the

P&O Cruises UK fleet, will have 1,610 lower berths, four restaurants, eight bars, an internet cafe and a bistro.

Ocean Village will provide a dedicated fly cruise product for the UK market from May 2003. The initial summer

season itineraries will offer one and two-week Mediterranean cruises, together with cruise and stay holidays, out of Palma, Majorca. In winter, Ocean Village will offer cruises out of Barbados.





Overview of the A'ROSA brand

A'ROSA fleet

Vessel	Built	Gross tonnage	Capacity (lower berths)
A'ROSA BLU	1990	70,000	1,590
River cruise vessels			
A'ROSA DONNA	2002	3,500	200
A'ROSA BELLA	2002	3,500	200

Upcoming river cruise vessels

River cruise vessels	Year of delivery	Gross tonnage	Capacity (lower berths)
A'ROSA MIA	2003	3,500	200
A'ROSA Unnamed	2004	3,500	200

A'ROSA is a new destination-oriented product catering exclusively to German-speaking customers. The A'ROSA fleet comprises one ocean cruise ship, A'ROSA BLU, and two river cruise vessels (A'ROSA BELLA and A'ROSA DONNA). The 1,590 berth A'ROSA BLU provides cruises to the Baltic, Canary Islands and the Caribbean. The two 200 berth river cruise vessels offer 7 day and 14 day cruises on the Danube.





Fiji, in the Pacific Ocean, an exotic port of call for P&O Cruises Australia



Overview of the P&O Cruises Australia brand

P&O Cruises Australia is a cruise brand that caters to Australians. Its contemporary product, Pacific Sky, offers 7 to 14 night cruises from Sydney to Vanuatu, New Caledonia, Fiji and New Zealand. Pacific Sky is the most modern ship deployed full time in Australia.

P&O Cruises Australia fleet			
Vessel	Built	Gross tonnage	Capacity (lower berths)
Pacific Sky	1984	46,000	1,200
Pacific Princess*	1999	30,000	670

* Pacific Princess is operating on a split deployment with Princess Cruises



Pacific Princess was introduced to our Australian fleet in November 2002, sailing on a split deployment, increasing our capacity in the Australian sector by 30%

Pacific Princess operates for half of the year as part of P&O Cruises Australia and offers a premium cruise product from Sydney to French New Caledonia and elsewhere in the South Pacific. Over two thirds of the cabins onboard Pacific Princess

have balconies and she offers a wide variety of dining alternatives.

One of the best known operators in the Australian cruise industry, P&O Cruises is a leading provider of cruises in the Sydney round-trip trade.



Board of directors



1. The Lord Sterling of Plaistow GCVO, CBE, Chairman

Lord Sterling, aged 68, has been Chairman of P&O Princess Cruises plc since the demerger from P&O in October 2000. He is also Chairman of P&O, having joined its Board as a non-executive director in 1980. He was appointed Executive Chairman of P&O in 1983. Prior to his involvement in P&O, Lord Sterling founded Sterling Guarantee Trust and was a Special Adviser to successive U.K. Secretaries of State for Industry and then Trade & Industry. Lord Sterling has previously been President of the General Council of British Shipping and President of the European Community Shipowners' Association. Lord Sterling will retire from the Board of P&O Princess Cruises on the expected completion of the DLC transaction with Carnival Corporation.

2. Sir John Parker, Deputy Chairman

Sir John Parker, aged 60, is a director of P&O Princess and the non-executive Chairman of National Grid Transco plc and RMC Group plc. He is non-executive director of Brambles Industries plc. He was formerly Chairman of Babcock International Group plc and a past President of the Royal Institution of Naval Architects. Sir John Parker has been a member of the General Committee of Lloyds Register of Shipping since 1983 and Chairman of its Technical Committee (1993-2002). He is Vice-President of the Engineering Employers' Federation. Sir John has been a non-executive director of P&O Princess since the demerger in October 2000 and was appointed Deputy Chairman in September 2002. Sir John Parker will be a director of the Dual Listed Companies on the expected completion of the DLC transaction with Carnival Corporation.

3. Peter Ratcliffe, Chief Executive Officer

Peter Ratcliffe, aged 54, has been Chief Executive Officer of P&O Princess Cruises plc since the demerger from P&O in October 2000. He was previously an executive director of P&O and head of its cruise division, having served as President of Princess Cruises since 1993 and its Chief Operating Officer since 1989. His early career was spent with P&O Containers Limited in London and Sydney. Peter Ratcliffe served as the Chairman of the International Council of Cruise Lines in 1997 and 1998. Peter Ratcliffe will be a director of the Dual Listed Companies on the expected completion of the DLC transaction with Carnival Corporation.

4. Nick Luff, Chief Financial Officer

Nick Luff, aged 35, has been Chief Financial Officer of P&O Princess Cruises plc since the demerger from P&O in October 2000. A Chartered Accountant, he was Finance Director of P&O from 1999 until the demerger, having previously been Group Treasurer and Head of Corporate Finance. Nick Luff will stand down from the Board upon the expected completion of the DLC transaction with Carnival Corporation.

5. Baroness Hogg, Non-Executive Director

Baroness Hogg, aged 56, is a director of P&O Princess, Chairman of 3i Group Plc and Frontier Economics and a non-executive director of GKN plc. She is also a Governor of the British Broadcasting Corporation and a member of the House of Lords Economic Affairs Committee. Sarah Hogg was Head of the Prime Minister's Policy Unit, with the rank of Second Permanent Secretary, from 1990-1995 and served as a non-executive director of P&O between 1999 and October 2000. Baroness Hogg has been a non-executive

director of P&O Princess since the demerger in October 2000. Baroness Hogg will be a director of the Dual Listed Companies on the expected completion of the DLC combination with Carnival Corporation.

6. Peter Foy, Non-Executive Director

Peter Foy, aged 62, has been a non-executive director of P&O Princess Cruises plc since the demerger from P&O in October 2000. He was formerly Managing Director of McKinsey & Co U.K., and for ten years was Head of the firm's European Consumer Goods Practice. Previously, Mr Foy held a number of marketing positions with Gillette, L'Oreal and Colgate-Palmolive. He is presently Chairman of Whitehead Mann Group plc and a non-executive director of Pepsi Co Inc. and Safeway plc. Peter Foy will stand down from the Board on the expected completion of the DLC transaction with Carnival Corporation.

7. Horst Rahe, Non-Executive Director

Horst Rahe, aged 63, has been closely associated with the development of tourism in German-speaking countries and his business career has covered shipping, tourism and real estate in Hamburg and Rostock. He was instrumental in the successful privatisation in 1998 of Deutsche Seereederei, which has become one of the best-known tourist enterprises under the brand name Arkona Touristik, with a special focus on cruise ships. Mr Rahe also founded AIDA, which became the leading cruise brand in Germany after only four years of operation and was acquired by P&O Princess Cruises plc in 1999. Mr Rahe was appointed as a non-executive director of P&O Princess Cruises plc in May 2001. Horst Rahe will stand down from the Board on the expected completion of the DLC transaction with Carnival Corporation.





Environmental statement

P&O Princess Cruises is committed to helping to conserve the natural environment. To minimise harmful impacts that may be associated with our wastes and discharges, we have sought to adopt more efficient operational and management practices and to equip our ships with improved treatment technologies.

Managing our fossil fuel consumption and associated air emissions is of prime importance. We strive to reduce emissions levels through investing in the development of new technologies and through effective fuel management programmes.

The majority of our ships under construction are being fitted with environmentally cleaner engines designed to reduce nitrogen oxide and particulate emissions. Coral Princess is the first in the series of newbuilds to be in operation with these environmental technologies. Island Princess, Diamond Princess and Sapphire Princess will also be fitted with similar technologies. We are working with leading engine manufacturers to develop systems in order to enable control technologies to be retrofitted to other newbuilds and older vessels in the fleet.

Our shore power system in Juneau, Alaska has been operating successfully and we have now equipped six ships in our fleet with the appropriate connections. While in port, the connected ship is able to turn off its diesel generators and boilers and run all onboard services from surplus hydroelectric power and from shore based facilities, thereby cutting smoke emissions and fuel consumption.

Control of our sea emissions is also of primary importance and we continue to promote the development of innovative systems and processes to treat our ballast, bilge and wastewaters. P&O Princess Cruises was one of the first cruise companies to trial and install technologies for effectively treating ballast water, with three of our ships now operating and testing various system designs. We are in the process of equipping our ships with internationally approved coalescing and centrifugal oily water separators. In addition, we are implementing a programme of fitting bio-membrane wastewater treatment technology systems to our new and existing ships.

P&O Princess Cruises also places a high priority on minimising and responsibly managing waste production and on ensuring that we have in place effective waste management standards as well as waste sorting and segregation policies. Our waste minimisation initiatives include the use of digital x-ray equipment and water-based chemical dry-cleaning systems together with a programme to reduce the number of chemicals used on board.





Operating review

GROUP STRATEGY

On 8 January 2003, our Board recommended the proposed Carnival DLC transaction. The strategy of the Combined Group after the expected completion of the Carnival DLC transaction will be set out in the shareholder documents relating to that proposed transaction.

2002 OPERATING REVIEW

NORTH AMERICA

Throughout 2002 we continued to expand and modernise the Princess fleet. During the year, two newbuilds, Star Princess and Coral Princess were delivered; two former Renaissance Cruises' ships, Tahitian Princess and the new Pacific Princess, were added to the fleet; Crown Princess and Ocean Princess were transferred to our German and UK fleets respectively and the 1971 built Pacific Princess was withdrawn.

Star Princess was introduced successfully to our fleet in February 2002. Like her sisterships, Grand Princess and Golden Princess, the ship has a large proportion of cabins with private balconies and features multiple dining and entertainment venues, including three theatres, eight restaurants, an AOL internet café and a nine-hole putting course. The wide variety of amenities and restaurants demonstrates Princess' flexible approach to the cruise experience, 'Personal Choice Cruising'. As our first mega cruise ship to be positioned on the West Coast of North

America, Star Princess has helped strengthen our product offering in the Alaska and Mexico trades.

Coral Princess, the first of the latest panamax design ships from Chantiers de l'Atlantique, was delivered to the Princess fleet in December 2002 and started operations in January 2003. She is the largest of the line's ships to be able to transit the Panama Canal and some 75% of her cabins have private balconies.

In October 2002, two former Renaissance Cruises' vessels were acquired under a lease purchase arrangement for deployment in P&O Princess Cruises' North American and Australian fleets. These 670 lower berth ships have a wide variety of dining alternatives and have over two thirds of cabins with their own balconies.

Tahitian Princess, the former R4, was introduced into the Princess fleet in December and will sail year round in French Polynesia. Pacific Princess, the former R3, will sail for six months of the year as part of the Princess fleet offering itineraries throughout the Pacific Region. For the other six months of the year she will sail as part of the P&O Cruises Australian fleet. Pacific Princess was





introduced to the Australian fleet in November 2002 and will sail under the Princess brand from May to November 2003.

Crown Princess was transferred out of the Princess fleet to our new destination-oriented German brand, A'ROSA, in June 2002 where she is now sailing as A'ROSA BLU. Ocean Princess was transferred to the P&O Cruises UK fleet in November 2002 where she is sailing as Oceana. Additionally, after some 30 years of service, Pacific Princess, the original 'Love Boat', was withdrawn from the Princess fleet, in November 2002.

Over the next two years, Princess will be taking delivery of four newbuildings: Island Princess, Diamond Princess, Caribbean Princess and Sapphire Princess. Island Princess is the second of the panamax ships from Chantiers de l'Atlantique and is due to enter service in July 2003. She will initially be deployed in Alaska.

Diamond and Sapphire Princess are the two new mega ships under construction at Mitsubishi Heavy Industries' Nagasaki shipyard. Over 70% of cabins on these ships will be outside cabins and more than 75% of these will have private balconies. In

October 2002, a major fire broke out onboard one of the ships whilst under construction in the shipyard. The two ships from the yard will now be delivered in February and May 2004. The first will have its inaugural season in Mexico and the second ship will initially be based in Seattle for roundtrip Alaska cruises.

Finally the 3,100 lower berth ship, Caribbean Princess, which is the fourth Grand Princess style ship being built in Fincantieri, is due to join the Princess fleet in the second quarter of 2004.

These changes to the Princess fleet will give customers a broader choice of amenity-filled ships. By December 31, 2003, the proportion of balconied cabins in the Princess fleet will be 52% and the weighted average berth age of the fleet will be under six years. We believe these steps will further improve Princess' cost structure and revenue-earning potential thereby improving its competitive position in North America.

Princess has continued to differentiate its product by introducing new ways to give passengers greater flexibility and more personal choice. Personal Choice cruising has been well received by our passengers. In particular, Personal Choice

dining, which enables passengers to choose between true restaurant style dining and the more traditional cruise experience of fixed seating, has proved to be popular with our guests.

A leader in providing cruise tours to Alaska, Princess Cruises opened its fifth wilderness lodge in Alaska in May 2002. Princess Cruises now owns and operates approximately 1,100 hotel rooms in Alaska. The new lodge, which is on the Copper River, proved popular during the Alaska summer season and has enabled us to grow our cruise tour product in this important trade.



Alaskan Wilderness lodge - opens in Alaska

June 2002 A'ROSA BLU introduced to our German fleet





Operating review (continued)

UNITED KINGDOM

The UK is one of the largest vacation markets in the world. The UK cruise sector has been one of the fastest growing cruise sectors in the world with an average annual growth of around 17% between 1995 and 2000. During 2002, P&O Princess has improved its position in this important sector.

In the summer, we launched Ocean Village, a new cruise brand aimed at younger passengers looking for a relaxed and informal holiday in the sun. From May 2003, Ocean Village, which is currently sailing in the P&O Cruises fleet as Arcadia, will provide one and two-week Mediterranean cruises, together with cruise and stay holidays based on two alternating seven-night itineraries sailing out of Majorca. The ship will be deployed in the Caribbean in winter. She will provide a relaxed and informal cruise experience with an emphasis on health and well being.

P&O Cruises is one of best-known British cruise brands. During 2002, P&O Princess took steps to expand and develop the brand. In November 2002, we introduced Oceana to the fleet. She

is the second P&O Cruises' ship to provide 24-hour dining options, giving passengers greater choice and flexibility. Of Oceana's 600 outside cabins, almost 70 per cent have private balconies. Operating in the Caribbean during her maiden season, Oceana has introduced several new ports of call including Cristobal in Panama, Costa Maya in Mexico and Princess Cays, the Bahamian private island operated by Princess Cruises. Oceana will be deployed this summer in Europe. Following 24 years of service in the P&O Princess Cruises fleet, Victoria was withdrawn in November 2002.

In May 2003, Adonia, currently sailing as Sea Princess, will join the P&O Cruises fleet to replace Arcadia, which will be transferred to Ocean Village. Adonia will be dedicated to adults and will be based in Europe for her inaugural season. By the end of 2003, the P&O Cruises fleet will have a weighted average berth age of less than six years and over a third of all cabins in the fleet will have a private balcony.

In March 2002, we announced the expansion of our successful discovery cruise brand, Swan Hellenic, through the replacement of our existing ship, Minerva, with the charter





of a 2001-built ship, Minerva II. She is due to start sailings as a Swan Hellenic ship in April 2003. Over two thirds of Minerva II's cabins have balconies. With its faster service speed, the new ship will be able to offer a wider range of destinations in its discovery itineraries than the original ship.

GERMANY

Cruising represents only a small proportion of the German vacation market, which is one of the largest vacation markets in the world. We believe that cruising in Germany has a significant potential for future growth.

During 2002, our German operations underwent significant expansion, with the first cruises of a new destination-oriented brand, A'ROSA, and the expansion of our successful clubship brand, AIDA.

In July 2002, our ocean-going vessel, A'ROSA BLU (the former Crown Princess) entered into service. She was deployed in the Baltic in Summer 2002. In May 2002, we introduced two river cruise vessels, A'ROSA BELLA and A'ROSA DONNA and started river cruises on the Danube. Two new river cruise vessels are on order, A'ROSA MIA due for delivery in Spring 2003 and an unnamed vessel due in Spring 2004.

AIDA is one of the best-recognised cruise brands in Germany. In May 2002, we doubled the capacity in our AIDA brand through the successful introduction of our second club ship, AIDAvita. A third clubship, AIDAaura, is scheduled for delivery in April 2003.

AUSTRALIA

In Australia, we expanded our capacity through the introduction of Pacific Princess in November 2002. This 670 lower berth ship will operate on a split deployment between P&O Cruises Australia and Princess Cruises. For the six months of the year that coincide with the southern hemisphere summer, the ship will offer premium cruises to French New Caledonia and elsewhere in the South Pacific under the P&O Cruises Australia brand.

With the addition of the Pacific Princess premium product to the existing contemporary product offered by the Pacific Sky, P&O Cruises Australia will increase its capacity by 30% and provide products designed to appeal to a wide range of Australian consumer tastes.





Financial review

2002 RESULTS

In 2002 operating profit before transaction costs increased by 15%. The results reflect the underlying strength of our business and our success in driving down unit costs while continuing to deliver outstanding vacations for our customers.

The principal drivers of our profitability are our capacity (measured in passenger cruise days), and our net revenue yields and underlying unit costs. Definitions of these terms are provided in the Glossary of terms on page 76.

For the year as a whole, passenger cruise days increased by 13% over 2001. Within this, Princess' passenger cruise days grew by 9% due mainly to the introduction of Star Princess in February 2002 and the inclusion of Golden Princess (delivered in May 2001) for the full year, offset by the transfers during 2002 of Crown Princess to A'ROSA and Ocean Princess to P&O Cruises. Passenger cruise days in Europe and Australia grew by 20% due mainly to the expansion in the German market with the delivery of AIDAvita in May 2002 and the introduction of A'ROSA BLU (formerly Crown Princess) in June 2002. The UK and Australian businesses also grew, with most of that growth coming in the fourth quarter.

Net revenue yields, including on board revenue, were 4% lower on a like for like basis than for 2001. This reflects the impact on yields of the disruption to bookings for Princess in the period after the events of 11 September 2001. Underlying unit costs were 8% lower than those in 2001.

Operating profit for the year, before transaction costs, was \$415.7 million against \$361.3 million in 2001. The interest charge increased to \$74.0 million due to the increase in borrowings following the delivery of new ships, offset by lower interest rates. Profit before tax and transaction costs increased by 13% to \$342.9 million.

The tax rate (before transaction costs) remained at 5%, reflecting the tax advantages that the company enjoys as an international shipping business, including participation in the tonnage tax regime in the U.K. The adoption of Financial Reporting Standard No. 19 'Deferred Tax' (FRS19) has resulted in a restatement of the 2001 comparatives which now include an additional one off credit of \$96.8 million on entry into tonnage tax (see note 1). After tax and minority interests, but before transaction costs, profits were \$325.8 million. After

deducting transaction costs, profits were \$208.8 million. These figures compare with \$286.3 million of profits originally reported for 2001, a figure that was restated to \$383.1 million following the adoption of FRS19.

Adjusted earnings per share/ADS, excluding transaction costs in 2002 and exceptional tax items in 2001, were 47.1c/\$1.88, compared with 41.3c/\$1.65 in 2001 (see note 7). After transaction costs, earnings per share/ADS in 2002 were 30.2c/\$1.21.

Dividends

The fourth quarter interim dividend was 3 cents per share (12 cents per ADS), bringing the dividend for the year to 12 cents per share (48 cents per ADS) (2001 12 cents per share, 48 cents per ADS).

The annual dividend is covered 2.5 times by basic earnings per share of 30.2 cents.

Capital

During 2002 the Company issued 829,191 ordinary shares following the exercise of share options.

Capital commitments

As at December 31, 2002, the Group had future capital commitments in respect of its five ocean cruise ships and two riverboats on order at that date of \$1,790m million. These vessels are scheduled to enter service in 2003 and 2004. Of the total commitment





as at December 31, 2002, it is expected that U.S.\$610 million will be incurred in 2003 and U.S.\$1,180 million in 2004.

Financial risk

We use derivative financial instruments to manage financial risks associated with our business. The main risks we are exposed to are foreign currency and interest rate risks. We do not undertake speculative transactions.

Foreign currency risk

We report our results in U.S. dollars. In 2002 approximately 30% of our operating profit was generated by P&O Cruises and Swan Hellenic in the U.K., AIDA and A'ROSA in Germany and P&O Cruises Australia. Their local currencies are sterling, euro and the Australian dollar respectively. Any appreciation of the U.S. dollar against these currencies reduces our reported U.S. dollar operating profit but the impact is partially mitigated by some interest costs being incurred in these currencies.

Approximately 40% of our net operating assets are held in sterling, euro and Australian dollars. Currency movements can significantly affect the U.S. dollar consolidated balance sheet with this effect being mitigated by borrowings in these local currencies.

Changes in exchange rates may also affect our obligations under ship building contracts. When the individual businesses enter into

capital expenditure commitments in currencies other than their main local currency, these commitments are normally hedged using forward contracts and currency swaps in order to fix the cost when converted to the local currency.

Interest rate risk

To protect the financial results against movements in interest rates, P&O Princess Cruises maintains a significant portion of its borrowings at a fixed rate of interest. At December 31, 2002, approximately 35% of our long term debt was at fixed rates, and 65% at floating rates of interest.

Liquidity risk

We have a range of funding sources for our debt, including both bank and bond markets. At December 31, 2002, 50% of the Group's loans were repayable after more than five years. At that same date we had cash balances of \$162.1 million and committed undrawn facilities of \$444 million to provide additional liquidity if required. In addition, we had committed financing arranged of \$1,210 million to fund the delivery payments on four of the five ocean cruise ships on order.

Critical Accounting Policies and Judgments

The Group's accounting policies are disclosed in Note 1 to the Financial Statements on page 47. Our critical accounting policies are those that we believe are most important to the presentation of the Company's financial condition and results and require

our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We therefore highlight the following critical accounting policies, related judgments and inherent uncertainties affecting the application of those policies, and the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

We have discussed the application of these critical accounting policies with our board of directors and Audit Committee.

There have been no changes to these Critical Accounting Policies during the year.

Ship Accounting

Our most significant assets are our ships, which represent 85% of our total assets and are subject to several critical accounting policies:

(1) We depreciate our ships on a straight line basis over their expected useful lives. This requires us to estimate the useful life of our assets as well as their residual values, considering, among other things, the impact of technological change, market conditions and industry experience. We have estimated our new ships' average useful lives at 30 years and their residual values at 15% of our original ship cost.





