

our ship assets. In addition, increased cruise capacity could impact our ability to retain and attract qualified crew at competitive costs and, therefore, increase our shipboard employee costs.

***The international political and economic climate and other world events affecting safety and security could adversely affect the demand for cruises and could harm our future sales and profitability***

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

***Changes under the Internal Revenue Code and applicable U.S. income tax treaties may adversely affect the U.S. federal income taxation of our U.S.-source shipping income***

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

- Section 883 of the Internal Revenue Code;
- the U.S.-U.K. Income Tax Treaty; or
- other applicable U.S. income tax treaties.

To date no final U.S. Treasury regulations or other definitive interpretations of the relevant portions of Section 883 have been promulgated, although regulations have been proposed. Any such final regulations or official interpretations could differ materially from our interpretation of this Internal Revenue Code provision and, even in the absence of differing regulations or official interpretations, the Internal Revenue Service might successfully challenge our interpretation. In addition, the provisions of Section 883 are subject to change at any time by legislation. Moreover, changes could occur in the future with respect to the trading volume or trading frequency of P&O Princess shares on the exchanges where they are listed, or with respect to the identity, residence, or holdings of P&O Princess' direct or indirect shareholders that could affect the eligibility of certain members of the P&O Princess group otherwise eligible for the benefits of Section 883 to qualify for the benefits of the Section 883 exemption. Accordingly, it is possible that the members of the P&O Princess group whose tax exemption is based on Section 883 may lose this exemption. If any such corporation were not entitled to the benefit of Section 883, it would be subject to U.S. federal income taxation on a portion of its income, which would reduce the net income of such corporation.

As noted above, we believe that substantially all of the U.S.-source shipping income of P&O Princess and its UK resident subsidiaries qualifies for exemption from U.S. federal income tax under the U.S.-U.K. Income Tax Treaty. The U.S.-U.K. Income Tax Treaty has been renegotiated and signed but is pending ratification by the U.S.. We believe that substantially all of the U.S.-source shipping income of the companies referred to above should qualify for exemption from U.S. federal income tax under such treaty if, and as of when, the pending treaty comes into force.

These treaties may be abrogated by either applicable country, replaced or modified with new agreements that treat shipping income differently than under the agreements currently in force. If any of the

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

***We may not be able to obtain financing on terms that are favorable or consistent with our expectations***

Our access to financing will depend on, among other things, the maintenance of strong long-term credit ratings. Our debt is currently rated “BBB” by Standard & Poor’s, “Baa3” by Moody’s and “BBB+” by FitchRatings.

We believe our current external sources of liquidity, including committed financings, and cash on hand, together with forecasted cash flows from future operations, will be sufficient to fund most or all of our capital projects, debt service requirements, dividend payments and working capital needs.

The forecasted cash flow from our future operations as well as our credit ratings may be adversely affected by various factors, including, but not limited to, declines in customer demand, increased competition, overcapacity, the deterioration in general economic and business conditions, terrorist attacks, ship incidents, adverse publicity and increases in fuel prices, as well as other factors noted under the “Risk Factors” and the “Important Note Regarding Forward Looking Statements” sections of this document. To the extent that we are required, or choose, to fund future cash requirements, including future shipbuilding commitments, from sources other than cash flow from operations, cash on hand and current external sources of liquidity, we will have to secure such financing from banks or through the offering of debt and/or equity securities in the public or private markets. If we lose eligibility for inclusion in the FTSE 100, it may be more difficult for us to access the equity capital markets.

Our future operating cash flow may not be sufficient to fund future obligations, and we may not be able to obtain additional financing, if necessary, at a cost that meets our expectations. Accordingly, our financial results could be adversely affected.

***Conducting business internationally may result in increased costs***

We operate our business internationally and plan to continue to develop our international presence. Operating internationally exposes us to a number of risks including:

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

If we are unable to address these risks adequately, our results of operations and financial condition could be adversely affected.

***Accidents and other incidents at sea or adverse publicity concerning the cruise industry could affect our reputation and harm our future sales and profitability***

The operation of cruise ships involves the risk of accidents, illness, mechanical failures and incidents at sea, which may bring into question passenger safety, health, security and vacation satisfaction and

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thereby adversely affect future industry performance. Incidents involving passenger cruise ships could occur and could adversely affect our future sales and profitability. In addition, adverse publicity concerning the vacation industry in general or the cruise industry or P&O Princess in particular could impact demand and, consequently, have an adverse impact on our profitability.

***Operating, financing and tax costs are subject to many economic and political factors that are beyond our control, which may result in increases in our operating and financing costs***

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

***Environmental legislation and regulations could affect operations and increase operating costs***

Some environmental groups have lobbied for more stringent regulation of cruise ships. Some groups have also generated negative publicity about the cruise industry and its environmental impact. The U.S. Environmental Protection Agency (the "EPA") is considering new laws and rules to manage cruise ship waste.

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

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

We are subject to various international, national, state and local health, safety and security laws, regulations and treaties. IMO, which operates under the United Nations, has adopted safety standards as part of the SOLAS Convention, which is applicable to all of our ships. Generally SOLAS establishes vessel design, structural features, materials, construction and life saving equipment requirements to improve passenger safety and security.

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

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

***Delays in ship construction and problems encountered at shipyards could reduce our profitability***

The construction of cruise ships is a complex process and involves risks similar to those encountered in other sophisticated construction projects, including delays in completion and delivery. In addition, industrial actions and insolvency or financial problems of the shipyards building our ships could also delay or prevent the delivery of our ships under construction. These events could adversely affect our

profitability. However, the impact from a delay in delivery could be mitigated by contractual provisions and refund guarantees we have obtained.

In addition, we have entered into forward foreign currency contracts to fix the cost in U.S. dollars of certain of our foreign currency