Financial review (continued)

If we had assumed useful lives of the ships at 25 years, the impact on our results for 2002 would have been to reduce operating profits by approximately \$29 million.

If we had assumed residual values at 10% of our original ship cost and expected useful lives of 30 years, the impact on our results for 2002 would have been to reduce operating profits by approximately \$8 million.

(2) We review our long-lived assets, particularly our ships for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. If such an indication of impairment exists we are required to estimate the fair value of the asset and its remaining useful life, either by obtaining third party appraisals or performing discounted cash flow analysis through the use of estimated future cash flows and assumed appropriate discount rates. Any provision for impairment in value of the assets would be made in the profit and loss account.

Determination of fair values by these methods is subject to many uncertainties: an active trading market for cruise ships may not exist at a particular time, discounted

cash flow techniques used in appraisals require significant judgments such as estimated future yields and related costs, expected fleet development and the market environment. We believe that we have made reasonable estimates and judgements in reviewing any potential impairment of our long-lived assets. However, if there is a material change in economic conditions or other circumstances influencing fair value, we could be required to recognize an impairment charge.

(3) We account for subsequent expenditure on a ship after it has been brought into service by capitalizing only those costs which we believe are an improvement of the ship which is a judgemental area and requires experience and technical information. These capitalized costs are then depreciated over their estimated useful lives. Any remaining costs are treated as either dry-docking costs or repairs and maintenance.

Given the complexities associated with the accounting for cruise ships all the above policies can result in estimates which are highly subjective. If we materially changed our assumptions of ship lives, residual values or carrying values, our depreciation expense and net book value of our ships would be materially different. Also, if we were to change our assessment of ship expenditure, the amounts we expense each year as repair and maintenance costs

could increase, partially offset by a decrease in depreciation expense, as less ship costs would have been capitalized.

We believe that the estimates and judgments we have made in reviewing the carrying value and determining the useful lives of our fixed assets together with the treatment of ship expenditure after it has been brought into service are appropriate.

Contingencies

The likely outcome of any claims brought against us or of which we have been notified is a subjective matter. We use our best judgment in determining the likelihood of any probable expense or liability that may result to the Group and provide for such costs where appropriate. Note 25 to the Financial Statements, on page 63, discloses additional information on the Group's contingent liabilities.

Given the inherent uncertainty related to the eventual outcome of any such claims, it is possible that these matters may be resolved for amounts materially different from any provisions that we may have made. We believe that the assessments we have made, and the resulting provisions, are appropriate. However, as new information becomes available, we may need to reassess the likely outcome and it is possible that our revised estimates could materially impact our results and financial position.



Financial and statutory information

Five year record

Years ended December 31	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m	1999 U.S.\$m	1998 U.S.\$m
Selected profit and loss information					
U.K. GAAP					
Turnover	2,526.8	2,451.0	2,423.9	2,111.6	1,852.4
Net operating costs*	(2,228.1)	(2,089.7)	(2,050.8)	(1,723.3)	(1,509.2)
Group operating profit	298.7	361.3	373.1	388.3	343.2
Share of operating results of joint ventures	-	0.1	0.5	-	0.3
Total operating profit	298.7	361.4	373.6	388.3	343.5
Non-operating profit/(loss)	1.2	(1.9)	(6.5)	(4.8)	-
Profit on ordinary activities before interest	299.9	359.5	367.1	383.5	343.5
Net interest and similar items	(74.0)	(58.0)	(49.1)	(25.7)	(31.4)
Profit on ordinary activities before taxation	225.9	301.5	318.0	357.8	312.1
Taxation	(17.1)	81.7	(57.4)	(73.6)	(88.8)
Profit on ordinary activities after taxation	208.8	383.2	260.6	284.2	223.3
Equity minority interests	-	(0.1)	(2.6)	(0.5)	-
Profit for the financial year attributable to shareholders	208.8	383.1	258.0	283.7	223.3
Basic earnings per share (in cents)	30.2c	55.4c	37.7c	41.6c	32.8c
Diluted earnings per share (in cents)	30.0c	55.1c	37.7c	41.6c	32.8c
Adjusted basic earnings per share (in cents)	47.1c	41.3c	37.7c	41.6c	32.8c
Adjusted diluted earnings per share (in cents)	46.8c	41.1c	37.7c	41.6c	32.8c
Dividend per share (in cents)	12.0c	12.0c	12.0c	-	-
U.S. GAAP					
Profit for the financial year attributable to shareholders	212.9	434.2	253.7	267.7	222.4
Basic earnings per share (in cents)	30.7c	62.8c	37.1c	39.3c	32.6c
Diluted earnings per share (in cents)	30.6c	62.5c	37.1c	39.3c	32.6c

Adjusted earnings per share excludes exceptional transaction costs in 2002 and exceptional tax items in 2001 (see note 7).

The prior year U.K. GAAP data has been restated in accordance with FRS19 'Deferred taxation'.

Each ADS represents an interest in four ordinary shares.

* In 2002 net operating costs included exceptional transaction costs of \$117.0m, see note 2

Five year record

At December 31	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m	1999 U.S.\$m	1998 U.S.\$m
Selected balance sheet information					
U.K. 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
Creditors: amounts falling due within one year	(987.2)	(825.3)	(975.7)	(1,143.4)	(1,335.5)
Creditors: amounts falling due after one year	(2,516.8)	(1,393.1)	(1,062.7)	(216.7)	(139.7)
Provisions for liabilities and charges	(13.7)	(21.7)	(214.7)	(200.4)	(158.9)
Equity minority interests	(0.2)	(0.2)	(0.2)	(7.7)	-
Equity shareholders' funds	2,813.8	2,629.4	2,355.5	2,096.8	1,698.0
U.S. GAAP					
Total assets	6,285.9	4,996.3	4,460.7	3,571.3	3,252.1
Long-term obligations	(2,577.5)	(1,641.8)	(1,275.5)	(416.1)	(296.8)
Equity shareholders' funds	2,724.9	2,551.8	2,296.3	2,006.8	1,622.0
Years ended December 31					
	2002	2001	2000	1999	1998
Capacity offered (in passenger cruise days, thousands)					
North America	6,769	6,205	5,903	5,262	4,450
Europe and Australia	3,901	3,260	2,828	1,871	1,857
Total	10,670	9,465	8,731	7,133	6,307
Occupancy (in %)					
North America	102.0%	100.5%	99.9%	100.4%	99.5%
Europe and Australia	96.6%	99.0%	97.9%	98.8%	95.3%
Total	100.0%	100.0%	99.3%	100.0%	98.3%

The prior year U.K. GAAP data has been restated in accordance with FRS19 'Deferred taxation'.

Quarterly information for 2002

Quarterly profit and loss accounts for 2002 (U.K. GAAP)

Quarters ended	Mar 31 2002 U.S.\$m Unaudited	Jun 30 2002 U.S.\$m Unaudited	Sep 30 2002 U.S.\$m Unaudited	Dec 31 2002 U.S.\$m Unaudited	Full year 2002 U.S.\$m Audited
Turnover	512.1	638.1	806.0	570.6	2,526.8
Direct operating costs	(343.7)	(389.5)	(462.5)	(380.9)	(1,576.6)
Selling and administrative expenses*	(86.5)	(87.5)	(93.9)	(209.7)	(477.6)
Depreciation and amortisation	(39.8)	(43.4)	(45.1)	(45.6)	(173.9)
	(470.0)	(520.4)	(601.5)	(636.2)	(2,228.1)
Group operating profit/(loss)	42.1	117.7	204.5	(65.6)	298.7
Share of operating results of joint ventures	0.1	(0.1)	0.2	(0.2)	-
Total operating profit/(loss)	42.2	117.6	204.7	(65.8)	298.7
Non-operating profit	1.0	0.2	-	-	1.2
Net interest and similar items	(16.1)	(18.9)	(20.5)	(18.5)	(74.0)
Profit on ordinary activities before taxation	27.1	98.9	184.2	(84.3)	225.9
Taxation	(1.4)	(4.9)	(9.2)	(1.6)	(17.1)
Profit on ordinary activities after taxation	25.7	94.0	175.0	(85.9)	208.8
Equity minority interests	-	-	(0.1)	0.1	-
Profit for the financial year attributable to shareholders	25.7	94.0	174.9	(85.8)	208.8
Basic earnings per share (in cents)	3.7c	13.6c	25.3c	(12.4c)	30.2c
Adjusted basic earnings per share (in cents)	3.7c	13.6c	25.3c	4.5c	47.1c
Capacity offered (in passenger cruise days, thousands)					
North America	1,709	1,742	1,734	1,584	6,769
Europe and Australia	790	876	1,088	1,147	3,901
Total	2,499	2,618	2,822	2,731	10,670
Occupancy (in %)					
North America	100.5%	102.4%	103.8%	101.0%	102.0%
Europe and Australia	95.1%	98.9%	99.1%	93.5%	96.6%
Total	98.8%	101.2%	102.0%	97.9%	100.0%

* Administrative expenses included exceptional transaction costs of \$117.0m charged in the quarter to December 31, 2002.

Quarterly information for 2001

Quarterly profit and loss accounts for 2001 (U.K. GAAP)

Quarters ended	Mar 31 2001 U.S.\$m Unaudited	Jun 30 2001 U.S.\$m Unaudited	Sep 30 2001 U.S.\$m Unaudited	Dec 31 2001 U.S.\$m Unaudited	Full year 2001 U.S.\$m Audited
Turnover	542.1	647.6	776.0	485.3	2,451.0
Direct operating costs	(388.0)	(407.4)	(456.9)	(331.8)	(1,584.1)
Selling and administrative expenses	(84.6)	(92.5)	(94.7)	(85.7)	(357.5)
Depreciation and amortisation	(36.8)	(36.5)	(38.2)	(36.6)	(148.1)
	(509.4)	(536.4)	(589.8)	(454.1)	(2,089.7)
Group operating profit	32.7	111.2	186.2	31.2	361.3
Share of operating results of joint ventures	-	-	0.3	(0.2)	0.1
Total operating profit	32.7	111.2	186.5	31.0	361.4
Non-operating loss	-	(1.9)	-	-	(1.9)
Net interest and similar items	(13.8)	(15.5)	(15.0)	(13.7)	(58.0)
Profit on ordinary activities before taxation	18.9	93.8	171.5	17.3	301.5
Taxation	95.9	(4.7)	(8.6)	(0.9)	81.7
Profit on ordinary activities after taxation	114.8	89.1	162.9	16.4	383.2
Equity minority interests	-	(0.1)	0.1	(0.1)	(0.1)
Profit for the financial year attributable to shareholders	114.8	89.0	163.0	16.3	383.1
Basic earnings per share (in cents)	16.6c	12.9c	23.6c	2.4c	55.4c
Basic adjusted earnings per share (in cents)	2.5c	12.9c	23.6c	2.3c	41.3c
Capacity offered (in passenger cruise days, thousands)					
North America	1,396	1,539	1,687	1,583	6,205
Europe and Australia	816	819	839	786	3,260
Total	2,212	2,358	2,526	2,369	9,465
Occupancy (in %)					
North America	103.0%	101.3%	99.9%	98.2%	100.5%
Europe and Australia	95.5%	99.3%	102.1%	98.9%	99.0%
Total	100.3%	100.6%	100.7%	98.4%	100.0%

The above U.K. GAAP data has been restated in accordance with FRS19 'Deferred taxation'.

Directors' report

The directors of P&O Princess Cruises plc present their report to shareholders together with the audited financial statements for the year ended December 31, 2002.

Principal activities

The Group's principal activities during the year were the international operation of cruise ships and the provision of related land-based tourist services, including tours and accommodation in Alaska.

Business review and future developments

A review of Group activities during the year and likely future developments is provided in the Chairman's statement, the Chief Executive's review, the overview of the brands and the operating and financial review on pages 2 to 24.

Dividend

The Company has paid three interim dividends during the year totalling 9 U.S. cents per share (2001 9 U.S. cents). A fourth interim dividend of 3 U.S. cents per ordinary share (2001 3 U.S. cents paid as a final dividend) will be paid on March 14, 2003 to shareholders on the register at the close of business on February 21, 2003. No final dividend is proposed so the total dividends for the year will be 12 U.S. cents per share (2001 12 U.S. cents).

Although the dividend is declared in U.S. cents, it will be paid in sterling unless shareholders elect to receive their dividends in U.S. dollars. The dividend will be converted into sterling at an exchange rate set on March 4, 2003.

Holders of the Company's American Depositary Shares (ADSs) will receive their fourth interim dividend of 12 U.S. cents per ADS in U.S. dollars.

Dual listed company transactions

On November 20, 2001, the Company announced that it had entered into agreements to combine with Royal Caribbean Cruises Ltd. (Royal Caribbean) under a dual listed company (DLC) structure. On December 13, 2001, Carnival Corporation (Carnival) submitted a proposal to the board of the Company regarding an offer to acquire the entire issued share capital of the Company. Carnival also proposed the possibility of effecting a combination of Carnival and P&O Princess Cruises by other means, including a DLC structure. The board of P&O Princess Cruises carefully considered Carnival's proposal and determined that it was not more favourable from a financial point of view to the Company's shareholders than the proposed transaction with Royal Caribbean and that there was reasonable doubt as to its deliverability. On January 30, 2002, Carnival revised its offer to acquire P&O Princess Cruises but, for reasons as before, the board of the Company continued to recommend the Royal Caribbean proposal.

On February 7, 2002, Carnival announced the terms of a further increased offer of 0.3004 shares in Carnival for each share in P&O Princess Cruises plc. The Board considered the offer from Carnival but, in view of its concerns about the structure and deliverability of the proposal, the Board continued to recommend the proposal to enter into a dual listed company combination with Royal Caribbean. On February 14, 2002, at an Extraordinary General Meeting convened to consider the Royal Caribbean proposal, shareholders voted to adjourn the meeting until such time as the outcome of the reviews by the relevant competition regulators of both the Royal Caribbean proposal and the Carnival proposal were known.

On October 4, 2002, the Federal Trade Commission of the United States announced that it would not oppose a combination of the Company with either Royal Caribbean or Carnival. The regulatory authorities of the European Commission, the United Kingdom and Germany had previously cleared both proposals. Following the Federal Trade Commission's announcement, the Company entered into talks with Carnival. On October 24, 2002, Carnival announced the terms of a pre-conditional proposal to enter into a DLC transaction with P&O Princess on the same economic terms as its latest previously-announced share exchange offer. As part of the transaction, Carnival proposed a Partial Share Offer for up to, in aggregate, 20 per cent. of the issued share capital of the Company. On October 25, 2002, the Board announced that it was withdrawing its recommendation of the Royal Caribbean proposal. The Board also announced that, on payment of the agreed fee of \$62.5m, it had agreed with Royal Caribbean to terminate the implementation agreement between the companies and, subject to there being no change of control of P&O Princess prior to January 1, 2003, to terminate the joint-venture agreement between the two companies on that date. On January 2, 2003, the Company announced that the joint-venture agreement had been terminated.

On January 8, 2003, the Board announced that it recommended the proposal to enter into a DLC transaction with Carnival. It is expected that an Extraordinary General Meeting of shareholders to consider the proposed transaction with Carnival will be held in April 2003.

Directors

The names of the persons who served as directors of the Company during the financial year, and biographical notes about each of the directors, are set out on page 16. Details of the directors' membership of board committees are set out in the Corporate Governance report on pages 32 to 33. Details of the directors' remuneration and their interests in the shares of the Company are set out in the Remuneration report on pages 35 to 40.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the year and of the profit or loss of the Group for that period. The directors are also responsible for the maintenance of adequate accounting records in compliance with the Act, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities. In preparing the financial statements on pages 42 to 73 inclusive, the directors consider that appropriate accounting policies have been used and applied in a consistent manner, supported by reasonable and prudent judgements and estimates, and that all relevant accounting standards have been followed.

Share capital

Changes in the Company's share capital during the year are given in note 16 to the accounts.

Substantial shareholdings

As at the date of this report, the Company had been notified of the following interests of 3% or more in the Company's issued share capital:

	No. of shares	Percentage of issued capital
Deutsche Bank AG	75,971,531	11.0%
Henderson Global Investors Limited	31,337,762	4.5%
Lehman Brothers International	26,794,356	3.9%
Legal & General Investment Management Limited	25,197,288	3.6%
Barclays Global Investors Limited	24,201,310	3.5%
Baillie Gifford & Co.	23,531,595	3.4%
Cater Allen International Limited	21,849,000	3.2%
M&G Investment Management Limited	21,516,184	3.1%
Credit Suisse First Boston Equities Limited	21,184,897	3.0%

Health, safety, welfare and the environment

There is a Group policy for health, safety, welfare and the environment, which is reviewed each year by the board and communicated to all staff. Each business unit is required to produce its own policy and management systems to reflect Group policy and best industry practice in its sector of business.

Monitoring of compliance with Group policy is maintained by periodic assessment. Reports are reviewed by the director responsible for safety and environmental matters and a monthly report is submitted to the board.

The Group's response to environmental issues is set out in more detail in the statement on page 17.

Creditor payment policy

The Company's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed. Although the Company does not follow a particular code or standard on payment policy, where payment terms have not been specifically agreed invoices dated in one calendar month are paid close to the end of the following month. These policies are understood by the purchasing and finance departments. The Company has procedures for dealing promptly with complaints and disputes. The Company had no trade creditors outstanding at December 31, 2002 (2001 nil).

Employees

The Company is committed to keeping employees informed of the performance, development and progress of the Group. This is primarily achieved through management briefings and widely-distributed news and information bulletins.

The Company aims to meet the objective of the code of good practice on the employment of disabled people. Full and fair consideration is given to disabled applicants for employment and training, and career development is encouraged on the basis of aptitude and abilities. It is the policy of the Company to retain employees who become disabled whilst in its service and to provide specialist training where appropriate.

Employees are able to share in the results of the Group through performance-related bonus schemes which are widely applied.

Charitable donations

During the year ended December 31, 2002, the Group made charitable donations totalling \$0.2m (2001 \$0.2m).

Political contributions

The Group did not make any contributions to U.K. political parties during the year ended December 31, 2002 (2001 nil).

By order of the Board

Simon Pearce

Company Secretary

February 6, 2003

Corporate governance

The Principles of Good Governance and Code of Best Practice (the 'Combined Code') are incorporated into the Listing Rules of the U.K. Listing Authority. Section 1 of the Combined Code contains 14 principles of good governance and 45 code provisions which are applicable to listed companies.

The provisions of the Combined Code applicable to the Company are divided into four parts:

Part A: Directors

Part B: Directors' Remuneration

Part C: Relations with Shareholders

Part D: Accountability and Audit

Set out below is a statement of how the Company has applied the principles of the Combined Code during the year.

Part A: Directors

Board of Directors

The business of the Company is managed by the board of directors. The board has seven members; the Chairman, two executive directors and four non-executive directors. One of the non-executive directors, Horst Rahe, is not considered to be independent on account of his interest in a deferred consideration arrangement relating to the Group's purchase of AIDA Cruises Limited, described in note 23 to the financial statements. The roles of Chairman and Chief Executive Officer are separate and no individual or group of individuals dominates the board's decision making. The directors have wide ranging experience and all have occupied, or currently occupy, senior positions in industry or government.

In accordance with the articles of association of the Company, directors are required to submit themselves for re-election at intervals of no more than three years. The biographical details of the board members are set out on page 16. On joining the board, directors are briefed on the Company and its activities. Arrangements are made for senior executives not on the board to attend board meetings and make presentations on the results and strategies of their business units.

The non-executive directors other than Horst Rahe are independent of management and have no relationships which could materially interfere with the exercise of their independent judgement. Sir John Parker was appointed Deputy Chairman on September 26, 2002, in succession to Peter Foy, and has been identified as the senior independent director. Board members are given appropriate documentation in advance of each board and committee meeting. All directors have access to the Company Secretary and are able to take independent professional advice, at the Company's expense, if required. The board has a formal schedule of matters reserved to it for decision. This includes the approval of annual and interim results, acquisitions and disposals, as well as material agreements, major capital expenditure, budgets and strategic plans. Other matters are delegated to board committees including those detailed below.

Generally, the board meets monthly, but additional meetings were held during the year to consider the proposed transactions with Royal Caribbean and Carnival. The following table sets out the number of meetings of the Board, and of the principal committees of the Board, during 2002 together with details of attendance. In addition to formal board meetings, the Chairman and Chief Executive Officer maintain regular contact with all directors and hold informal meetings with the non-executive directors to discuss issues affecting the Company.

	Board	Audit	Remuneration	Nomination
Number of meetings	17	4	5	1
Attendance:				
Lord Sterling	14	n/a	n/a	1
Sir John Parker	16	3	5	1
Peter Ratcliffe	17	n/a	n/a	1
Nick Luff	17	n/a	n/a	n/a
Baroness Hogg	16	4	4	1
Peter Foy	11	3	4	1
Horst Rahe	13	n/a	n/a	n/a

Principal Committees of the Board

The following committees of the board, which have written terms of reference setting out their authority and duties, have operated throughout the year.

AUDIT COMMITTEE

Chairman: Baroness Hogg

Other members: Sir John Parker, Peter Foy

The audit committee is scheduled to meet four times a year and at other times if required. The Chief Financial Officer normally attends meetings at the invitation of the committee.

The audit committee examines the process of financial reporting within the Group, reviews the Group's accounting policies and monitors the integrity of the financial statements. It also reviews the Group's system of internal control and the processes for monitoring and evaluating the risks facing the Group. The committee is responsible for the appointment of the independent external auditors, reviewing the scope and results of the audit with the external auditors and monitoring the independence of the external auditors. Further details of this are set out below. The Committee is also responsible for monitoring the terms of reference and results of the work of the internal audit department.

REMUNERATION COMMITTEE

Chairman: Peter Foy

Other members: Baroness Hogg, Sir John Parker

The remuneration committee is scheduled to meet at least twice a year and at other times as required. Executive directors are invited to attend for appropriate items but are excluded when their own performance and remuneration are under review.

The remuneration committee makes recommendations and approves on behalf of the board the salaries, incentives and other benefit arrangements of the Chairman and executive directors and oversees the Company's incentive schemes. Fees payable to non-executive directors are determined by the board.

NOMINATION COMMITTEE

Chairman: Lord Sterling

Other members: Baroness Hogg, Sir John Parker, Peter Ratcliffe, Peter Foy

The nomination committee meets periodically as required. Its function is to assess and recommend to the board candidates for appointment as executive and non-executive directors of the Company. It makes recommendations to the board on its composition and balance and also reviews proposals for changes in responsibilities of directors.

Part B: Directors' Remuneration

The remuneration report is set out on pages 35 to 40

Part C: Relations with Shareholders

The formal channels of communication by which the board accounts to shareholders for the overall performance of the Company are the annual report and accounts, the Form 20-F filed with the U.S. Securities and Exchange Commission and the yearly and quarterly announcements made through the stock exchanges on which the Company's shares are listed.

The Chief Executive Officer and the Chief Financial Officer meet frequently with representatives of institutional shareholders to discuss their views and to ensure that the strategies and objectives of the Company are well understood. Issues discussed with institutional shareholders include the Company's performance, the impact of major transactions such as acquisitions or disposals and any corporate governance concerns.

Presentations are made to representatives of the investment community at appropriate intervals in the U.K., the U.S. and elsewhere and are simultaneously made available to shareholders by telephone and by live broadcast over the internet.

Annual General Meeting ('AGM')

The date, time and location of the third AGM of the Company have not yet been set, pending the outcome of the Extraordinary General Meeting convened to consider the proposed transaction with Carnival, which is expected to be held in April 2003. The AGM will be held before July 31, 2003 and shareholders will receive notice of the meeting in due course.

Part D: Accountability and Audit

Directors' Responsibility

The statement of directors' responsibilities in relation to financial statements is set out on page 30.

Independence of Auditors

The Audit Committee is responsible for recommending a firm of auditors of appropriate independence and experience and for the approval of all audit fees and terms. The Committee's policy is to undertake a formal assessment of the auditors' independence each year which includes:

- a review of non-audit services provided to the Group and related fees;
- discussion with the auditors of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence;
- a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner; and
- obtaining written confirmation from the auditors that, in their professional judgement, they are independent.

Corporate governance

During the year, the Audit Committee implemented procedures relating to the provision of non-audit services by the Company's auditor. These include:

- the maintenance of a schedule of certain non-audit services, including consultancy, investment banking and legal services, which the Company is specifically prohibited from obtaining from the audit firm;
- requiring the selection of providers of permitted non-audit services to be subject to a tender process, where appropriate;
- requiring non-audit work and the fees involved to be approved in advance; and
- procedures which control, and in certain circumstances, prohibit, the recruitment by group companies of staff formerly employed by the external audit firm and involved in the audit of the group.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in note 3 to the accounts.

Going Concern

On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal Control and Risk Management

Internal control and risk management within the Group's business units is a well-defined, ongoing process embedded in each of the operations. It is designed to identify, evaluate and manage the significant risks faced by the Group. A system of controls designed to be capable of responding quickly to evolving risks in the business has been established, comprising procedures for the prompt reporting of significant control weaknesses, together with the appropriate corrective action.

Each principal business activity is controlled by a local executive committee, which receives detailed reports so that issues can be discussed and corrective action determined at the appropriate level to remedy identified control weaknesses. The executive committees are supported by risk management committees which focus on the business unit concerned but draw on Group-wide technical and auditing resources. In addition to an internal audit function, such resources include specialised technical audit teams and centralised control of health, safety, welfare and environmental issues.

The Group executive management team receives information on the issues arising at the business units, together with regular trading, operations, finance and business risk updates. This is provided via formal reporting processes and the close involvement of relevant individuals in the management of the business units. The primary focus of this aspect of the system are the executive directors, with a head office executive committee monitoring the process, ensuring that issues common to more than one business unit are identified and that all relevant matters are brought to the attention of the board as a whole.

The directors are responsible for the Group's system of internal control, but recognise that any such system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Statement of Compliance with the Combined Code

The system of internal control was in place throughout the year and has continued in place up to the date of approval of this annual report. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives. The board confirms that it has reviewed its effectiveness and that it accords with the Turnbull guidance.

Throughout the period from January 1, 2002 to the date of approval of the financial statements, P&O Princess Cruises plc has complied with the provisions set out in Section 1 of the Combined Code.

Compliance with other Corporate Governance Requirements

In addition to complying with the Combined Code, as a company listed on the New York Stock Exchange, P&O Princess Cruises plc also complies with the applicable rules and regulations of the NYSE, the U.S. Securities and Exchange Commission and other legislation applicable to overseas companies listed in the U.S., including the recently-enacted Sarbanes-Oxley Act of 2002. These rules and regulations impose requirements on the Company related to good corporate governance practices.

CONSIDERATION OF MATTERS RELATING TO DIRECTORS' REMUNERATION

The remuneration policy of the Company is set by the board. The remuneration committee makes recommendations to the board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The members of the remuneration committee, all of whom are independent non-executive directors, are set out on page 33. The committee is also responsible for the implementation of remuneration policy and determining on behalf of the board specific remuneration packages for each of the executive directors. To assist in reaching its decisions, the committee has access to survey information and independent advice where it considers it appropriate. The remuneration policy was established at the time of the demerger with advice from independent remuneration consultants. As the policy and its implementation have not subsequently been changed significantly, the committee has not needed to take specific advice from external consultants during the year. The committee consults with the Chairman or Chief Executive Officer as appropriate with regard to its proposals relating to the remuneration of the executive directors. In framing the policy, the board has regard to the views of shareholders and seeks to ensure that contact with shareholders is maintained on remuneration as with other matters.

The board has considered the principles and provisions of the Combined Code and this report explains how the Company has applied the principles in the code which relate to directors' remuneration.

Policy on Directors' Remuneration

The Company's policy with respect to directors' remuneration is to maintain a remuneration structure capable of attracting, motivating and retaining high-quality individuals within a cost-effective framework. It seeks to reward executive directors and senior employees within the Group competitively, taking into account the Company's performance, the markets in which the Group operates, and pay and conditions elsewhere in the Group.

In constructing the remuneration packages, the emphasis is on linking reward to both short-term and long-term performance objectives and accordingly, as explained in more detail below, for each of the executive directors a significant proportion of the remuneration package is performance related. The packages include participation in the company's long-term incentive plans, which comprise a deferred bonus and co-investment matching plan and an executive share option plan. The plans are designed to align the interests of participants with those of shareholders. The remuneration committee seeks to ensure that the operation of the plans in practice is consistent with their overall objectives, recommending changes to achieve this if necessary. During the year, on the recommendation of the committee, changes were made to the rules of the deferred bonus and co-investment matching plan and discretion was exercised in respect of the executive share option plan so that the effect on the plans of the proposed dual listed company transaction with Carnival is substantially the same as would have been the case had Carnival's previously-announced share-exchange offer proceeded.

The main components of remuneration for executive directors and, where relevant, the performance criteria on which they are based, are set out below. In agreeing the level of base salaries and the annual performance bonus, the committee takes into consideration the total remuneration available to executives and has the discretion to vary individual elements of the remuneration package.

Base salary

Base salaries are set at levels competitive with pay for directors and executives based in similar locations and holding equivalent positions in comparable companies.

Benefits in kind

These principally comprise car benefits, life assurance and membership of the Group's healthcare insurance schemes. The level of benefits provided to executive directors is consistent with that provided by other major companies. These benefits do not form part of pensionable earnings.

Annual bonus

The annual bonus earned in any year is dependent on the extent to which performance targets are achieved. Targets for directors, which are common to each director and approved by the remuneration committee, are based on the Group's earnings per share, as the committee is of the view that this is the most appropriate measure of the performance of the executive directors. The targets, which are set at the beginning of the relevant year based on group budgets, are designed to take account of the anticipated trading environment. For example, in 2002, the targets took account of the difficult trading conditions faced by the Group in the aftermath of the terrorist incidents on September 11, 2001. The maximum annual bonus that can be earned by directors is 75% of base salary (100% in the case of the Chief Executive Officer). Subject to the discretion of the remuneration committee, half of the bonus is paid in cash with the balance awarded in shares as a share award for the purpose of the deferred bonus and co-investment matching plan, as described below.

Long-term incentive plans

DEFERRED BONUS AND CO-INVESTMENT MATCHING PLAN

The deferred bonus and co-investment matching plan provides participants with the opportunity to receive matching awards of shares depending upon the performance of the Company over a specified retention period.

Share awards granted to participants are automatically invested in the plan and, in addition, participants may choose to invest all or part of their post-tax cash bonus, or funds from their own resources, into the plan (invested shares) subject to an overall limit on the amount invested in the plan in any one year of 75% of base salary (100% in the case of the Chief Executive Officer). An award of shares equivalent to the total of a participant's share award and gross value of invested shares is granted to a participant (a matching award).

The extent to which a new matching award may be exercised is based on the growth in earnings per share of the Company over the three-year retention period as disclosed in the audited financial statements. If the Company achieves earnings per share growth of 15% over this period, participants will be entitled to exercise 25% of their matching award. If earnings per share growth is 50%, the entire matching award may be exercised. For growth between 15% and 50%, the extent to which a matching award may be exercised is determined on a straight-line basis between these points. Generally, the matching award may only be exercised if the share award and invested shares are retained throughout the retention period. The remuneration committee, which regularly reviews these performance thresholds, believes that they provide appropriately stretching targets taking account of the Company, its competitors and the nature of the industry in which it operates.

In framing the deferred bonus and co-investment matching plan when it was launched in 2000, the board sought to encourage participants to commit their own resources to the plan, believing this to be an important aspect of aligning participant's interests with those of shareholders. In addition, the plan was designed to be competitive in all territories in which participants are based, including the United States. For these reasons, the plan was based on a two-year retention period. However, in June 2002, on the recommendation of the remuneration committee the board

Remuneration report

agreed that all future share and matching awards would have retention periods of three years, consistent with the recommendations of Schedule A to the Combined Code. In addition, the retention period of existing share and matching awards held by executive directors was extended to three years. The remuneration committee did not consider it appropriate to adjust the performance targets for existing matching awards following extension of the retention periods. Consequently, the thresholds at which participants will be able to exercise between 25% and 100% of existing matching awards remain the achievement by the Company of earnings per share growth of between 10% and 40% respectively over the relevant performance period. However, if the proposed DLC transaction with Carnival Corporation is completed, all share awards will vest and be released and all matching awards granted prior to 2003 and outstanding at completion will be immediately exercisable in full. In reaching its decision to allow the exercise in full of all matching awards on completion of the proposed DLC transaction with Carnival Corporation, the remuneration committee has taken account of the Company's relative total shareholder return performance as shown below.

EXECUTIVE SHARE OPTION PLAN

Options at market value at the date of grant are granted to eligible employees based on guidelines approved by the remuneration committee. These guidelines govern the total number of options which may be granted and the frequency of awards and ensure that the progression to maximum awards is within individual and overall limits authorised by shareholders, so phasing grants of options to executives over a number of years.

Options granted to directors may not be exercised unless the growth in the Company's earnings per share over a period of at least three years from grant, as disclosed in the audited financial statements, exceeds the growth in an appropriate recognised index of retail prices by an average of at least 3% per annum. The remuneration committee, which regularly reviews performance criteria, believes targets based on earnings per share growth to be the most suitable in assessing performance of the executive directors and considers this target to be appropriate in the context of the aims of the board's remuneration policy. Options granted to other executives are not subject to any performance condition. If the proposed DLC transaction with Carnival Corporation is completed, all share options outstanding at completion will vest and any performance conditions will cease to apply.

To ensure appropriate phasing of grants of share options, the value of shares under option granted to directors and certain other senior executives in any year is normally limited to 150% of base salary. Lower limits apply to other executives. The remuneration committee reserves the right to vary these limits if it determines that exceptional circumstances exist. The Company has the facility to require option holders to assume any liability to employers' national insurance contributions arising on the exercise of Inland Revenue-unapproved options, and may grant additional options in recognition of the liability being assumed.

Retirement benefits

The Group operates various retirement benefit schemes for its executives in which the executive directors also participate. Further details of these are set out below. Retirement benefits are based solely on base salary; no other emoluments are pensionable.

Non-executive directors

The remuneration of the non-executive directors is determined by the board within the limits set out in the articles of association of the Company. Non-executive directors receive a basic fee and additional fees if they serve as deputy chairman of the board or as chairman of any board committees. Non-executive directors are not eligible to participate in the Group's long-term incentive or pension plans.

Service contracts

It is the policy of the company that service contracts with executive directors should not be of more than 12 months' duration.

Lord Sterling, who has a service contract with the Company which came into effect on October 23, 2000 and which is terminable by the Company on 12 months' notice, was due to retire from the Board on October 23, 2002 but agreed to continue his service until the Company concluded its proposed transactions with either Carnival Corporation or Royal Caribbean Cruises Ltd. He will therefore retire from the board, and, due notice having been given, his service contract will expire, on completion of the proposed DLC transaction with Carnival Corporation. Peter Ratcliffe and Nick Luff each have service contracts with the Company which came into effect on October 23, 2000 and which may be terminated by the Company on 12 months' notice. In the case of early termination of their contracts by the Company without cause, these contracts provide for payments in lieu of notice equivalent to 12 months' base salary, benefits and a bonus equivalent to that paid in respect of the year preceding the year in which employment terminates. If the proposed DLC transaction with Carnival Corporation is completed, Nick Luff's service contract will be terminated by the Company on this basis with a payment in lieu of notice of £583,250 (\$877,200).

Non-executive directors do not have service contracts, but instead have a letter or agreement setting out the terms and conditions of their appointment. Each of the non-executive directors has been appointed for an initial term of five years, although the appointment may be terminated by either the director or the Company giving 12 months' notice. In addition, the appointments are subject to the provisions of the articles of association of the Company. In the case of Sir John Parker, Baroness Hogg and Peter Foy, these agreements and their initial term came into effect on September 18, 2000. Horst Rahe's appointment and initial term came into effect on May 16, 2001. On September 26, 2002, Sir John Parker was appointed as deputy chairman of the board, an appointment that will terminate automatically, without any notice having to be given, if the proposed DLC transaction with Carnival Corporation is completed. If the proposed DLC transaction with Carnival Corporation is completed, the appointments of Peter Foy and Horst Rahe as non-executive directors will be terminated by the Company with payments of £32,500 (\$48,900) and £25,000 (\$37,600) respectively.

Total shareholder return

The Company commenced to trade on October 23, 2000 following its demerger from The Peninsular and Oriental Steam Navigation Company. The chart shows the cumulative total shareholder return of the company since that date. For comparison, the chart also shows the total shareholder return of the FTSE All-Share index which provides a broad representation of the company's peer group in terms of its size and stage of development.



DETAILS OF DIRECTORS' REMUNERATION

The auditors are required to report on the information contained on pages 37 to 40 of the Remuneration report.

Fees, Salaries and Bonuses

The remuneration of the directors, excluding pension benefits, for 2002 is set out in the following table. As part of their annual bonus for the year, the Chairman and the other executive directors will receive a share award which will comprise shares to the value of the amount shown in the table. In accordance with the terms of the deferred bonus and co-investment matching plan, the share awards will be subject to a three-year retention period and will be eligible for a corresponding matching award.

	2002						2001
	Fees U.S.\$000	Salaries U.S.\$000	Cash bonus U.S.\$000	Share Award U.S.\$000	Benefits U.S.\$000	Total U.S.\$000	Total U.S.\$000
Lord Sterling	-	497	186	186	11	880	619
Peter Ratcliffe	-	800	400	400	48	1,648	1,140
Nick Luff	-	406	152	152	26	736	526
Baroness Hogg	49	-	-	-	-	49	47
Sir John Parker	78	-	-	-	-	78	36
Peter Foy	156	-	-	-	-	156	80
Horst Rahe	38	-	-	-	-	38	23
	321	1,703	738	738	85	3,585	2,471

The base salaries of Lord Sterling, Peter Ratcliffe and Nick Luff during 2002 were £330,450, \$800,000 and £270,000 respectively. With effect from January 1, 2003, Peter Ratcliffe's salary was increased to \$832,000 and Nick Luff's salary was increased to £295,000. Non-executive directors receive a basic fee of £25,000 and an additional fee of £7,500 per annum if they serve as chairman of any board committees. Until September 26, 2002, Peter Foy received fees at a total annual rate of £130,000, representing fees payable as a non-executive director and as deputy chairman. Following his decision to step down from the position of deputy chairman on that date, the fee payable to him was reduced accordingly and Sir John Parker, who took up the appointment, received fees at the rate of £105,000 per annum in addition to fees payable as a non-executive director. With the exception of amounts paid to Peter Ratcliffe, the remuneration of directors was in sterling and has been converted into U.S. dollars at the average rate for the year of \$1.504:£1. The Company retains a serviced apartment in London at an annual rent of £120,800 (\$181,700). This is available for the use of executives, including Peter Ratcliffe, for accommodation whilst visiting London on the Company's business.

Pensions

The Chairman and the non-executive directors do not receive any pension benefits from the Company.

Peter Ratcliffe and Nick Luff are each members of the P&O Princess Cruises Pension Scheme (the 'U.K. Scheme'), a U.K. resident defined-benefit scheme approved by the Inland Revenue. Peter Ratcliffe accrues pension rights under the U.K. scheme at a rate of up to 1/45th of final salary for each year of service. For this purpose, final salary is defined as the basic salary received in the final 12 months of service. Normal retirement age is 60.

The benefits payable to Nick Luff from the U.K. Scheme are restricted by Inland Revenue limits, including the earnings cap. He accrues pension rights at the rate of 1/82nd of the earnings cap (currently £97,200 (\$146,200)) for each year of service. The Company also operates a funded unapproved retirement benefit scheme ('FURBS') for Nick Luff. This operates on a defined contribution basis and the total amount payable by the Company during the year was £58,800 (\$88,400).

Peter Ratcliffe is also a member of the Princess Cruises Supplemental Executive Retirement Plan in the U.S. (the 'Supplemental Plan'). This plan provides benefits to supplement those received from other plans, including the U.K. Scheme. The overall effect is to provide, on retirement, a pension of 65% of final salary, subject to having completed 15 years' service. For this purpose, final salary is the average basic salary for the five years immediately preceding retirement. Normal retirement age is 60 and the pension is payable in full to Mr Ratcliffe or, on his death, to his widow. Benefits from the U.K. Scheme can exceed those resulting from the Supplemental Plan, in which case no further amounts would be received from the Supplemental Plan. In addition, Peter Ratcliffe is also a member of the Princess Cruises Retirement Savings Plan in the U.S. This is a defined-contribution 401(k) plan and the contribution payable by the Company in respect of the year was \$11,000.

Details of the retirement benefits of directors arising from their participation in defined-benefit pension arrangements are set out below:

	Accrued benefit at Dec 31, 2002 U.S.\$000	Increase in accrued benefits including inflation U.S.\$000	Increase in accrued benefits excluding inflation U.S.\$000	Transfer value of increase in accrued benefits net of inflation and directors' contributions U.S.\$000	Transfer value at Jan 1, 2002 U.S.\$000	Transfer value at Dec 31, 2002 U.S.\$000	(Decrease) in transfer value net of director's contributions U.S.\$000
Peter Ratcliffe	492	18	10	123	6,571	6,237	(334)
Nick Luff	51	3	2	1	290	237	(60)

The accrued benefit is that pension which would be paid annually on retirement at 60, the normal retirement age under the pension scheme in the U.K., based on service to December 31, 2002.

EARLY RETIREMENT

In the event of compulsory early retirement, or voluntary early retirement after the age of 55, Peter Ratcliffe would receive a minimum pension of two thirds of final salary. In the event of voluntary retirement before the age of 55, the minimum pension is reduced pro rata

Remuneration report

for actual service compared with potential service to age 60. In the event of voluntary retirement after the age of 50, Nick Luff would receive a pension determined according to actual pensionable service, reduced to take account of payment prior to normal retirement age. In the event of compulsory early retirement after the age of 53, no such reduction would be made. If compulsory early retirement were to take place between the ages of 50 and 53, the pension would be reduced to take account of payment prior to the age of 53.

Peter Ratcliffe's service in the Supplemental Plan commenced on September 1, 1986. As his service exceeds 15 years, the maximum pension would be payable on retirement. However, there is an actuarial reduction if a pension is drawn under the age of 55 following voluntary early retirement.

DEATH-IN-SERVICE BENEFITS

The U.K. Scheme provides death-in-service benefits to Peter Ratcliffe and Nick Luff. In the event of death before retirement, a lump sum is payable (of four times basic salary or pensionable earnings, whichever is the higher; or, if applicable, four times the earnings cap at the date of death) together with a refund of the member's contributions. In addition, a spouse's or dependant's pension is payable, equivalent to 66% of the pension (prior to commutation) that would have been payable to the member had he continued in service until normal retirement date. Children's pensions of 25% of the spouse's pension may also be payable. As the death-in-service benefits provided by the U.K. Scheme to Nick Luff are restricted by Inland Revenue limits, and as Lord Sterling is not a member of the U.K. Scheme, additional life assurance cover is purchased on their behalf. The relevant premiums are included within the table on page 37 as a benefit-in-kind.

The U.K. Scheme also provides pensions in the event of the total incapacity or ill-health of a member.

PENSION INCREASES IN RETIREMENT

Pensions in payment arising from the U.K. Scheme are increased each year in line with the Retail Price Index, up to a maximum of 5%. Pensions in payment from the Supplemental Plan are not increased after retirement.

DIRECTORS' INTEREST IN SHARES

Lord Sterling

	Ordinary shares	P&O LTIP Options	P&O LTIP Awards	Share Awards	Matching Awards	Share options	Total
At Jan 1, 2002	1,021,019	192,216	157,667	7,549	165,703	367,814	1,911,968
Dividend adjustment	-	4,509	2,283	377	-	-	7,169
Grant	-	-	-	11,497	60,782	-	72,279
Lapse	-	-	-	-	(75,633)	-	(75,633)
Exercise							
- Mar 4, 2002	47,465	-	(79,269)	-	-	-	(31,804)
At Dec 31, 2002	1,068,484	196,725	80,681	19,423	150,852	367,814	1,883,979

Peter Ratcliffe

	Ordinary shares	P&O LTIP Options	P&O LTIP Awards	Share Awards	Matching Awards	Share options	Total
At Jan 1, 2002	2,500	210,946	171,384	59,604	221,594	282,700	948,728
Dividend adjustment	-	4,030	2,482	1,860	-	-	8,372
Grant	-	-	-	26,165	112,069	207,500	345,734
Lapse	-	-	-	-	(82,211)	-	(82,211)
Exercise							
- Mar 4, 2002	42,952	-	(86,165)	-	-	-	(43,213)
- Nov 21, 2002	107,476	(214,976)	-	-	-	-	(107,500)
At Dec 31, 2002	152,928	-	87,701	87,629	251,452	490,200	1,069,910

Nick Luff

	Ordinary shares	P&O LTIP Options	P&O LTIP Awards	Share Awards	Matching Awards	Share options	Total
At Jan 1, 2002	31,451	-	73,486	24,157	128,925	219,491	477,510
Dividend adjustment	-	-	1,064	730	-	-	1,794
Purchases	2,000	-	-	-	-	-	2,000
Grant	-	-	-	9,394	49,599	112,586	171,579
Lapse	-	-	-	-	(35,251)	-	(35,251)
Exercise							
- Mar 4, 2002	22,123	-	(36,946)	-	-	-	(14,823)
At Dec 31, 2002	55,574	-	37,604	34,281	143,273	332,077	602,809

Non-executive directors

At Jan 1, 2002 and at Dec 31, 2002	Ordinary shares
Baroness Hogg	6,240
Sir John Parker	10,000
Peter Foy	16,450
Horst Rahe	11,366,415

On March 4, 2002, Lord Sterling, Peter Ratcliffe and Nick Luff acquired 79,269 shares, 86,165 shares and 36,946 shares respectively through the exercise of 2001 LTIP Awards. A nominal consideration of £1 per award was payable to exercise each award and the value of the shares on exercise was £4.115 per share. The value of the awards on exercise was therefore £326,191 (\$490,591), £354,568 (\$533,270) and £152,032 (\$228,656) respectively. The exercise of the awards gave rise to an income tax charge which was financed by the sale, on the same date, of 31,804 shares, 43,213 shares and 14,823 shares by Lord Sterling, Peter Ratcliffe and Nick Luff respectively at a price of £4.115 pence per share. On March 4, 2002 Nick Luff purchased 2,000 shares at a price of £4.10 per share.

On November 21, 2002, Peter Ratcliffe acquired 214,976 shares through the exercise of a P&O LTIP Option. A nominal consideration of £1 was payable to exercise the option and the value of the shares on exercise was £4.905 per share. The value of the option on exercise was therefore £1,054,456 (\$1,585,902). The exercise of the option gave rise to an income tax charge which was financed by the sale, on the same date, of 107,500 shares at a price of £4.905 per share.

On December 18, 2002, Deutsche Seereederei GmbH ('DS'), a company wholly-owned by Horst Rahe and his family, entered into a share sale agreement (the 'Agreement') with Commerzbank AG ('Commerzbank') for German tax-planning purposes. The Agreement is in respect of the 11,366,415 ordinary shares of P&O Princess owned by DS (the 'Shares') which comprise Mr Rahe's interest in the ordinary shares of P&O Princess. It will result in DS disposing of its interest in the Shares on June 23, 2003, or earlier if it so elects, but until then, through DS, Mr Rahe retains full economic interest in the Shares.

Under the Agreement, on December 18, 2002, DS transferred the Shares to Commerzbank for £50,580,547 (\$76,073,143) (£4.45 per share). At the same time, DS entered into a total return swap agreement with Commerzbank under which the Shares will be valued on June 23, 2003 or earlier, if DS so elects (the 'Valuation Date'). To the extent that the valuation of the Shares on the Valuation Date (the 'Final Price') exceeds £4.478 per share (the 'Initial Price'), Commerzbank will pay the difference to DS. Conversely, if the Final Price is less than the Initial Price, DS will pay the difference to Commerzbank. Any dividends receivable in respect of the Shares prior to the Valuation Date will be for the benefit of DS.

The ordinary shares above include 33,888 shares, 42,952 shares and 45,274 shares, in the case of Lord Sterling, Peter Ratcliffe and Nicholas Luff respectively, that have been designated as 'Invested Shares' for the purpose of the deferred bonus and co-investment matching plan. As described below, matching awards have been granted to each individual in respect of the ordinary shares they have designated as Invested Shares.

P&O LTIP Options

P&O LTIP Options are options over ordinary shares granted on October 24, 2000 to directors who, through arrangements put in place for the purposes of the demerger from P&O, exchanged fully-vested awards previously granted under P&O incentive schemes for such options. The options are exercisable on payment of £1 and will lapse on March 27, 2005. The market value of the shares at the date of grant was £2.92 per share. The number of shares to which P&O LTIP Options relate increased during the year due to shares allocated or purchased by the Trustee in lieu of dividends foregone.

P&O LTIP Awards

P&O LTIP Awards comprise two awards of ordinary shares granted on October 24, 2000 to directors who, through arrangements put in place for the purposes of the demerger from P&O, exchanged awards granted under P&O incentive schemes for which the retention period had not been completed for such awards. One half of the shares comprising an individual's P&O LTIP Award represented a 2001 LTIP Award and the other half represented a 2002 LTIP Award. The market value of the shares at the date of grant was £2.92 per share. Each of Lord Sterling, Peter Ratcliffe and Nick Luff exercised their 2001 LTIP Awards on March 4, 2002.

The 2002 LTIP Awards are exercisable no earlier than the date on which the Company announces its results for the year ended December 31, 2003, the retention period having been extended during the year in line with the board's decision to extend to three years the retention period of awards granted to directors under the deferred bonus and co-investment matching plan. However, if and when the proposed DLC transaction with Carnival Corporation is completed, the 2002 LTIP Awards will vest and become exercisable. Each award lapses three months after it becomes exercisable. The number of shares to which P&O LTIP Awards relate increased during the year due to shares allocated by the Trustee in lieu of dividends foregone. The P&O LTIP Awards are eligible for matching awards in accordance with the rules of the deferred bonus and co-investment matching plan.

Share Awards

Share Awards comprise awards of ordinary shares under the terms of the deferred bonus and co-investment matching plan. Lord Sterling, Peter Ratcliffe and Nick Luff were granted awards on March 4, 2002 in respect of their 2001 annual bonus, the value of which was disclosed in the 2001 Annual Report. The market value of the shares comprising these awards on the day of grant was £4.0775 per share. The number of shares to which Share Awards relate increased during the year due to shares allocated by the Trustee in lieu of dividends foregone. Share Awards are eligible for Matching Awards in accordance with the rules of the deferred bonus and co-investment matching plan.

Share Awards are subject to a retention period of three years from grant. None of the awards shown above is currently vested but, if and when the proposed DLC transaction with Carnival Corporation is completed, the Share Awards will vest and be released.

Matching Awards

Matching Awards are granted in respect of P&O LTIP Awards, Share Awards and Invested Shares. Under the terms of the deferred bonus and co-investment matching plan, the actual number of shares each director would normally receive from the exercise of Matching Awards will depend on the extent to which the relevant performance conditions have been satisfied at the relevant time. However, if and when the proposed DLC transaction with Carnival Corporation is completed, the Matching Awards will be released to participants in full.

Matching Awards granted in respect of 2001 LTIP Awards lapsed as the relevant performance criteria had not been achieved at the time the 2001 LTIP Awards were exercised on March 4, 2002.

Remuneration report

Share options

Further details of the share options granted to directors under the P&O Princess Cruises Executive Share Option Plan are set out below.

		Jan 1, 2002	Granted		Exercise price	Exercisable	
			Mar 3, 2002	Dec 31, 2002		from	to
Lord Sterling	*	12,660	-	12,660	292p	Oct 23, 2000	Apr 14, 2004
	*	162,758	-	162,758	292p	Oct 23, 2000	Dec 22, 2004
		96,198	-	96,198	292p	Oct 23, 2003	Oct 23, 2010
		96,198	-	96,198	\$4.24	Oct 23, 2003	Oct 23, 2010
Total		367,814	-	367,814			
Peter Ratcliffe		282,700	-	282,700	\$4.24	Oct 23, 2003	Oct 23, 2010
		-	207,500	207,500	\$5.78	Mar 3, 2005	Mar 3, 2012
Total		282,700	207,500	490,200			
Nick Luff	*	37,144	-	37,144	292p	Oct 23, 2000	Dec 22, 2004
	*	26,413	-	26,413	292p	Oct 23, 2000	Oct 24, 2006
		77,967	-	77,967	292p	Oct 23, 2003	Oct 23, 2010
		77,967	-	77,967	\$4.24	Oct 23, 2003	Oct 23, 2010
		-	56,293	56,293	407.75p	Mar 3, 2005	Mar 3, 2012
		-	56,293	56,293	\$5.78	Mar 3, 2005	Mar 3, 2012
Total		219,491	112,586	332,077			

Options marked (*) are replacement options, granted by the Company in accordance with its obligations under the agreements which governed the demerger of the company from P&O in October 2000. Replacement options were granted to replace options over P&O deferred stock held by participants in P&O stock option schemes prior to the demerger which were exercised or released as part of the demerger arrangements. The number of shares over which replacement options were granted was determined by a formula which took into account the exercise price of the original option. The period in which a replacement option is exercisable is identical to that of the option it replaced. The exercise of replacement options is not subject to performance conditions.

The other options shown above were granted as part of general grants of options to a large number of executives. The exercise of such options by directors is conditional upon the growth in the Company's earnings per share over a period of at least three years from grant exceeding the growth in an appropriate recognised index of retail prices by at least 3% per annum.

If and when the proposed DLC transaction with Carnival Corporation is completed, all the above options will vest and become exercisable and any performance conditions will cease to apply.

Employee Benefit Trust

As potential beneficiaries of the P&O Princess Cruises Employee Benefit Trust, Lord Sterling, Peter Ratcliffe and Nick Luff are deemed to be interested in ordinary shares of the Company held by the Trust. At December 31, 2002, the Trust held 1,540,483 ordinary shares.

Value of shares

The value of the Company's ordinary shares on December 31, 2001 was 400 pence and on December 31, 2002 was 431 pence. The highest price reached by the shares during the year was 520.5 pence on November 5, 2002 and the lowest was 350 pence on July 24, 2002.

Other interests in shares

Nick Luff also holds one £1 non-voting subscriber share. In addition, 49,998 preference shares of £1 each were allotted (but not issued) to him on September 22, 2000. These shares were allotted in connection with the formation of the Company in preparation for the demerger.

Report of the independent auditors

Report of the independent auditors to the members of P&O Princess Cruises plc

We have audited the financial statements on pages 42 to 73. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 30, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate governance statement on pages 32 to 34 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at December 31, 2002 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
London

February 6, 2003

Group profit and loss account

Years ended December 31

	Note	2002 U.S.\$m	2001 U.S.\$m Restated (note 1)	2000 U.S.\$m Restated (note 1)
Turnover	2	2,526.8	2,451.0	2,423.9
Cost of sales		(1,896.3)	(1,881.6)	(1,842.0)
Administrative expenses:				
Administrative expenses before exceptional transaction costs		(214.8)	(208.1)	(208.8)
Exceptional transaction costs	2, 3	(117.0)	-	-
		(331.8)	(208.1)	(208.8)
Operating costs	3	(2,228.1)	(2,089.7)	(2,050.8)
Group operating profit		298.7	361.3	373.1
Share of operating results of joint ventures		-	0.1	0.5
Total operating profit	2	298.7	361.4	373.6
Loss on disposal of ships	2	-	(1.9)	(6.7)
Profit on sale of business	2	1.2	-	0.2
Profit on ordinary activities before interest	2	299.9	359.5	367.1
Net interest payable and similar items	4	(74.0)	(58.0)	(49.1)
Profit on ordinary activities before taxation		225.9	301.5	318.0
Taxation	5	(17.1)	81.7	(57.4)
Profit on ordinary activities after taxation		208.8	383.2	260.6
Equity minority interests	18	-	(0.1)	(2.6)
Profit for the financial year attributable to shareholders		208.8	383.1	258.0
Dividends	6	(83.2)	(83.2)	(83.1)
Retained profit for the financial year	17	125.6	299.9	174.9
Earnings per share				
Basic earnings per share (in cents)	7	30.2c	55.4c	37.7c
Diluted earnings per share (in cents)	7	30.0c	55.1c	37.7c
Adjusted basic earnings per share (in cents)	7	47.1c	41.3c	37.7c
Adjusted diluted earnings per share (in cents)	7	46.8c	41.1c	37.7c

Each ADS represents an interest in four ordinary shares.

In all three years all profits and losses arise from continuing activities.

Adjusted earnings per share excludes exceptional transaction costs in 2002 and exceptional tax items in 2001 (see note 7)

See accompanying notes to the financial statements.

Group balance sheet

As at December 31

	Note	2002 U.S.\$m	2001 U.S.\$m Restated (note 1)	2000 U.S.\$m Restated (note 1)
Fixed assets				
Intangible assets				
Goodwill	8	127.1	112.9	121.0
Tangible assets				
Ships	9	5,380.0	4,038.4	3,608.0
Properties and other fixed assets	10	249.4	248.0	219.6
		5,629.4	4,286.4	3,827.6
Investments	11	16.3	19.0	10.9
		5,772.8	4,418.3	3,959.5
Current assets				
Stocks	12	87.4	74.3	79.8
Debtors	13	309.4	256.7	322.3
Cash at bank and in hand		162.1	120.4	247.2
		558.9	451.4	649.3
Creditors: amounts falling due within one year	14	(987.2)	(825.3)	(975.7)
Net current liabilities		(428.3)	(373.9)	(326.4)
Total assets less current liabilities				
		5,344.5	4,044.4	3,633.1
Creditors: amounts falling due after more than one year	14	(2,516.8)	(1,393.1)	(1,062.7)
Provisions for liabilities and charges	15	(13.7)	(21.7)	(214.7)
		2,814.0	2,629.6	2,355.7
Capital and reserves				
Called up share capital	16	346.7	346.3	346.3
Share premium account	17	3.7	0.2	-
Other reserves	17	93.1	82.4	82.4
Merger reserve	17	910.3	910.3	910.3
Profit and loss account	17	1,460.0	1,290.2	1,016.5
Equity shareholders' funds		2,813.8	2,629.4	2,355.5
Equity minority interests	18	0.2	0.2	0.2
		2,814.0	2,629.6	2,355.7

See accompanying notes to the financial statements.

Approved by the Board of directors on February 6, 2003 and signed on its behalf by:

Peter Ratcliffe

Nick Luff

Group cash flow statement

Years ended December 31

	Note	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Net cash inflow from operating activities	19	576.1	507.0	532.3
Returns on investments and servicing of finance				
Interest received		5.9	6.6	2.6
Interest paid		(109.9)	(87.1)	(78.5)
Net cash outflow for returns on investments and servicing of finance		(104.0)	(80.5)	(75.9)
Taxation		6.4	(171.0)	(34.3)
Capital expenditure				
Purchase of ships		(1,124.1)	(579.3)	(749.8)
Purchase of other fixed assets		(32.4)	(53.5)	(45.9)
Disposal of ships		-	46.6	14.7
Disposal of other fixed assets		-	-	0.2
Net cash outflow for capital expenditure		(1,156.5)	(586.2)	(780.8)
Acquisitions and disposals				
Disposal/(purchase) of subsidiaries and long term investments	11, 20	3.1	(6.3)	(14.7)
Equity dividends paid		(85.0)	(145.5)	-
Net cash outflow before financing		(759.9)	(482.5)	(373.4)
Financing				
Issues of stock		3.9	0.2	-
Movement on loans from P&O		-	3.7	356.2
Loan drawdowns		879.4	606.3	247.7
Loan repayments		(65.4)	(277.1)	(39.3)
Net investment by P&O		-	-	1.2
Repayment of finance lease		(2.6)	-	-
Net cash inflow from financing		815.3	333.1	565.8
Increase/(decrease) in cash in the year	19	55.4	(149.4)	192.4

See accompanying notes to the financial statements.

The restatement for FRS 19 'Deferred Taxation' has no impact on the cash flow as previously reported for the years ended December 31, 2001 and December 31, 2000.

Company balance sheet

As at December 31

	Note	2002 U.S.\$m	2001 U.S.\$m
Fixed assets			
Tangible assets - ships	9	154.1	146.0
Investments - subsidiaries	27	428.7	428.7
		582.8	574.7
Current assets			
Debtors	13	1,084.8	1,017.3
Creditors: amounts falling due within one year	14	(40.3)	(41.0)
Net current assets		1,044.5	976.3
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	14	(1,120.9)	(1,066.2)
		506.4	484.8
Capital and reserves			
Called up share capital	16	346.7	346.3
Share premium account	17	3.7	0.2
Other reserves	17	93.1	82.4
Profit and loss account	17	62.9	55.9
Equity shareholders' funds		506.4	484.8

See accompanying notes to the financial statements.

Approved by the Board of directors on February 6, 2003 and signed on its behalf by:

Peter Ratcliffe
Nick Luff

Group statement of total recognised gains and losses

Years ended December 31

	2002 U.S.\$m	2001 U.S.\$m Restated (note 1)	2000 U.S.\$m Restated (note 1)
Profit for the year	208.8	383.1	258.0
Exchange movements on foreign currency net investments	44.2	(26.2)	(5.5)
Total recognised gains and losses relating to the year	253.0	356.9	252.5
Prior year adjustment (note 1)	(108.1)	-	-
Total gains and losses recognised since last annual report	144.9		

Reconciliation of movements in shareholders' funds

Years ended December 31

	Group 2002 U.S.\$m	Group 2001 U.S.\$m Restated (note 1)	Group 2000 U.S.\$m Restated (note 1)	Company 2002 U.S.\$m	Company 2001 U.S.\$m
Total recognised gains and losses for the year	253.0	356.9	252.5	90.2	135.7
Dividends	(83.2)	(83.2)	(83.1)	(83.2)	(83.2)
New shares issued	3.9	0.2	41.3	3.9	0.2
Shares to be issued	10.7	-	46.8	10.7	-
Investment in P&O Princess Cruises by P&O	-	-	1.2	-	-
	184.4	273.9	258.7	21.6	52.7
Shareholders' funds at beginning of the year (The shareholders' funds for the Group at the beginning of 2001, as previously reported, were \$2,463.6m (2000: \$2,188.8m) before deducting the prior year adjustment of \$108.1m (2000: \$92.0m))	2,629.4	2,355.5	2,096.8	484.8	432.1
Shareholders' funds at end of the year	2,813.8	2,629.4	2,355.5	506.4	484.8

See accompanying notes to the financial statements.

I Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group.

Basis of preparation of financial statements

The Group financial statements comprise the consolidation of the accounts of the Company and all its subsidiaries and incorporate the Group's interest in its joint ventures. The accounts of its subsidiaries and joint ventures are made up to December 31.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United Kingdom ('U.K. GAAP') under the historical cost convention, and in accordance with applicable U.K. accounting standards. These principles differ in certain significant respects from accounting principles generally accepted in the United States ('U.S. GAAP'). Application of U.S. GAAP would have affected shareholders' funds at December 31, 2002 and 2001 and profit attributable to shareholders for the years ended December 31, 2002, 2001 and 2000, to the extent summarised in note 28, additional information for U.S. investors.

Basis of consolidation

P&O Princess Cruises plc acquired the cruise business of The Peninsular and Oriental Steam Navigation Company ('P&O') on October 23, 2000. The acquisition was effected by the issue of ordinary shares in P&O Princess Cruises plc to the holders of deferred stock in P&O in settlement of a dividend declared by P&O.

The consolidated financial statements have been prepared using merger accounting principles as if the businesses comprising P&O Princess Cruises had been part of P&O Princess Cruises for all periods presented, since they have been under common control throughout this period. Businesses acquired from or disposed of to third parties during the periods presented have been accounted for using acquisition accounting, from or to the date control passed.

Prior year adjustment on implementation of FRS19

The Accounting Standards Board issued Financial Reporting Standard No. 19 'Deferred Tax' (FRS19) in December 2000. The standard is effective for accounting periods ending on or after January 23, 2002. The standard requires full provision to be made for deferred tax assets and liabilities arising from most types of timing difference between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Deferred tax assets are, however, only to be recognised to the extent that it is regarded as more likely than not that they will be recovered. P&O Princess Cruises has adopted the standard as of January 1, 2002 resulting in the restatement of comparative data from partial provisioning for deferred tax to the full provision basis.

As a result of the implementation of FRS19, the balance sheet as at December 31, 1999 was restated to reflect full provision for deferred tax, an increase in deferred tax liabilities of \$92.0m.

The net effect on net assets and shareholders' funds as at December 31, 2000 as a result of implementing FRS19 is a reduction of \$108.1m with a charge to the profit and loss account for the year of \$16.1m.

The tax credit in the profit and loss account for the year to December 31, 2001 has increased by \$96.8m to reflect the elimination of the majority of future potential tax liabilities upon P&O Princess Cruises' election to enter the U.K. tonnage tax regime. This is consistent with the elimination of the partially provided deferred tax in the 2001 audited financial statements. The net effect on net assets and shareholders' funds as at December 31, 2001 as a result of implementing FRS 19 is a reduction of \$11.3m.

Use of estimates

Preparation of financial statements in conformity with U.K. GAAP and U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of turnover and expenses for an accounting period. Actual results could differ from these estimates.

Goodwill arising on acquisitions

Goodwill arising on business acquisitions being the difference between the fair value of consideration compared to the fair value of net assets acquired represents the residual purchase price after allocation to all identifiable net assets. Goodwill is included within intangible fixed assets and is stated at cost less accumulated amortisation. Amortisation is calculated to write off goodwill on a straight line basis over its expected useful life, which can be up to 40 years. A life of more than 20 years is adopted when the directors consider the period for which the value of the underlying business acquired exceeds the value of the identifiable net assets is demonstrably longer than 20 years. Goodwill with an expected useful life of more than 20 years is reviewed annually for any impairment, by comparing carrying value with discounted cashflows.

Joint ventures

A joint venture is an entity in which the Group has a long term interest and shares control with one or more co-venturers. Joint ventures are stated at P&O Princess Cruises' share of underlying net assets. P&O Princess Cruises' share of the profits or losses of joint ventures is included in the consolidated profit and loss account on an equity accounting basis.

Investments

Investments in subsidiary undertakings are held at cost less provisions for impairment.

Shares in P&O Princess Cruises plc held for the purpose of long term incentive plans (LTIPs) are held within fixed asset investments. To the extent that these shares have been identified for bonus awards, provision is made for the difference between the book value of these shares and their residual value, if any.

Notes to the financial statements

I Accounting policies (continued)

Tangible fixed assets

Ships are stated at cost less accumulated depreciation. Subsequent ship improvement costs are capitalised as additions to the ship, while costs of repairs and maintenance are accounted for as dry docking costs.

Properties and other fixed assets, including computer hardware and software, are stated at cost less accumulated depreciation.

Interest incurred in respect of payments on account of assets under construction is capitalised to the cost of the assets concerned.

Depreciation is calculated to write off the cost to estimated residual value on a straight line basis over the expected useful life of the asset concerned as follows:

Cruise ships	30 years
Freehold buildings	40 years
Other fixed assets	3 – 16 years

Freehold land and ships under construction are not depreciated.

Dry-docking costs

Dry-docking costs are capitalised and expensed on a straight line basis to the date of the next scheduled drydock.

Impairment of fixed assets

P&O Princess Cruises reviews all fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable based on estimated future cash flows. Provision for impairment in value of fixed assets is made in the profit and loss account.

Stocks

Stocks consist of provisions, supplies, fuel and gift shop merchandise and are stated at the lower of cost or net realisable value.

Cash and borrowings

Cash and cash equivalents consist of cash, money market deposits and certificates of deposit. All cash equivalents have original maturities of 90 days or less. Cash and cash equivalents at the balance sheet date are deducted from bank loans and overdrafts where formal rights of set-off exist.

Turnover

Turnover comprises sales to third parties (excluding VAT and similar sales taxes). Turnover includes air and land supplements and on board sales and is taken before deducting travel agents' commission.

Deposits received on sales of cruises are initially recorded as deferred income and are recognised, together with revenues from shipboard activities and all associated direct costs of a voyage, on a pro rata basis over the period of the cruise.

Marketing and promotion costs

Marketing and promotion costs are expensed over the period of benefit, not exceeding one year from the end of the year the cost is incurred.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Rentals under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

Contributions in respect of defined contribution pension plans are charged to the profit and loss account when they are payable. Contributions in respect of defined benefit pension plans are calculated as a percentage, agreed on actuarial advice, of the pensionable salaries of employees. The cost of providing defined benefit pensions is charged to the profit and loss account on a systematic basis over the periods benefiting from the services of employees, and is calculated with the advice of an independent qualified actuary, using the projected unit method. This is in accordance with Statement of Standard Accounting Practice 24 'Accounting for pension costs', the basis on which the Group accounts for pension costs. Additional disclosure as required by FRS17 is also provided.

Deferred taxation

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Derivatives and other financial instruments

P&O Princess Cruises uses currency swaps, interest rate swaps and forward currency contracts to manage its exposure to certain foreign currency and interest rate risks and to hedge major capital expenditure or lease commitments by businesses in currencies other than their functional currency. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Foreign currencies

The functional and reporting currency of the Group is the U.S. dollar as the majority of its trade and assets are denominated in that currency. Transactions in currencies other than a business' functional currency are recorded at the rate of exchange ruling at the date of the transaction. Profits and losses of subsidiaries, branches, and joint ventures which have functional currencies other than U.S. dollars are translated into U.S. dollars at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated at the year end exchange rates.

Exchange differences arising from the retranslation of the opening net assets of subsidiaries, branches and joint ventures which have currencies of operation other than U.S. dollars and any related loans are taken to reserves, together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

Notes to the financial statements

2 Segmental analysis

P&O Princess Cruises has a single business of operating cruise ships and related landside assets under various brand names including: Princess Cruises, P&O Cruises, Swan Hellenic, Ocean Village, AIDA, A'ROSA and P&O Cruises (Australia). These brand names are marketed by operations in North America, Europe and Australia.

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Turnover (by origin)			
North America	1,698.8	1,754.9	1,796.7
Europe and Australia	828.0	696.1	627.2
	2,526.8	2,451.0	2,423.9

Turnover in Europe and Australia includes turnover in relation to the United Kingdom of \$525.8m (2001 \$476.3m, 2000 \$454.0m).

Total operating profit			
North America	292.5	254.1	279.6
Europe and Australia	123.2	107.3	94.0
Exceptional transaction costs	(117.0)	-	-
	298.7	361.4	373.6
Depreciation and amortisation			
North America	114.9	102.1	100.4
Europe and Australia	59.0	46.0	44.2
	173.9	148.1	144.6
Profit on ordinary activities before interest			
North America	292.5	252.2	279.8
Europe and Australia	124.4	107.3	87.3
Exceptional transaction costs	(117.0)	-	-
	299.9	359.5	367.1
Which is stated after crediting/(charging):			
Non-operating items			
North America	-	(1.9)	0.2
Europe and Australia	1.2	-	(6.7)
	1.2	(1.9)	(6.5)

Non-operating items for Europe and Australia include a \$1.2m profit on sale of an investment (2001 \$1.9m, 2000 \$6.0m, loss on disposal of vessels).

Capital additions			
North America	1,107.2	618.5	500.1
Europe and Australia	223.5	57.9	321.2
	1,330.7	676.4	821.3

	2002 U.S.\$m	2001 U.S.\$m
Net operating assets excluding goodwill and ships under construction		
North America	2,606.6	2,599.0
Europe and Australia	1,728.7	902.0
	4,335.3	3,501.0

Notes to the financial statements

2 Segmental analysis (continued)

	2002 U.S.\$m	2001 U.S.\$m Restated (note 1)
The net operating assets are reconciled to net assets as follows:		
Net operating assets	4,335.3	3,501.0
Goodwill	127.1	112.9
Ships under construction	907.4	508.0
Group share of joint ventures' non-operating assets	3.5	8.6
Net borrowings	(2,471.9)	(1,436.4)
Corporation tax and deferred tax	(66.6)	(43.7)
Dividends payable	(20.8)	(20.8)
Net assets	2,814.0	2,629.6
Total assets		
North America	3,914.7	3,411.0
Europe and Australia	2,417.0	1,458.7
	6,331.7	4,869.7

3 Operating costs

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Direct operating costs	1,576.6	1,584.1	1,558.0
Selling and administration expenses	477.6	357.5	348.2
Depreciation and amortisation	173.9	148.1	144.6
	2,228.1	2,089.7	2,050.8

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Operating costs include:			
Advertising and promotion costs	145.8	149.4	139.4
Exceptional transaction costs	117.0	-	-
Operating lease costs - ships	20.9	18.6	13.3
- property	14.2	11.2	10.5
- other	3.3	3.3	2.9
Auditors' remuneration:			
Audit	0.9	0.8	0.8
Stock exchange reporting	2.6	1.8	-
	3.5	2.6	0.8
Tax advice	3.1	3.5	5.1
Other non-audit fees	0.2	0.5	0.2
Total fees paid to the auditors and their associates	6.8	6.6	6.1

Of the \$5.9m (2001 \$5.8m, 2000 \$5.3m) charged for non-audit services provided by the Company's auditors \$4.5m (2001 \$3.8m, 2000 \$0.1m) was for services in the U.K. The audit fee of the Company was \$0.2m (2001 \$0.2m, 2000 \$0.2m).

Transaction costs of \$117.0m consist of the \$62.5m break-fee relating to the Royal Caribbean proposed transaction together with \$54.5m legal and professional fees in connection with this transaction and the proposed Carnival transaction.

Notes to the financial statements

4 Net interest payable and similar items

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Interest payable on:			
Bank loans and overdrafts	(111.1)	(98.9)	(35.6)
Loans from P&O	-	-	(39.7)
	(111.1)	(98.9)	(75.3)
Interest capitalised	31.0	33.1	23.5
Interest receivable on other deposits	6.0	7.7	2.5
	(74.1)	(58.1)	(49.3)
Joint ventures	0.1	0.1	0.2
	(74.0)	(58.0)	(49.1)

Interest capitalised relates to tangible fixed assets under construction. The capitalisation rate is based on the weighted average of interest rates applicable to the Group's borrowings (excluding loans for specific purposes) during each year. The aggregate interest capitalised at each year end was:

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Ships	204.1	173.4	140.8
Properties	4.4	4.1	3.5
	208.5	177.5	144.3

5 Taxation

	2002 U.S.\$m	2001 U.S.\$m Restated (note 1)	2000 U.S.\$m Restated (note 1)
The taxation charge/(credit) is made up as follows:			
Current taxation:			
U.K. Corporation tax	(0.2)	-	-
Overseas taxation	(16.4)	(110.8)	(40.2)
	(16.6)	(110.8)	(40.2)
Deferred taxation:			
Origination/reversal of timing differences	(0.5)	192.5	(17.2)
	(17.1)	81.7	(57.4)

The current taxation charge is reconciled to the U.K. standard rate as follows:

	2002 U.S.\$m	2001 U.S.\$m Restated (note 1)	2000 U.S.\$m Restated (note 1)
Profit on ordinary activities before tax	225.9	301.5	318.0
Notional tax charge at U.K. standard rate (2002: 30.0%; 2001: 30.0%; 2000: 30.0%)	(67.8)	(90.5)	(95.4)
Effect of overseas taxes at different rates	61.4	59.9	41.0
Permanent differences	(17.1)	(80.2)	(2.7)
Effect of tonnage tax	6.9	-	-
Other	-	-	16.9
	(16.6)	(110.8)	(40.2)

There was no charge or credit in respect of profits and losses on sale of ships and other fixed assets. The effective tax rate for the Group is expected to remain low following entry into the U.K. tonnage tax regime. The exceptional transaction costs had no effect on the tax charge for the year.

Notes to the financial statements

6 Dividends

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Dividends paid, declared, proposed and accrued are as follows:			
Equity share capital			
First interim paid 3 cents per share (2001 3 cents, 2000 nil)	20.8	20.8	-
Second interim paid 3 cents per share (2001 3 cents, 2000 nil)	20.8	20.8	-
Third interim paid 3 cents per share (2001 3 cents, 2000 nil)	20.8	20.8	-
Fourth interim proposed at 3 cents per share (2001 nil, 2000 nil)	20.8	-	-
Final proposed at nil cents per share (2001 3 cents, 2000 12 cents)	-	20.8	83.1
	83.2	83.2	83.1

7 Earnings per ordinary share

	2002			2001 Restated (note 1)			2000 Restated (note 1)		
Weighted average number of shares (million)									
Basic	692.4			691.5			684.2		
Dilutive shares	3.2			3.3			-		
Diluted	695.6			694.8			684.2		
	U.S.\$m	Basic cents per share	Diluted cents per share	U.S.\$m	Basic cents per share	Diluted cents per share	U.S.\$m	Basic cents per share	Diluted cents per share
Basic earnings	208.8	30.2	30.0	383.1	55.4	55.1	258.0	37.7	37.7
Exceptional transaction costs	117.0	16.9	16.8	-	-	-	-	-	-
Exceptional tax items	-	-	-	(97.5)	(14.1)	(14.0)	-	-	-
Adjusted earnings	325.8	47.1	46.8	285.6	41.3	41.1	258.0	37.7	37.7

The weighted average number of shares for the period up to October 23, 2000 represents the number of shares issued on demerger. The weighted average number of shares has been adjusted for shares in the Company held by the employee benefit trust for the satisfaction of incentive scheme awards that have not vested unconditionally.

Each ADS represents an interest in four ordinary shares.

The dilutive shares relate to ordinary shares to be issued on the exercise of employee share options.

Adjusted earnings per share reflects the elimination of exceptional transaction costs of \$117.0m in 2002 and exceptional tax items of \$97.5m in 2001, comprising a credit from the release of deferred tax on entry into the tonnage tax regime of \$192.5m and tax charges arising from internal corporate restructuring of \$95.0m.

8 Goodwill

	U.S.\$m
Cost	
Cost at December 31, 2001	128.5
Exchange movements	20.9
Cost at December 31, 2002	149.4
Amortisation	
Amortisation at December 31, 2001	(15.6)
Exchange movements	(2.4)
Amortisation charge for year	(4.3)
Amortisation at December 31, 2002	(22.3)
Net book value	
At December 31, 2002	127.1
At December 31, 2001	112.9

\$128.0m of goodwill costs in respect of AIDA is being amortised over 40 years as the directors consider that 40 years represents the useful economic life of that business. All other goodwill is amortised over 20 years.

Notes to the financial statements

9 Ships

	Group			Company
	Owned U.S.\$m	Leased U.S.\$m	Total U.S.\$m	Owned U.S.\$m
Cost				
Cost at December 31, 2001	4,739.0	-	4,739.0	153.1
Exchange movements	222.8	-	222.8	16.3
Additions	1,157.4	148.1	1,305.5	-
Cost at December 31, 2002	6,119.2	148.1	6,267.3	169.4
Depreciation				
Depreciation at December 31, 2001	(700.6)	-	(700.6)	(7.1)
Exchange movements	(43.3)	-	(43.3)	(0.8)
Charge for year	(142.8)	(0.6)	(143.4)	(7.4)
Depreciation at December 31, 2002	(886.7)	(0.6)	(887.3)	(15.3)
Net book value				
At December 31, 2002	5,232.5	147.5	5,380.0	154.1
At December 31, 2001	4,038.4	-	4,038.4	146.0

Ships under construction included in the above for Group totalled \$907.4m (2001 \$508.0m). Included within ships under construction at December 31, 2002 is the final payment in respect of Coral Princess which was delivered in December 2002, but did not enter operational service until January 2003.

10 Properties and other fixed assets

Group	Freehold properties U.S.\$m	Office equipment, plant and motor vehicles U.S.\$m	Total U.S.\$m
	Cost		
Cost at December 31, 2001	123.7	214.7	338.4
Exchange movements	-	5.1	5.1
Additions	5.2	20.0	25.2
Cost at December 31, 2002	128.9	239.8	368.7
Depreciation			
Depreciation at December 31, 2001	(5.9)	(84.5)	(90.4)
Exchange movements	-	(2.7)	(2.7)
Charge for the year	(3.4)	(22.8)	(26.2)
Depreciation at December 31, 2002	(9.3)	(110.0)	(119.3)
Net book value			
At December 31, 2002	119.6	129.8	249.4
At December 31, 2001	117.8	130.2	248.0

The book value of freehold land is \$3.4m (2001 \$3.4m), which is not depreciated.

Notes to the financial statements

11 Investments - Group

	Own shares held U.S.\$m	Joint ventures U.S.\$m	Other investments U.S.\$m	Total U.S.\$m
Cost or valuation at December 31, 2001	5.0	8.8	6.9	20.7
Exchange movements	0.5	-	(0.4)	0.1
Disposals	(1.1)	-	(1.9)	(3.0)
Cost or valuation at December 31, 2002	4.4	8.8	4.6	17.8
Provision at December 31, 2001	(1.7)	-	-	(1.7)
Exchange movements	(0.2)	-	-	(0.2)
Disposals	1.1	-	-	1.1
Charge for year	(0.7)	-	-	(0.7)
Provision at December 31, 2002	(1.5)	-	-	(1.5)
Net book value				
At December 31, 2002	2.9	8.8	4.6	16.3
At December 31, 2001	3.3	8.8	6.9	19.0

As at December 31, 2002 the P&O Princess Cruises Employee Benefit Trust held 1,540,483 (2001: 1,981,616) shares in P&O Princess Cruises, with an aggregate nominal value of \$1m. At December 31, 2002 the market value of these shares was \$10.7m (2001 \$11.5m). If they had been sold at this value there would have been no tax liability (2001 nil) on the capital gain arising from the sale.

The Ms Arkona was sold by the owner Ms Arkona GmbH & Co KG to Transocean Tours on January 30, 2002. A profit of \$1.2m was made on this transaction.

The principal joint ventures are P&O Travel Limited (Hong Kong) and Joex Limited. P&O Travel Limited (Hong Kong) is a travel agency incorporated in Hong Kong, in which P&O Princess Cruises had a 50% interest at December 31, 2002.

P&O Princess Cruises' share of turnover for the year ended December 31, 2002 and share of gross assets and gross liabilities as at December 31, 2002 of P&O Travel Limited (Hong Kong) are as follows:

	2002 U.S.\$m	2001 U.S.\$m
Turnover	4.9	5.6
Gross assets	6.8	6.7
Gross liabilities	(3.0)	(2.9)
	3.8	3.8

Joex Limited (Joex) is a company incorporated in the Isle of Man, in which P&O Princess Cruises had a 50% interest at December 31, 2002. Joex was incorporated during 2001 and has not traded since incorporation. P&O Princess Cruises' share of its gross assets and liabilities at December 31, 2002 were \$5m and \$nil respectively. On October 25, 2002, the shareholders agreed to terminate the joint venture with effect from January 1, 2003 at no cost to P&O Princess Cruises and, on January 2, 2003, P&O Princess Cruises confirmed that the joint venture had been terminated. Accordingly, the shareholders are proceeding with the dissolution of Joex.

Notes to the financial statements

12 Stocks

	Group 2002 U.S.\$m	Group 2001 U.S.\$m
Raw materials and consumables	45.7	39.5
Goods for resale	41.7	34.8
	87.4	74.3

13 Debtors

	Group 2002 U.S.\$m	Group 2001 U.S.\$m	Company 2002 U.S.\$m	Company 2001 U.S.\$m
Amounts recoverable within one year				
Trade debtors	66.4	45.2	-	-
Amounts owed by subsidiary undertakings	-	-	1,084.8	1,017.3
Other debtors	39.1	37.8	-	-
Prepayments and accrued income	183.5	165.1	-	-
Total amounts recoverable within one year	289.0	248.1	1,084.8	1,017.3
Amounts recoverable after more than one year				
Other debtors	0.1	0.4	-	-
Prepayments and accrued income	20.3	8.2	-	-
Total amounts recoverable after more than one year	20.4	8.6	-	-
Total debtors	309.4	256.7	1,084.8	1,017.3

14 Creditors

	Group 2002 U.S.\$m	Group 2001 U.S.\$m	Company 2002 U.S.\$m	Company 2001 U.S.\$m
Amounts falling due within one year				
Overdrafts	(14.5)	(16.7)	-	-
Bank loans	(98.0)	(158.4)	-	-
Finance lease creditors	(7.8)	-	-	-
Trade creditors	(184.2)	(147.2)	-	-
Corporation tax	(54.8)	(32.4)	-	-
Other creditors	(5.5)	(3.8)	-	-
Accruals	(134.4)	(108.9)	(19.5)	(20.2)
Deferred income	(467.2)	(337.1)	-	-
Dividends payable	(20.8)	(20.8)	(20.8)	(20.8)
	(987.2)	(825.3)	(40.3)	(41.0)
Amounts falling due after more than one year				
Bank loans, finance lease creditors, loan notes and bonds:				
Between one and five years				
U.S. dollar bonds 2007	(302.7)	-	(302.7)	-
Bank loans	(790.9)	(131.4)	-	-
Finance lease creditors	(119.5)	-	-	-
Over five years				
U.S. dollar notes 2008	(107.8)	(107.8)	(107.8)	(107.8)
U.S. dollar notes 2010	(91.6)	(91.0)	(91.6)	(91.0)
U.S. dollar notes 2015	(69.8)	(69.5)	(69.8)	(69.5)
U.S. dollar notes 2016	(41.9)	(41.9)	(41.9)	(41.9)
U.S. dollar bonds 2007	-	(280.8)	-	(280.8)
U.S. dollar bonds 2027	(189.5)	(189.4)	(189.5)	(189.4)
Sterling bond 2012	(317.6)	(285.8)	(317.6)	(285.8)
Bank loans	(482.4)	(184.1)	-	-
Accruals and deferred income	(3.1)	(11.4)	-	-
	(2,516.8)	(1,393.1)	(1,120.9)	(1,066.2)

Notes to the financial statements

14 Creditors (continued)

Bank loans and overdrafts include amounts of \$840.5m (2001 \$368.6m) secured on ships and other assets. Further details of interest rates on bank borrowings are given in note 26. \$1,118.6m principal value of notes and bonds (2001 \$1,086.8m) are unconditionally guaranteed by P&O Princess Cruises International Limited. At the year end P&O Princess Cruises plc had no independent operations and P&O Princess Cruises International Limited was the sole direct operating subsidiary of P&O Princess Cruises plc.

The maturity of bank loans, loan notes, bonds, finance lease creditors and overdrafts is as follows:

	Group 2002 U.S.\$m	Group 2001 U.S.\$m	Company 2002 U.S.\$m	Company 2001 U.S.\$m
Within one year	(120.3)	(175.1)	-	-
Between one and two years	(72.9)	(53.4)	-	-
Between two and five years	(1,140.2)	(78.0)	(302.7)	-
Between five and ten years	(860.0)	(616.8)	(517.1)	(479.6)
Over ten years	(440.6)	(633.5)	(301.1)	(586.6)
	(2,634.0)	(1,556.8)	(1,120.9)	(1,066.2)

15 Provisions for liabilities and charges – Group

	Deferred taxation U.S.\$m Restated (note 1)	Other U.S.\$m	Total U.S.\$m Restated (note 1)
At December 31, 2001	-	(10.4)	(10.4)
Prior year adjustment (note 1)	(11.3)	-	(11.3)
At December 31, 2001 (as restated)	(11.3)	(10.4)	(21.7)
Exchange differences	-	(1.8)	(1.8)
Release	-	10.7	10.7
Charged to profit and loss	(0.5)	(0.4)	(0.9)
At December 31, 2002	(11.8)	(1.9)	(13.7)

During 2001 P&O Princess Cruises elected to enter the U.K. tonnage tax regime which eliminated future potential tax liabilities on its profits in the U.K. The regime includes provision whereby a proportion of capital allowances previously claimed by the Group may be subject to tax in the event that a significant number of vessels are sold and not replaced. This contingent liability decreases over the first seven years following entry into tonnage tax to nil. The contingent tax liability at December 31, 2002 was \$186.3m (2001: \$262.0m) assuming all vessels on which capital allowances had been claimed were sold for net book value and not replaced. No provision has been made as no liability is expected to arise.

\$10.7m of contingent consideration, payable in cash in relation to the purchase of 49% of AIDA Cruises Limited in November 2000, has been released as the condition requiring its payment did not arise. The total estimated amount contingently payable is unchanged, but the whole of the remaining consideration is payable in cash or shares at the Company's option, and therefore an adjustment has been made to shares to be issued.

Deferred taxation comprises:

	Group 2002 U.S.\$m	Group 2001 U.S.\$m Restated (note 1)
Accelerated capital allowances	11.8	11.3

Distributable reserves of overseas subsidiaries and joint ventures comprising approximately \$1,417.3m (2001 \$1,197.5m) would be subject to tax if paid as dividends. No deferred taxation is provided in respect of these.

16 Called up share capital

The authorised share capital comprises 750,000,000 ordinary shares of 50 U.S. cents each, 49,998 preference shares of £1 each and 2 subscriber shares of £1 each.

The allotted, called up and fully paid ordinary share capital is as follows:

	No of Shares	U.S.\$m
At December 31, 2001	692,643,428	346.3
Shares issued	829,191	0.4
At December 31, 2002	693,472,619	346.7

During 2002 the Company issued 829,191 ordinary shares of 50 U.S. cents each following the exercise of share options for total consideration of \$3.9m.

Notes to the financial statements

16 Called up share capital (continued)

The preference shares, which have been allotted but not issued, are entitled to a cumulative fixed dividend of 8% per annum and are entitled to one vote per share. The preference shares rank behind other classes of shares in relation to the payment of capital on certain types of distribution of the Company. The subscriber shares have no dividend rights nor voting rights nor any rights to payment of capital upon a distribution of assets by the Company. The preference shares and subscriber shares are unlisted.

Details of options over ordinary shares granted to employees are given in note 21. Details of contingent rights to shares in relation to the acquisition of subsidiaries are given in note 17.

17 Reserves

	Share premium account U.S.\$m	Other reserves U.S.\$m	Merger reserve U.S.\$m	Profit and loss account U.S.\$m	Total U.S.\$m
Group					
At December 31, 2001	0.2	82.4	910.3	1,301.5	2,294.4
Prior year adjustment (note 1)	-	-	-	(11.3)	(11.3)
At December 31, 2001 (as restated)	0.2	82.4	910.3	1,290.2	2,283.1
Exchange movements	-	-	-	44.2	44.2
Other	-	10.7	-	-	10.7
Issue of shares	3.5	-	-	-	3.5
Retained profit for the financial year	-	-	-	125.6	125.6
At December 31, 2002	3.7	93.1	910.3	1,460.0	2,467.1
Company					
At December 31, 2001		0.2	82.4	55.9	138.5
Exchange movements		-	-	3.9	3.9
Other (see note 15)		-	10.7	-	10.7
Issue of shares		3.5	-	-	3.5
Retained profit for the financial year		-	-	3.1	3.1
At December 31, 2002		3.7	93.1	62.9	159.7

In accordance with s230 of the Companies Act 1985 the Company has not presented its own profit and loss account. The profit attributable to shareholders of the Company for the year was \$86.3m (2001 \$135.3m).

Group and Company 'Other reserves' represent the difference between the market and nominal value of shares issued as initial consideration of \$35.6m together with the estimated value of outstanding consideration (\$57.5m) in respect of the purchase of 49% of AIDA Cruises Limited in November 2000. The shares issued in respect of the initial consideration have been accounted for in accordance with the merger relief provisions of the Companies Act 1985. The outstanding consideration is mainly dependent on the future results of the Seetours business and may be payable between 2003 and 2006. The Company has the option to settle the outstanding consideration in either cash or new P&O Princess Cruises plc ordinary shares. The purchase agreement provides that in the event of a change in control of P&O Princess Cruises plc payment of the outstanding consideration can be accelerated by the vendor of AIDA Cruises Limited. In such an event, the minimum amount payable would be approximately €59m (\$61.9m), payable in cash.

18 Equity minority interests

	U.S.\$m
At December 31, 2001	0.2
Proportion of profit on ordinary activities after taxation	-
At December 31, 2002	0.2

Notes to the financial statements

19 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Group operating profit	298.7	361.3	373.1
Depreciation and amortisation	173.9	148.1	144.6
Increase in stocks	(11.1)	(11.6)	(1.6)
(Increase)/decrease in debtors	(31.5)	42.2	(40.8)
Increase/(decrease) in creditors and provisions	146.1	(33.0)	57.0
Net cash inflow from operating activities	576.1	507.0	532.3

(b) Reconciliation of net cash flow to movement in net debt

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Increase/(decrease) in net cash in the year	55.4	(149.4)	192.4
Cash inflow from loans to and from P&O	-	(3.7)	(356.2)
Cash outflow/(inflow) from changes in short term borrowings	26.1	(50.0)	(20.6)
Cash inflow from third party debt and lease financing	(837.5)	(279.2)	(187.8)
Change in net debt resulting from cash flows	(756.0)	(482.3)	(372.2)
Inception of finance leases	(129.9)	-	-
Amortisation of bond issue costs	(1.9)	(1.7)	(0.2)
Exchange movements in net debt	(147.7)	14.6	37.5
Movement in net debt in the year	(1,035.5)	(469.4)	(334.9)
Net debt at the beginning of the year	(1,436.4)	(967.0)	(632.1)
Net debt at the end of the year	(2,471.9)	(1,436.4)	(967.0)

(c) Analysis of net debt

	At Jan 1 2002 U.S.\$m	Cash flow U.S.\$m	Other non-cash movements U.S.\$m	Exchange movements U.S.\$m	At Dec 31 2002 U.S.\$m
Cash available on demand	120.4	53.2	-	(11.5)	162.1
Less: bank overdrafts	(16.7)	2.2	-	-	(14.5)
	103.7	55.4	-	(11.5)	147.6
Short term debt	(158.4)	26.1	48.7	(14.4)	(98.0)
Medium and long term debt	(1,381.7)	(840.1)	(50.6)	(121.8)	(2,394.2)
Finance leases	-	2.6	(129.9)	-	(127.3)
Net debt	(1,436.4)	(756.0)	(131.8)	(147.7)	(2,471.9)

20 Acquisitions

There were no significant business acquisitions during 2002.

The business acquired during 2001 was Basté & Lange GmbH, a German procurement company. Net assets of \$0.2m were acquired for \$1.7m in cash, giving rise to goodwill of \$1.5m with an estimated useful life of 20 years. All book values approximated to fair value at acquisition.

Notes to the financial statements

21 Employees

	2002	2001	2000
The average number of employees was as follows:			
Shore staff	3,654	3,623	3,567
Sea staff	16,298	15,833	15,461
	19,952	19,456	19,028

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
The aggregate payroll costs were:			
Wages and salaries	307.5	279.1	258.0
Social security costs	12.1	11.2	12.2
Pension costs	12.1	9.8	9.7
	331.7	300.1	279.9

Details of directors' remuneration, including share options, long term incentive plans and pension entitlements, are set out in the Remuneration report on pages 35 to 40.

Employee Option Schemes

Options under the P&O Princess Cruises Executive Share Option Plan ('the Option Plan'), are exercisable in a period normally beginning not earlier than three years and ending no later than ten years from the date of the grant. Options granted immediately after the demerger from P&O in October 2000 to replace options over P&O deferred stock previously held by P&O Princess Cruises employees are exercisable over the same period as the options replaced. The exercise price is set at the closing market price on the day the option was granted.

Options granted to P&O Princess Cruises employees under the Option Plan are as set out below:

	Weighted average exercise price per share		Number of options	
	Shares	ADS	Shares	ADS
Options outstanding at January 1, 2002	293p	\$17.14	6,551,662	952,717
Options granted during the year	408p	\$23.85	2,856,082	505,150
Options exercised during the year	292p	\$16.97	(613,523)	(53,917)
Options lapsed or cancelled	292p	-	(171,572)	-
Options outstanding at December 31, 2002	318p	\$19.56	8,622,649	1,403,950
Options exercisable at December 31, 2002	293p	\$16.97	1,038,955	54,874

Under the proposed DLC transaction with Carnival Corporation all the above options would vest on completion and become exercisable and any performance conditions would cease to apply (see note 29).

22 Pensions

P&O Princess Cruises is a contributing employer to various pension schemes, including some multi-employer merchant navy industry schemes.

In the UK, P&O Princess Cruises operates its own defined benefit pension scheme, the assets of which are managed on behalf of the trustee by independent fund managers. This scheme is closed to new membership. As at March 31, 2001, the date of the most recent formal actuarial valuation, the scheme had assets with a market value of \$60.9m, representing 102 per cent of the benefits accrued to members allowing for future increases in earnings. Approximately 70 per cent of the scheme's assets are invested in bonds and 30 per cent in equities. The principal valuation assumptions were as follows:

	%
Rate of salary increases	4.0
Rate of pension increases	2.5
Discount rate	5.25
Expected return on assets	5.25

The Merchant Navy Ratings Pension Fund ('MNRPF') is a defined benefit multi-employer scheme in which sea staff employed by companies within the P&O Princess Cruises group have participated. The scheme has a significant funding deficit and has been closed to further benefit accrual. Companies within the P&O Princess Cruises group, along with other employers, are making payments into the scheme under a non-binding Memorandum of Understanding to reduce the deficit. Payments by P&O Princess Cruises' group companies to the scheme in 2002 totalled \$2.0m, which represented 7 per cent of the total payments made by all employers. As at March 31, 2002, the date of the most recent formal actuarial valuation, the scheme had assets with a market value of \$814m, representing 84 per cent

Notes to the financial statements

22 Pensions (continued)

of the benefits accrued to members. Approximately 68 per cent of the scheme's assets were invested in bonds, 25 per cent in equities and 7 per cent in property. The valuation assumptions were as follows:

	%
Rate of salary increases	4.0
Rate of pension increases (where increases apply)	2.5
Discount rate	5.8
Expected return on assets	5.8

The Merchant Navy Officers Pension Fund ('MNOFF') is a defined benefit multi-employer scheme in which officers employed by companies within the P&O Princess Cruises group have participated and continue to participate. This scheme is closed to new membership. The share of the contributions being made to the scheme by P&O Princess Cruises group companies (based on the year to December 31, 2002) was approximately 7 per cent. However, the extent of each participating employer's liability for any deficit in the scheme is uncertain. Accordingly, P&O Princess Cruises accounts for the scheme on a contributions paid basis, as if it were a defined contribution scheme. The scheme is divided into two sections – the New Section and the Old Section. As at March 31, 2000, the date of the most recent formal actuarial valuation, the New Section had assets with a market value of \$2,680m, representing approximately 100 per cent of the benefits accrued to members. The valuation assumptions were as follows:

	%
Rate of salary increases	4.0
Rate of pension increases (where increases apply)	2.5
Discount rate	5.75
Expected return on assets	5.75

At the date of the valuation, approximately 77 per cent of the New Section's assets were invested in equities, 14 per cent in bonds and 9 per cent in property and cash. As a result of this asset distribution, it is expected that the fall in equity markets since March 2000 will have resulted in the New Section now showing a significant funding deficit. The estimated current position is discussed below with the additional information presented under FRS17. The Old Section has been closed to benefit accrual since 1978. As at March 31, 2000, the date of the most recent formal actuarial valuation, it had assets with a market value of \$2,233m representing approximately 111 per cent of the benefits accrued to members. The assets of the Old Section are substantially invested in bonds. Contributions from P&O Princess Cruises group companies to the MNOFF during the year to December 31, 2002 were \$1.2m.

P&O Princess Cruises also operates a number of smaller defined benefit schemes in the U.S. which are unfunded, other than assets in a Rabbi Trust held on the Group's balance sheet, and makes contributions to various defined contribution schemes in various jurisdictions.

The pension charges arising from the schemes described above were:

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
The P&O Princess Cruises Pension Scheme	5.5	4.3	4.0
Merchant Navy pension funds	2.8	2.7	2.7
Overseas plans	3.8	2.8	3.0
	12.1	9.8	9.7

(in 2000 the P&O Princess Cruises Pension Scheme figure includes \$3.1m in respect of payments to the P&O Pension scheme prior to demerger in October 2000)

Differences between the amounts charged and the amounts paid by P&O Princess Cruises are included in prepayments or creditors as appropriate. At December 31, 2002 total prepayments amounted to \$6.3m (2001 \$7.3m), and total creditors amounted to \$14.3m (2001 \$13.1m), giving a net pension liability in the balance sheet of \$8.0m.

Additional information presented under FRS17 'Retirement Benefits'

Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension Costs', under FRS17 'Retirement Benefits' the following additional information has been presented in respect of the P&O Princess Cruises Pension Scheme, P&O Princess Cruises' share of the MNRPF and the unfunded U.S. defined benefit schemes. In accordance with FRS 17, the MNOFF is not included in this analysis as P&O Princess Cruises' share of its underlying assets and liabilities cannot be identified with certainty. However, some additional information on the overall funding position of this scheme is provided.

The actuarial valuations of the P&O Princess Cruises schemes and P&O Princess Cruises' share of the MNRPF were updated to December 31, 2002 and 2001 by P&O Princess Cruises' qualified independent actuary. The assumptions used are best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. Using weighted averages, these assumptions for the U.K. and U.S. schemes together were:

	2002 %	2001 %
Rate of increase in salaries	4.1	4.1
Rate of increase in pensions (where increases apply)	2.5	2.5
Discount rate	5.2	5.6
Expected return on assets (only relevant for U.K. schemes)	5.1	5.5

Notes to the financial statements

22 Pensions (continued)

The aggregated assets and liabilities in the schemes as at December 31, 2002 and 2001 were:

	2002	2002	2001	2001
	Value	Expected rate	Value	Expected rate
	U.S.\$m	of return	U.S.\$m	of return
		%		%
Equities	42.9	5.1	34.1	5.5
Bonds	93.8	5.1	86.9	5.5
Total market value of assets	136.7	5.1	121.0	5.5
Present value of the schemes' liabilities	(178.0)		(146.2)	
Net pension liability	(41.3)		(25.2)	

(this analysis excludes pension assets held in a Rabbi Trust of \$4.8m)

The net pension liability of \$41.3m (2001 \$25.2m) represents pension prepayments of \$nil (2001 \$7.3m) and pension liabilities of \$41.3m (2001 \$32.5m). This compares with the net pension liability accounted for under SSAP 24 of \$8.0m.

On full compliance with FRS17, the amounts that would have been charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for these schemes for the year ended December 31, 2002 are set out below:

	2002
	U.S.\$m
Analysis of amounts charged to operating profits:	
Current service cost	(7.3)
Past service costs	-
Total charged to operating profit	(7.3)
Analysis of amount credited to other finance income:	
Interest on pension scheme liabilities	(8.9)
Expected return on assets in the pension schemes	7.0
Net charge to other finance income	(1.9)

The total profit and loss charge of \$9.2m compares with \$12.1m under SSAP 24.

Analysis of amounts recognised in Statement of Recognised Gains and Losses (STRGL):

Loss on assets	(11.4)
Experience gain on liabilities	9.4
Loss on change of assumptions (financial and demographic)	(11.8)
Total loss recognised in STRGL before adjustment for tax	(13.8)

History of experience gains and losses

	2002
Loss on scheme assets	(\$11.4m)
As a % of scheme assets at end of year	8.3%
Experience gain on scheme liabilities	\$9.4m
As a % of scheme liabilities at end of year	5.3%
Total actuarial loss recognised in STRGL	(\$13.8m)
As a % of scheme liabilities at end of year	7.8%

	2002
	U.S.\$m
Movement in net pension liability in the scheme during the year	
Net pension liability at January 1, 2002	(25.2)
Contributions paid	6.1
Current service cost	(7.3)
Other finance charge	(1.9)
Actuarial loss	(13.8)
Exchange	0.8
Net pension liability at December 31, 2002	(41.3)

It is estimated that the funding position of the MNOPF has changed significantly since the valuation as at March 31, 2000 referred to above and that the New Section is now in deficit. The Annual Report of the MNOPF for the year ended March 31, 2002 showed that the market value of the assets of the New Section at that date was \$2,404m, of which 66 per cent was invested in equities, 22 per cent in bonds and 12 per cent in property and cash. P&O Princess Cruises' actuary has estimated the deficit in the New Section at December 31, 2002 based on the estimated movement in assets since March 31, 2002 and in liabilities since March 31, 2000, and applying a discount rate

Notes to the financial statements

22 Pensions (continued)

to the liabilities of 5.1% in accordance with FRS 17. As noted above, the extent of each employer's liability with respect to the deficit in the fund is uncertain. Based on the share of current contributions made to the scheme by the P&O Princess Cruises group, its share of the estimated deficit would be approximately \$85m, although the appropriate share of the deficit actually attributable to the P&O Princess Cruises group is believed to be lower than this.

On full adoption of FRS17 'Retirement benefits', in future years the difference between the fair value of the assets held in the Group's defined benefit pension schemes and the value of the schemes' liabilities measured on an actuarial basis, using the projected unit method, will be recognised in the balance sheet as a pension scheme asset or liability, as appropriate, which would have a consequential effect on reserves. The carrying value of any resulting pension scheme asset would be restricted to the extent that the Group is able to recover the surplus either through reduced future contributions or refunds. The pension scheme asset or liability would be recognised net of any related deferred tax. However, this is expected to be minimal due to the tax structure of the group. Movements in the defined benefit pension scheme asset or liability would be taken to the profit and loss account or directly to reserves.

23 Related party transactions

Mr Horst Rahe, a non-executive director of the Company, has an interest in a deferred consideration arrangement relating to the Group's purchase of AIDA Cruises Limited in November 2000. Amounts provided for as at December 31, 2002 in respect of this deferred consideration were \$57.5m in aggregate (2001 \$57.0m) (see note 17).

In July 2002, P&O Princess Cruises International Limited, a subsidiary of the Company, entered into, on an arms-length basis, a lease on an office property in Germany with a company in which Horst Rahe, a director of the Company, has an interest. The lease is for a term of 10 years, commencing in 2004, with options to extend. The rent payable under the lease each year varies over the term of the lease, within the range €350,000 to €500,000. These figures are net of relevant regional government grants.

24 Commitments

Capital

	2002 U.S.\$m	2001 U.S.\$m
Contracted		
Ships and riverboats	1,790.0	2,721.6
Other	-	3.8
	1,790.0	2,725.4

Capital commitments related to ships and riverboats include contract stage payments, design and engineering fees and various owner supplied items but exclude interest that will be capitalised.

As at December 31, 2002, the Group had future capital commitments in respect of the five ocean cruise ships and two riverboats on order at that date of \$1,790.0m. Of the total commitment as at December 31, 2002, it is expected that P&O Princess Cruises will incur \$610.0m in 2003 and \$1,180.0m in 2004. Company capital commitments at December 31, 2002 were nil (2001: nil).

Revenue

The minimum annual lease payments to which P&O Princess Cruises was committed under non-cancellable operating leases were as follows:

	Property 2002 U.S.\$m	Other 2002 U.S.\$m	Total 2002 U.S.\$m	Property 2001 U.S.\$m	Other 2001 U.S.\$m	Total 2001 U.S.\$m
Within one year	10.2	12.4	22.6	9.5	21.4	30.9
Between one and two years	9.8	11.5	21.3	9.1	3.7	12.8
Between two and three years	9.8	11.8	21.6	8.9	0.4	9.3
Between three and four years	9.7	1.9	11.6	8.8	0.5	9.3
Between four and five years	9.7	-	9.7	8.7	0.1	8.8
In more than five years	56.6	-	56.6	59.4	-	59.4
	105.8	37.6	143.4	104.4	26.1	130.5

Future minimum annual lease payments due within one year are analysed as follows:

	Property 2002 U.S.\$m	Other 2002 U.S.\$m	Total 2002 U.S.\$m	Property 2001 U.S.\$m	Other 2001 U.S.\$m	Total 2001 U.S.\$m
On leases expiring:						
Within one year	0.4	0.4	0.8	0.3	8.7	9.0
Between one and five years	0.2	12.0	12.2	0.4	12.7	13.1
After five years	9.6	-	9.6	8.8	-	8.8
	10.2	12.4	22.6	9.5	21.4	30.9

Notes to the financial statements

24 Commitments (continued)

In addition to the above, at December 31, 2002 we had future commitments to pay for our usage of certain port facilities as follows:

	U.S.\$m
Within one year	6.4
Between one and five years	27.4
After five years	5.6
	39.4

25 Contingent liabilities

P&O Princess Cruises has provided counter indemnities of \$213.4m (2001 \$179.7m) relating to bonds provided by third parties in support of P&O Princess Cruises' obligations arising in the normal course of business. Generally these bonds are required by travel industry regulators in the various jurisdictions in which P&O Princess Cruises operates.

An Italian subsidiary of P&O Princess Cruises made a claim for a tax allowance for the 1995 financial year under the Italian Tremonti law, reducing taxable profits by just over 250 billion Lire. Qualification for the allowance is dependent on ownership of relevant assets. The subsidiary in question bare-boat chartered a vessel it owned to a fellow subsidiary. In December 2001, the Italian tax authorities submitted an assessment for tax of €70.7m (\$74 m) with penalties of €70.7m (\$74 m) on the grounds that the subsidiary had finance leased, rather than chartered, the vessel and therefore did not qualify for such an allowance. The Italian subsidiary has appealed against the assessment and the outcome of court proceedings in the Low Tax Court of Palermo is awaited. The P&O Princess Cruises board, which has been so advised by its Italian advisers, believes that the relevant assets were owned and not the subject of a finance lease and that the allowance is due.

Princess Cruises is party to a purported class action litigation relating to alleged inappropriate assessing of passengers with certain port charges in addition to their cruise fare. The plaintiffs have not claimed a specific damage amount but settlement of this litigation had been agreed in principle with the plaintiffs for coupons for future travel in amounts between \$5 and \$24 with a total face value of approximately \$13.4m. However, on January 17, 2002, a Los Angeles Superior Court Judge ruled that he would not consider the class-wide settlement agreed by the parties on the grounds that he had previously ruled that there was no appropriate class. As a result of this ruling, the case remains pending. Notwithstanding this development, the P&O Princess Cruises board does not believe that a material liability will arise with respect to this case and no provision has been made in the accounts for this contingency. However, if there is a settlement, there can be no guarantee that it would be of an amount previously indicated.

In the normal course of business, various other claims and lawsuits have been filed or are pending against P&O Princess Cruises. The majority of these claims and lawsuits are covered by insurance. P&O Princess Cruises management believes the outcome of any such suits, which are not covered by insurance, would not have a material adverse effect on P&O Princess Cruises' financial statements.

26 Financial instruments

P&O Princess Cruises uses financial instruments to finance its operations. The financial instruments held by P&O Princess Cruises include cash, overdrafts, bonds and loans. Derivative financial instruments are used to manage the currency and interest rate risks arising from its operations and its sources of finance. The derivatives used for this purpose are principally currency swaps, interest rate swaps and forward currency contracts.

The main financial risks to which P&O Princess Cruises is exposed are summarised below. No transactions of a speculative nature are undertaken.

The accounting policies for financial instruments are described in note 1.

For the purpose of this note, other than currency disclosures, the only debtors and creditors included are deferred consideration receivable or payable, loans, bank overdrafts and short term borrowings, in accordance with FRS13.

Foreign currency risk

P&O Princess Cruises has international business operations. Its principal operating currency is the U.S. dollar, but it also operates in a number of other currencies, the most important of which are sterling and the euro. In general, P&O Princess Cruises' profits and shareholders' funds benefit if sterling or the euro are strong against the U.S. dollar. The U.S. dollar/sterling and the U.S. dollar/euro exchange rates at the respective period ends were

	Average exchange rates for periods ended	Period end exchange rates
December 31, 2002		
U.S.\$:£	1.504	1.609
U.S.\$:euro	0.941	1.049
December 31, 2001		
U.S.\$:£	1.440	1.450
U.S.\$:euro	0.894	0.897

Approximately 40% of P&O Princess Cruises' net operating assets are denominated in non U.S. dollar currencies with the result that P&O Princess Cruises' U.S. dollar consolidated balance sheet, and in particular shareholders' funds, can be affected by currency movements. P&O Princess Cruises partially mitigates the effect of such movements by borrowing in the same currencies as those in which the assets are denominated. An analysis of financial liabilities by currency is shown below.

Notes to the financial statements

26 Financial instruments (continued)

In addition, approximately 30% of P&O Princess Cruises' operating profit is currently generated by businesses with functional currencies other than U.S. dollars. The results of these businesses are translated into U.S. dollars at average exchange rates for the purposes of consolidation. The impact of currency movements on operating profit is mitigated partially by some interest costs being incurred in non U.S. dollar currencies.

P&O Princess Cruises' businesses generally generate their turnover and incur costs in their main functional currency. Exceptions to this include:

- Princess Cruises generates some revenue in Canadian dollars and in sterling.
- Princess Cruises incurs some costs in euros.
- U.K., German and Australian businesses incur costs in U.S.\$, including fuel and some crew costs.

The following table shows P&O Princess Cruises' currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of P&O Princess Cruises that are not denominated in the functional currency of the operating unit concerned, excluding certain non U.S. dollar borrowings treated as hedges of net investments in non U.S. dollar functional currency operations.

	Net foreign currency monetary assets/(liabilities)				
	U.S. Dollar U.S.\$m	Sterling U.S.\$m	Euro U.S.\$m	Other U.S.\$m	Total U.S.\$m
Functional currency of Group operation:					
U.S. dollars	-	(26.4)	(5.0)	(20.5)	(51.9)
Sterling	-	-	(0.6)	0.7	0.1
Other	0.7	-	-	2.2	2.9
Total at December 31, 2002	0.7	(26.4)	(5.6)	(17.6)	(48.9)
Functional currency of Group operation:					
U.S. dollars	-	(0.9)	(2.1)	5.7	2.7
Sterling	(0.9)	-	-	-	(0.9)
Total at December 31, 2001	(0.9)	(0.9)	(2.1)	5.7	1.8

Interest rate risk

The interest rate profile of the financial liabilities of P&O Princess Cruises is set out in the table below:

	Total U.S.\$m	Variable rate financial liabilities U.S.\$m	Fixed rate financial liabilities U.S.\$m	Weighted average interest rate for fixed rate financial liabilities %	Average time over which interest rate is fixed months
Currency:					
U.S. dollars	1,309.6	880.7	428.9	5.4	176.5
Sterling	759.9	291.1	468.8	7.2	93.3
Euro	564.5	514.5	50.0	4.6	28.0
Total at December 31, 2002	2,634.0	1,686.3	947.7	6.3	127.5
Currency:					
U.S. dollars	713.1	412.4	300.7	7.7	260.0
Sterling	753.4	293.9	459.5	7.2	103.0
Euro	90.3	90.3	-	-	-
Total at December 31, 2001	1,556.8	796.6	760.2	7.4	165.1

The variable rate financial liabilities comprise bank borrowings and overdrafts bearing interest at rates fixed in advance for periods ranging from one to six months by reference to the applicable reference rate, primarily LIBOR for U.S. dollar, sterling and euro borrowings.

Notes to the financial statements

26 Financial instruments (continued)

The interest rate profile of the financial assets of P&O Princess Cruises is set out in the table below:

	Total U.S.\$m	Variable rate financial assets U.S.\$m	Financial assets on which no interest is received U.S.\$m	Fixed rate financial assets U.S.\$m	Weighted average interest rate for fixed rate financial assets %	Average time over which interest rate is fixed months
Currency:						
U.S. dollars	54.9	35.5	19.4	-	-	-
Sterling	100.9	95.4	5.5	-	-	-
Euro	2.8	1.5	1.3	-	-	-
Other	8.1	7.6	0.5	-	-	-
Total at December 31, 2002	166.7	140.0	26.7	-	-	-
Currency:						
U.S. dollars	16.0	1.5	14.5	-	-	-
Sterling	81.2	73.4	7.8	-	-	-
Euro	8.4	6.4	-	2.0	6.0	48.0
Other	21.7	20.3	1.4	-	-	-
Total at December 31, 2001	127.3	101.6	23.7	2.0	6.0	48.0

The majority of variable rate financial assets comprise bank accounts bearing interest at the applicable money market deposit rates. Fixed rate financial assets include deferred consideration relating to the sale of fixed assets.

Liquidity risk

At December 31, 2002 P&O Princess Cruises had committed financing arranged of \$1,210m (2001 \$1,657m) to fund the delivery payments on four of its five ocean cruise ships on order, of which \$475m relates to ship deliveries in 2003 and \$735m to ship deliveries in 2004. In addition, at December 31, 2002 it had \$444m (2001 \$605m) of undrawn committed bank facilities with a weighted average life of five years and a further \$162.1m (2001 \$120.4m) of cash available for general corporate purposes, including ship purchases.

Credit risk

Management does not consider there to be any significant concentration of credit risk. Potential concentrations comprise principally cash and cash equivalents and trade debtors. P&O Princess Cruises enters into derivative transactions and maintains cash deposits with several major banks. Management periodically reviews the credit rating of the institutions and believes that any credit risk is minimal. Concentration of credit risk with respect to trade debtors is limited due to the large number of debtors comprising P&O Princess Cruises' customer base.

The immediate credit exposure of financial instruments is represented by those financial instruments that have a positive fair value at December 31, 2002.

Fair values of financial assets and liabilities

A comparison by category of book value and fair value of P&O Princess Cruises' financial assets and liabilities is as follows:

	At December 31			
	2002		2001	
	Book value U.S.\$m	Fair value U.S.\$m	Book value U.S.\$m	Fair value U.S.\$m
Primary financial instruments held or issued to finance				
P&O Princess Cruises operations:				
Notes and bonds	(1,120.9)	(1,177.2)	(1,066.2)	(957.0)
Other loans	(1,498.6)	(1,510.9)	(473.9)	(484.0)
Cash	162.1	162.1	120.4	120.4
Bank overdrafts	(14.5)	(14.5)	(16.7)	(16.7)
Other investments and deferred consideration	4.6	4.6	6.9	6.9
Derivative financial instruments held or issued to hedge currency exposure on expected future transactions:				
Forward foreign currency contracts	-	(16.7)	-	(208.5)
Interest rate swaps	-	49.6	-	13.6
	(2,467.3)	(2,503.0)	(1,429.5)	(1,525.3)

The notional principal amount of derivative financial instruments held as hedges against currency exposures on ship capital expenditure is \$690.2m (2001 \$924.2m) in respect of forward foreign currency contracts and \$798.3m (2001 \$741.8m) in respect of currency and interest rate swaps providing hedges against currency and interest rate exposure on loans.

The fair value of notes and bonds is based on quoted market price or if these are not available the quoted market price of comparable debt.

Other loans, which include short term borrowings and bank term loans, are largely at variable interest rates and therefore the book value approximates to the fair value.

The fair value of cash and bank overdrafts approximates to the book value due to the short term maturity of the instruments.

Notes to the financial statements

26 Financial instruments (continued)

The fair value of other investments and deferred consideration is based on the estimated recoverable amount.

The fair values of derivative financial instruments are discounted to the net present value using prevailing market rates and foreign currency rates at the balance sheet date.

Hedging

When P&O Princess Cruises' businesses enter into capital expenditure or lease commitments in currencies other than their main functional currency, these commitments are normally hedged using forward contracts and currency swaps in order to fix the cost when converted to the functional currency. The most significant of P&O Princess Cruises' foreign currency commitments of this nature are in respect of certain cruise ships under construction. The periods of the forward contracts match the expected cash flows of the capital commitments, usually between three and five years. Other cruise ships have been ordered in currencies matching the main functional currencies in which these ships will generate their revenue.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on currency swaps, interest rate swaps and forward currency contracts are as follows:

	Gains U.S.\$m	(Losses) U.S.\$m	Net gains/ (losses) U.S.\$m
At January 1, 2002	18.1	(213.0)	(194.9)
(Gains)/losses arising before January 1, 2002 that were recognised during the year ended December 31, 2002	(1.5)	57.9	56.4
Gains/(losses) arising before January 1, 2002 that were not recognised during the year ended December 31, 2002	16.6	(155.1)	(138.5)
Gains/(losses) arising in the year that were not recognised during the year ended December 31, 2002	62.7	108.7	171.4
Gains/(losses) at December 31, 2002	79.3	(46.4)	32.9
Of which:			
Gains/(losses) expected to be recognised in less than one year	9.4	(43.9)	(34.5)
Gains/(losses) expected to be recognised after more than one year	69.9	(2.5)	67.4
Gains/(losses) at December 31, 2002	79.3	(46.4)	32.9
Of which:			
Gains/(losses) on contracted capital expenditure on ships	27.6	(42.7)	(15.1)
Gains/(losses) on other hedges	51.7	(3.7)	48.0
Gains/(losses) at December 31, 2002	79.3	(46.4)	32.9

The underlying commitments, after taking these contracts into account, are reflected within note 24.

27 Investment in subsidiaries

Cost at December 31, 2001 and 2002 U.S.\$m
428.7

The principal operating subsidiaries at December 31, 2002 were:

	Country of Incorporation/ Registration	Percentage of equity share capital owned at December 31, 2002	Business Description
P&O Princess Cruises International Ltd	England	100%†	Passenger cruising
Alaska Hotel Properties LLC	U.S.A.	100%	Hotel operations
Brittany Shipping Corporation Ltd	Bermuda	100%	Shipowner
Corot Shipping Corporation (Sociedade Unipessoal) Lda	Portugal	100%	Shipowner
CP Shipping Corporation Ltd	Bermuda	100%	Shipowner
Fairline Shipping Corporation Ltd	Bermuda	100%	Shipowner
Fairline Shipping International Corporation Ltd	Bermuda	100%	Shipowner
GP2 Ltd	Bermuda	100%	Shipowner
GP3 Ltd	Bermuda	100%	Shipowner
Princess Cruises (Shipowners) Ltd	England	100%	Passenger cruising
P&O Travel Ltd	England	100%	Travel agent
Princess Cruise Lines Ltd	Bermuda	100%	Passenger cruising
Princess Tours Ltd	England	100%	Shipowner
Royal Hyway Tours Inc	U.S.A.	100%	Land tours
Sitmar International SRL	Panama	100%	Holding company
Tour Alaska LLC	U.S.A.	100%	Rail tours

† Held directly by the Company.

28 Additional information for U.S. investors

Accounting principles

These financial statements have been prepared in accordance with U.K. GAAP, which differs in certain significant respects from U.S. GAAP. A description of the relevant accounting principles which differ materially is given below.

Treasury stock

Under U.K. GAAP, the Company's shares held by employee share trusts are included at cost in fixed asset investments and are written down to the amount payable by employees over the vesting period of the options. Under U.S. GAAP, such shares are treated as treasury shares and are included in shareholders' equity.

Depreciation

Under U.K. GAAP, until December 31, 1999 certain freehold properties were not depreciated. Under U.S. GAAP useful economic lives have been applied to these properties and a depreciation expense recorded based on these lives.

Goodwill and contingent consideration

Under U.K. GAAP, if an acquirer can satisfy contingent consideration by the issue of shares at its option, this element of the consideration is not a liability as there is no obligation to transfer future economic benefits. Consequently this element of the purchase price is accounted for within shareholders' funds. Under U.S. GAAP this consideration is not recognised until the consideration is settled.

In June 2001 the Financial Accounting Standards Board ('FASB') issued Statement of Financial Accounting Standards ('SFAS') No. 141 'Business Combinations' and SFAS No. 142 'Goodwill and Other Intangible Assets'. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognised and reported separately from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortised, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142.

The Group adopted the provisions of SFAS No. 141 as at July 1, 2001 and SFAS No. 142 as at January 1, 2002. Goodwill and intangible assets determined to have an indefinite useful economic life are not amortised. Goodwill and indefinite life intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortised through to December 31, 2001. Amortisation of such assets ceased on January 1, 2002 upon adoption of SFAS No. 142. Accordingly, goodwill amortisation recognised under U.K. GAAP from January 1, 2002 has been reversed for the purposes of U.S. GAAP.

Upon adoption of SFAS No. 142, the Group was required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria SFAS No. 141 for recognition separate from goodwill. The Group was also required to reassess the useful lives and residual values of all intangibles acquired and to make any necessary amortisation period adjustments by the end of the first interim period after adoption. For intangible assets identified as having indefinite useful economic lives, the Group was required to test those intangible assets for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Impairment is measured as the excess carrying value over the fair value of an intangible asset with an indefinite life. The results of this analysis did not require the Group to recognise an impairment loss.

In connection with the SFAS No. 142 transitional goodwill impairment evaluation, the Statement required the Group to perform an assessment of whether there was an indication that goodwill is impaired as of date of adoption. To accomplish this the Group was required to identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. The Group was required to determine the fair value of each reporting unit and compare it with the carrying value of the reporting unit within six months of January 1, 2002. This transitional impairment test upon the adoption of SFAS No. 142 did not result in an impairment charge. The Group performed the annual impairment test in December 2002 and determined that goodwill was not impaired.

Marketing and promotion costs

Under U.K. GAAP, marketing and promotion costs have been expensed over the period of benefit, not exceeding one year from the end of the year the cost is incurred. U.S. GAAP requires that these costs are expensed in the financial year incurred.

Relocation costs

The Group had accrued expenses relating to the relocation of employees which under U.K. GAAP are recognisable as liabilities. Under U.S. GAAP these costs may not be recognised until incurred by the employees.

Employee share incentives

THE EXECUTIVE SCHEMES

Under U.K. GAAP the intrinsic value of shares or rights to acquire shares when the rights are granted, less contributions by employees, is charged in arriving at operating profit. If this forms part of a long term incentive scheme the charge in the profit and loss account is spread over the period to which the schemes' performance criteria relate, otherwise recognition occurs when shares or rights are granted. Under U.S. GAAP, compensation expense is recognised for the difference between the market price of the shares and the exercise price for performance and variable plans. The amount of compensation expense is adjusted each accounting period based on the value of the shares for both types of plan and also upon the estimated achievement of the performance criteria for the performance plans, until the date at which the number of shares and the exercise price are known.

SAYE SCHEME

When employed by P&O, certain employees of P&O Princess Cruises were eligible to participate in the P&O save as you earn ('SAYE') share option scheme. P&O Princess Cruises does not operate a SAYE scheme. U.K. GAAP does not recognise the cost of SAYE discounts in financial statements. U.S. GAAP requires the full discount given to employees on the market price of shares provided as part of a 'non-compensatory plan' (such as the SAYE scheme) to be charged to the profit and loss account when it is greater than that which would be reasonable in an offer of shares to shareholders or others.

Pensions

Under U.K. GAAP, pension costs include the regular cost of providing the benefits as a level percentage of current and expected future earnings of the employees covered. Variations from the regular pension cost are spread on a systematic basis over the estimated average remaining service lives of current employees in the plans.

U.S. GAAP requires that the projected benefit obligation (pension liability) be compared with the market value of the underlying plan assets, and the difference may be adjusted to reflect any unrecognised obligations or assets in determining the pension cost or credit for the period. The actuarial method and assumptions used in determining the pension expense can be significantly different from that computed under current U.K. GAAP. U.S. GAAP also requires the actuarial valuation to be prepared as at a more recent date than U.K. GAAP.

Notes to the financial statements

28 Additional information for U.S. investors (continued)

During 2001, one of the multi-employer schemes in which the Group participates, the MNRPF, closed its fund for future benefit accrual. Under U.K. GAAP, the Group is recognising this liability over the period in which the funding deficit is being made good which approximates to expected remaining service lives of employees in the scheme. Under U.S. GAAP, the Group has accounted for its share of the scheme's net pension liability with an expense of \$3.7m being recognised in 2002 (2001: \$15.1m).

Derivative instruments and hedging activities

Under U.K. GAAP, gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Under U.S. GAAP, Statement of Financial Accounting Standards No. 133 (SFAS No. 133) 'Accounting for Derivative Instruments and Hedging Activities', as amended, requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will either be recognised in earnings as offsets to the changes in fair value of related hedged items or, for forecast transactions, deferred and recorded as a component of other comprehensive income until the hedged transactions occur and are recognised in earnings. The ineffective portion of a hedging derivative's change in fair value is recognised immediately in earnings. This statement became effective for P&O Princess Cruises on January 1, 2001, and a transition adjustment of \$9.0m was debited to reserves on implementation as the cumulative effect of the U.S. GAAP accounting policy change.

In accordance with SFAS No. 133, U.S. GAAP assets are increased by \$68.7m and liabilities by \$80.3m as at December 31, 2002 (2001 U.S. GAAP assets increased by \$214.3m and liabilities by \$219.3m.) Cash flow hedges, of \$3.3m have been taken to other comprehensive income.

Taxes

DEFERRED TAX

Following the implementation of FRS 19 'Deferred tax', under both U.K and U.S. GAAP deferred taxes are accounted for on all temporary differences. Deferred tax can also arise in relation to the tax effect of the other U.S. GAAP adjustments. During 2001, the Group elected to enter the U.K. tonnage tax regime, as a result of which temporary timing differences in respect of fixed assets within the scheme became permanent differences. The deferred tax liabilities in respect of these assets have therefore been released under both U.K. and U.S. GAAP.

IMPLEMENTATION OF FRS 19 'DEFERRED TAX'

Following the implementation of FRS 19 'Deferred tax', as detailed in note 1, the reconciliation of U.K. profit and shareholders' funds to U.S. GAAP has been restated for 2001 and 2000. In 2001, the impact on the U.S. GAAP reconciliation is a decrease in the 'Taxes' U.S. GAAP adjustment to profit of \$96.8m and an increase of \$11.3m in the 'Taxes' U.S. GAAP adjustment to shareholders' funds. In 2000, the effect is a reduction in the 'Taxes' U.S. GAAP adjustment to profit of \$16.1m and a reduction in the 'Taxes' U.S. GAAP adjustment to shareholders' funds of \$108.1m.

OTHER TAXES

The Group incurred income tax in 2001 as a result of taxable gains on intercompany transactions that were undertaken to maximise its tax efficiency. Under U.K. GAAP, this was charged to the profit and loss account. Under U.S. GAAP, income taxes paid on intercompany profits on assets remaining within the Group must be deferred. This deferred charge is being amortised over 25 years.

Dividends

Under U.K. GAAP dividends are accounted for in the period to which they pertain, which may be earlier than the date of declaration. Under U.S. GAAP dividends are accounted for in the period in which they are declared.

Transaction costs

In 2001, it was expected that the proposed dual listed company transaction with Royal Caribbean Cruises Ltd. would be accounted for under U.K. GAAP using merger accounting principles with the costs of carrying out the combination being expensed to the profit and loss account when the combined group came into existence. When the P&O Princess Cruises Board withdrew its recommendation for this proposed transaction in October 2002, these costs were expensed under U.K. GAAP. Under U.S. GAAP, it was intended that the proposed transaction would be accounted for using the purchase method of accounting with P&O Princess Cruises being treated as the acquiree. Accordingly, under U.S. GAAP the costs incurred by P&O Princess Cruises in connection with the proposed combination were expensed to the profit and loss account as incurred.

Assets and liabilities

Current assets under U.K. GAAP of \$20.4m (2001 \$8.6m) would be reclassified as non current assets under U.S. GAAP.

Provisions for liabilities and charges under U.K. GAAP of \$nil (2001 \$0.2m) would be reclassified as 'Creditors - amounts falling due within one year' under U.S. GAAP

Deferred financing costs of \$17.6m included within Creditors 'amounts falling due after more than one year' under U.K. GAAP would be reclassified as 'other assets' under U.S. GAAP.

Notes to the financial statements

28 Additional information for U.S. investors (continued)

The effects of these differing accounting principles are shown below:

Summary Group income statement

	2002 U.K. GAAP U.S.\$m	2002 Adjustments U.S.\$m	2002 U.S. GAAP U.S.\$m	2001 U.S. GAAP U.S.\$m	2000 U.S. GAAP U.S.\$m
Revenues	2,526.8	-	2,526.8	2,451.0	2,423.9
Expenses					
Operating	(1,576.6)	-	(1,576.6)	(1,584.1)	(1,558.0)
Marketing, selling and administrative	(477.6)	5.5	(472.1)	(381.5)	(353.7)
Depreciation and amortisation	(173.9)	4.7	(169.2)	(146.5)	(143.9)
	(2,228.1)	10.2	(2,217.9)	(2,112.1)	(2,055.6)
Operating income before income from affiliated operations	298.7	10.2	308.9	338.9	368.3
Income from affiliated operations	-	-	-	0.1	0.7
Operating income	298.7	10.2	308.9	339.0	369.0
Non-operating income (expense)					
Interest income	6.0	-	6.0	7.7	2.5
Interest expense, net of capitalised interest	(80.0)	(3.3)	(83.3)	(61.8)	(51.8)
Other income/(expense)	1.2	-	1.2	(1.8)	(6.5)
Income tax (expense)/credit	(17.1)	(2.8)	(19.9)	151.2	(56.9)
Minority interest	-	-	-	(0.1)	(2.6)
	(89.9)	(6.1)	(96.0)	95.2	(115.3)
Profit attributable to ordinary shareholders in accordance with U.S. GAAP before cumulative effect of accounting policy change	208.8	4.1	212.9	434.2	253.7
Cumulative effect of accounting policy change in respect of derivative instruments and hedging activities	-	-	-	(9.0)	-
Profit attributable to ordinary shareholders in accordance with U.S. GAAP	208.8	4.1	212.9	425.2	253.7
Adjustments to profit attributable to ordinary shareholders:					
			2002 U.S.\$m	2001 U.S.\$m Restated (note 1)	2000 U.S.\$m Restated (note 1)
Profit attributable to ordinary shareholders in accordance with U.K. GAAP			208.8	383.1	258.0
U.S. GAAP adjustments					
Depreciation			0.4	0.4	0.4
Goodwill and contingent consideration			4.3	1.2	0.3
Marketing and promotion costs			(3.2)	5.2	(8.3)
Relocation costs			(2.0)	2.0	-
Employee share incentives (i)			1.8	(5.1)	1.9
Pensions (ii)			(3.0)	(14.2)	0.9
Derivative instruments and hedging activities			(3.3)	4.0	-
Tax effect of U.S. GAAP adjustments			-	(3.9)	0.5
Taxes			(2.8)	73.4	-
Transaction costs			11.9	(11.9)	-
Profit attributable to ordinary shareholders in accordance with U.S. GAAP before cumulative effect of accounting policy change			212.9	434.2	253.7
Cumulative effect of U.S. GAAP accounting policy change in respect of derivative instruments and hedging activities			-	(9.0)	-
Profit attributable to ordinary shareholders in accordance with U.S. GAAP			212.9	425.2	253.7
Earnings per share					
Basic earnings per share in accordance with U.S. GAAP (in cents)					
before cumulative effect of accounting policy change			30.7	62.8	37.1
after cumulative effect of accounting policy change			30.7	61.5	37.1
Diluted earnings per share in accordance with U.S. GAAP (in cents)					
before cumulative effect of accounting policy change			30.6	62.5	37.1
after cumulative effect of accounting policy change			30.6	61.2	37.1
Weighted average number of shares used in basic earnings per share calculation (millions)			692.4	691.5	684.2
Weighted average number of shares used in diluted earnings per share calculation (millions)			695.6	694.8	684.2

Notes to the financial statements

28 Additional information for U.S. investors (continued)

Goodwill and other intangible assets - adoption of SFAS No. 142

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Reported profit attributable to ordinary shareholders in accordance with U.S. GAAP	212.9	425.2	253.7
Add back goodwill amortisation	-	2.9	2.0
Adjusted profit attributable to ordinary shareholders in accordance with U.S. GAAP	212.9	428.1	255.7

Basic earnings per share in accordance with U.S. GAAP (cents)

Reported basic earnings per share in accordance with U.S. GAAP	30.7	61.5	37.1
Add back goodwill amortisation	-	0.4	0.3
Adjusted basic earnings per share in accordance with U.S. GAAP	30.7	61.9	37.4

Diluted earnings per share in accordance with U.S. GAAP (cents)

Reported diluted earnings per share in accordance with U.S. GAAP	30.6	61.2	37.1
Add back goodwill amortisation	-	0.4	0.3
Adjusted diluted earnings per share in accordance with U.S. GAAP	30.6	61.6	37.4

Adjustments to shareholders' funds:

	2002 U.S.\$m	2001 U.S.\$m Restated (note 1)	2000 U.S.\$m Restated (note 1)
Shareholders' funds in accordance with U.K. GAAP	2,813.8	2,629.4	2,355.5
U.S. GAAP adjustments			
Treasury stock	(2.9)	(3.3)	-
Depreciation	(10.9)	(11.3)	(11.7)
Goodwill and contingent consideration	(51.7)	(45.3)	(46.5)
Marketing and promotion costs	(87.9)	(84.7)	(89.9)
Relocation costs	-	2.0	-
Pensions (ii)	(15.3)	(12.3)	1.9
Derivative instruments and hedging activities	(11.6)	(5.0)	-
Tax effect of U.S. GAAP adjustments	-	-	3.9
Taxes	70.6	73.4	-
Dividends	20.8	20.8	83.1
Transaction costs	-	(11.9)	-
Shareholders' funds in accordance with U.S. GAAP	2,724.9	2,551.8	2,296.3

The following table reconciles shareholders' funds under U.S. GAAP

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Shareholders' funds opening balance	2,551.8	2,296.3	2,006.8
Profit for the year under U.S. GAAP	212.9	434.2	253.7
Add back share options as taken through reserves	(1.8)	5.1	(1.2)
Treasury stock	-	(3.3)	-
Foreign exchange reserve movement	44.6	(26.2)	(5.5)
Dividend	(83.2)	(145.5)	-
Investment by P&O	-	-	1.2
New shares issued	3.9	0.2	41.3
Implementation of FAS 133	-	(9.0)	-
FAS 133 cash flow hedge	(3.3)	-	-
Shareholders' funds closing balance	2,724.9	2,551.8	2,296.3

Notes to the financial statements

28 Additional information for U.S. investors (continued)

(i) Employee share incentives

The profit and loss account charge/(credit) in respect of employee share compensation schemes was \$0.7m in 2002 and nil in each of the two years ended December 31, 2001 under U.K. GAAP, and \$(1.1)m (2001 \$5.1m, 2000 \$(1.9)m) under U.S. GAAP.

P&O Princess Cruises has adopted the disclosures of SFAS No. 123 'Accounting for Stock-Based Compensation', but continues to measure its share-based compensation expense under U.S. GAAP in accordance with APB 25 and its related interpretations. If P&O Princess Cruises had measured compensation costs for the P&O Princess Cruises share options that were granted to its employees in 2002, 2001 and 2000 under the fair value based method prescribed by SFAS No. 123, the net profit would have been the illustrative amounts shown below.

	2002 U.S.\$m	2001 U.S.\$m Restated (note 1)	2000 U.S.\$m Restated (note 1)
Profit attributable to ordinary shareholders			
As reported under U.S. GAAP	212.9	425.2	253.7
Pro forma under U.S. GAAP	208.5	421.6	250.2

The weighted average fair value of options granted to P&O Princess Cruises employees in 2002 was \$2.84. Equivalent fair values in 2001 and 2000 in respect of options over P&O Princess Cruises ordinary shares were \$3.78 and \$1.91 respectively.

These pro forma amounts may not be representative of the effect on pro forma net income in future years, since the estimated fair value of stock options is amortised over the vesting period and additional options may be granted in future years.

The fair value of grants during the year has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions; expected dividend yields of 1.7% (2001 3.0%, 2000 2.5%); expected volatility of 51.4% (2001 72.5%, 2000 42.0%); risk free interest rates of 3.75% (2001 5.0%, 2000 5.8%) and expected option lives of up to six years.

(ii) Pensions

For the purposes of U.S. GAAP, the pension costs of The P&O Pension Scheme and of its successor, The P&O Princess Cruises Pension Scheme have been restated in the following tables in accordance with the requirements of SFAS No. 87. The changes in projected benefit obligations, plan assets and details of the funded status of the plan, under SFAS No. 87 and SFAS No. 132 are as follows:

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Change in projected benefit obligation:			
Benefit obligation at beginning of year	58.7	50.9	49.0
Service cost	5.0	4.9	4.8
Interest cost	3.3	2.8	2.7
Exchange	7.6	(1.8)	(3.7)
Actuarial loss	5.5	1.9	(1.9)
Benefit obligation at end of year	80.1	58.7	50.9

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Change in plan assets:			
Fair value at beginning of year	66.1	58.4	49.4
Actual return on plan assets	(1.7)	4.4	0.7
Group contribution	3.0	4.4	11.0
Participant contributions	1.0	1.1	1.0
Exchange	7.4	(2.2)	(3.7)
Fair value of plan assets at end of year	75.8	66.1	58.4

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Reconciliation of funded status:			
Funded status of the plan	(4.3)	7.4	7.5
Unamortised transition asset	(0.1)	(0.2)	(0.3)
Unamortised actuarial net loss	14.4	2.5	1.8
Prepaid pension cost	10.0	9.7	9.0

	2002 U.S.\$m	2001 U.S.\$m	2000 U.S.\$m
Components of net periodic benefit cost:			
Service cost	6.0	4.9	4.8
Interest cost	3.3	2.8	2.7
Expected return on assets	(3.8)	(3.4)	(3.4)
Members' contribution	(1.0)	(1.0)	(0.9)
Net amortisations			
Transition asset	(0.1)	(0.1)	(0.1)
Actuarial loss	0.3	0.2	-
Net periodic benefit cost	4.7	3.4	3.1

Notes to the financial statements

28 Additional information for U.S. investors (continued)

Assumed discount rates and rates of increase in remuneration used in calculating the projected benefit obligations together with long-term rates of return on plan assets vary according to the economic conditions of the United Kingdom, in which the plan is situated. The rates used for calculation of period end benefit obligations and forecast benefit cost in the plan for SFAS No. 132 purposes were as follows:

	2002	2001	2000
	%	%	%
Discount rate	5.1	5.5	5.8
Long-term rate of increase in remuneration	4.0	4.0	4.0
Expected long-term return on assets	5.1	5.5	6.8

P&O Princess Cruises has no material liabilities for post-retirement benefits other than pensions.

(iii) Deferred taxes

The following table sets out the significant components of P&O Princess Cruises' deferred tax liability determined on a U.S. GAAP basis:

	2002	2001	2000
	U.S.\$m	Restated U.S.\$m	Restated U.S.\$m
Deferred tax liabilities:			
Accelerated capital allowances on fixed assets	7.2	6.7	203.8
Net deferred tax liability under U.S. GAAP	7.2	6.7	203.8
Net deferred tax liability under U.K. GAAP	11.8	11.3	203.8

Cash flow statements

The cash flow statements have been prepared in conformity with U.K. Financial Reporting Standard 1 (Revised) 'Cash Flow Statements'. The principal differences between these statements and cash flow statements presented in accordance with SFAS No. 95 are as follows:

- Under U.K. GAAP, net cash flow from operating activities is determined before considering cash flows from (a) returns on investments and servicing of finance (b) taxes paid and (c) dividends received from joint ventures. Under U.S. GAAP, net cash flow from operating activities is determined after these items.
- Under U.K. GAAP, capital expenditure is classified separately while under U.S. GAAP it is classified as an investing activity.
- Under U.K. GAAP, movements in bank overdrafts are classified as movements in cash while under U.S. GAAP they are classified as a financing activity.
- Under U.K. GAAP, equity dividends paid to shareholders are classified separately while under U.S. GAAP they are classified as a financing activity.

Set out below is a summary cash flow statement under U.S. GAAP:

	2002	2001	2000
	U.S.\$m	U.S.\$m	U.S.\$m
Net cash inflow from operating activities	478.5	255.5	422.1
Net cash outflow from investing activities	(1,153.4)	(592.5)	(795.5)
Net cash inflow from financing activities	728.1	204.0	564.8
Exchange translation effect on cash	(11.5)	6.2	(7.4)
Net increase/(decrease) in cash and cash equivalents under U.S. GAAP	41.7	(126.8)	184.0
Cash and cash equivalents at beginning of year	120.4	247.2	63.2
Cash and cash equivalents at end of year	162.1	120.4	247.2

New U.S. accounting standards

In June 2001, the Financial Accounting Standards Board ('FASB') issued SFAS No. 143 'Accounting for Asset retirement obligations'. SFAS No. 143 requires the Group to record the fair value of asset retirement obligations associated with the retirement of tangible long-lived assets and the associated retirement costs in the period in which it is incurred, if a reasonable estimate of fair value can be made. SFAS No. 143 will be adopted by the Group in the 2003 fiscal year. The Group has not yet determined the impact of adopting SFAS No. 143.

In April 2002, the FASB issued SFAS No. 145 'Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections'. SFAS No. 145 provides for the rescission of several previously-issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. SFAS No. 145 will be adopted with effect from January 1, 2003, except for the provisions relating to the amendment of SFAS No. 13, which was adopted for transactions occurring subsequent to May 15, 2002. The impact of adopting SFAS No. 145 on the results of operations and financial position of the Group remains to be evaluated.

In July 2002, the FASB issued SFAS No. 146 'Accounting for Costs Associated with Exit or Disposal Activities.' SFAS No. 146 nullifies Emerging issues Task Force No. 94-3 'Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)'. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity should be recorded when it is incurred and initial measurement be at fair value. The statement is effective for exit or disposal activities that are initiated after December 31, 2002, although earlier adoption is encouraged. The impact of adopting SFAS No. 146 on the results of operations and financial position of the Group remains to be evaluated.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others' (FIN45), which addresses, among other things, the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The Interpretation also requires the recognition of a liability by a guarantor at the inception of certain guarantees.

28 Additional information for U.S. investors (continued)

The Interpretation requires the guarantor to recognise a liability for the non-contingent component of the guarantee, this is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements.

As noted above the Company has adopted the disclosure requirements of the Interpretation and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148 'Accounting for Stock Based Compensation - Transition and Disclosure - an amendment of FASB statement No. 123'. SFAS No. 148 permits two additional transition methods for entities that adopt the fair value based method of accounting for stock-based employee compensation. The Statement also requires new disclosures about the ramp-up effect of stock-based employee compensation on reported results. The Statement also requires that those effects be disclosed more prominently by specifying the form, content and location of those disclosures. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company has not decided yet if it will adopt the transition provisions of SFAS No. 148.

In January 2003, the FASB issued FASB Interpretation No. 46, 'Consolidation of Variable Interest Entities' (FIN 46) which interprets Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. FIN 46 clarifies the application of ARB No. 51 with respect to the consolidation of certain entities (variable interest entities - 'VIE's') to which the usual condition for consolidation described in ARB No. 51 does not apply because the controlling financial interest in VIE's may be achieved through arrangements that do not involve voting interests. In addition, FIN 46 requires the primary beneficiary of VIE's and the holder of a significant variable interest in VIE's to disclose certain information relating to their involvement with the VIE's. The provisions of FIN 46 apply immediately to VIE's created after January 31, 2003, and to VIE's in which an enterprise obtains an interest after that date. FIN 46 applies in the first fiscal year beginning after June 15, 2003, to VIE's in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Group is currently evaluating the impact the adoption of FIN 46 will have on its financial statements.

29 Post balance sheet event

On January 7, 2003, the P&O Princess Cruises board approved the proposed DLC transaction with Carnival Corporation and agreed to recommend to the P&O Princess Cruises shareholders that they vote in favour of the resolution to implement the DLC structure. In the early morning of January 8, 2003, Carnival and P&O Princess Cruises signed the implementation agreement setting out the terms and conditions for the implementation of the DLC structure. Completion of the DLC transaction is conditional on certain events, including approval by the shareholders of both P&O Princess Cruises and Carnival.

Shareholder information

P&O Princess Cruises website

In addition to the information set out below, the P&O Princess Cruises website (www.poprincesscruises.com) contains a great deal of information about the Company and the Group, including this annual report, the Form 20-F, other financial information, the trading price of the shares and ADSs, copies of press releases and links to the websites of the Group's brands. Shareholders may use the website to obtain information from the Company in electronic form and may obtain forms to initiate changes to their account.

Secretary and Registered Office

Simon Pearce
Company Secretary
P&O Princess Cruises plc
77 New Oxford Street
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Registrars

Shareholder records are maintained on the register by the P&O Princess Cruises Registrar at Computershare Investor Services PLC. The Registrar should be notified in writing of changes to name or address, loss of a share certificate or dividend warrant or a change to or notification of a dividend mandate. All such communications should be addressed to:

Computershare Investor Services PLC
P.O. Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
U.K.

Shareholder helpline: in the U.K. 0870 703 0055
outside the U.K. +44 870 703 0055

Shareholders with more than one account, arising from inconsistencies in name or address details, may request the Registrar to amalgamate the holdings in order to avoid the receipt of duplicate mailings.

Financial Times Cityline Services

Shareholders in the U.K. may also obtain the latest P&O Princess Cruises share price from the Financial Times Cityline Service by telephoning 0906 843 5544 or 0906 003 5544. Calls are charged at 60p per minute at all times.

U.K. tax on capital gains

The market quotations of P&O Princess Cruises plc ordinary shares and The Peninsular and Oriental Steam Navigation Company deferred stock on October 23, 2000, the first day of dealing in P&O Princess Cruises shares following the demerger, as calculated in accordance with section 272(3) of the Taxation of Chargeable Gains Act 1992, were:

P&O Princess Cruises plc ordinary shares	291.75p
The Peninsular and Oriental Steam Navigation Company deferred stock	241.25p

Dividend reinvestment plan

P&O Princess Cruises operates a dividend reinvestment plan (DRIP) under which shareholders can mandate to reinvest their cash dividends in P&O Princess Cruises shares. Any new shareholder who would like to receive details of the DRIP should contact the Registrar (see above) or download the relevant form from www.poprincesscruises.com.

Share Dealing Service

Computershare Investor Services PLC provides a low-cost telephone dealing service which offers shareholders in the U.K. holding certificated shares a cost-effective means of purchasing or selling shares in P&O Princess Cruises plc. Shareholders outside the U.K. may be permitted to use the service subject to Computershare Investor Services PLC being satisfied it may provide services in accordance with local laws and regulations. A commission of 1% is charged, subject to a minimum commission of £15. The terms and conditions of the service are available on request from Computershare Investor Services PLC, who may be contacted on 0870 703 0084.

Shareholder information

Shareholder analysis

Holdings of ordinary shares at December 31, 2002:

Holdings	Shareholders		Shares	
	Number	%	Number (000s)	%
1 - 500	47,094	64.1	8,897	1.3
501 - 1,000	13,445	18.3	9,733	1.4
1,001 - 5,000	10,982	15.0	20,898	3.0
5,001 - 50,000	1,320	1.8	17,985	2.6
50,001 - 100,000	166	0.2	12,094	1.7
100,001 - 500,000	258	0.3	61,070	8.8
500,001 - 1,000,000	64	0.1	46,800	6.8
above 1,000,000	119	0.2	515,995	74.4
Total	73,448	100.0	693,472	100.0

Payment of dividends to mandated accounts

Shareholders may give instruction for the payment of dividends to be made direct into a bank or building society through the Bankers Automated Clearing System (BACS). Dividend Mandate Forms for this service are available from the Registrar or can be downloaded from www.poprincesscruises.com. The associated tax voucher showing the tax credit attributable to the dividend payment is normally sent direct to the shareholder at the address shown on the register. If you wish the tax voucher to be sent to another address, please inform the Registrar.

United States of America

P&O Princess Cruises plc American Depositary Shares ('ADS') are quoted on the New York Stock Exchange. One ADS represents four ordinary shares. The ticker symbol is 'POC'. JPMorgan Chase Bank is Depository for the ADS and may be contacted at:

JPMorgan Chase Bank
ADR Service Centre
PO Box 43013
Providence RI
02940-3013
USA

Telephone: in the U.S. (toll-free) 1 800 428 4237
outside the U.S. +1 781 575 4328

Information about the ADS may also be obtained from: www.adr.com.

In accordance with U.S. legislation, the Company is filing a Form 20-F with the Securities and Exchange Commission ('SEC') in Washington DC, and a copy of this Report is being filed as an exhibit to a Form 6-K filed with the SEC. This filing is available for public inspection.

Global Invest Direct

Global Invest Direct ('GID') is a program established by JPMorgan Chase Bank for existing holders of ADSs and those persons making a purchase for the first time. GID provides a convenient and economical way for investors to increase their ADS investment in the Company.

Further information about GID may be obtained from JPMorgan Chase Bank by ringing 1 800 428 4237 (8.30am - 6pm Eastern Standard Time, Monday to Friday).

Glossary of terms

Like for like is defined as movements in net revenue yields after adjusting for changes in exchange rates.

Net revenue is defined as gross revenue (turnover) from the sale of cruises, shore tours and goods and services sold on board our cruise ships after deducting certain costs including travel agents' commissions, airfares and direct costs of shore tours and goods and services sold on board our cruise ships.

Net revenue yield is defined as net revenue divided by our lower berth capacity offered.

Occupancy is calculated by dividing the achieved pcds by the offered pcds. Since the former includes upper berths whereas the latter includes only lower berths, the occupancy can exceed 100%.

Passenger cruise days (pcds) means the number of passengers who could be carried on board (defined by lower berth capacity) multiplied by the available cruise days. Cruises that begin in one accounting period and end in another have their pcads apportioned accordingly; the financial results are treated similarly. Figures include all ocean going vessels and riverboats operated by the Group.

Underlying unit cost movements are defined as movements in the total of unit vessel operating costs and unit selling and administrative expenses after adjusting for changes in exchange rates and fuel prices. Vessel operating costs and selling and administrative expenses broadly represent the difference between total net revenues and EBITDA (earnings before interest, tax, depreciation and amortisation).

Term used in the report and accounts	US equivalent
Acquisition accounting	Purchase accounting
Associate	Equity investment
Capital allowances	Tax term equivalent to US tax depreciation allowances
Creditors	Payables
Debtors	Receivables
Finance lease	Capital lease
Financial year	Fiscal year
Freehold	Ownership with absolute rights
Gearing	Debt/ debt plus equity
Interest receivable	Interest income
Interest payable	Interest expense
Joint venture	Equity investment
Profit	Income
Profit and loss account	Income statement
Profit and loss account reserves	Retained earnings
Profit for the financial year	Net income
Provisions	Reserves
Called up share capital	Ordinary shares, capital or common stock issued and fully paid
Shareholders' funds	Shareholders' equity
Stocks	Inventories
Tangible fixed assets	Property, plant and equipment
Turnover	Revenue

Contacts

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www.oceanvillageholidays.co.uk

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www.aida.de

www.a-rosa.de

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Printed by the colourhouse

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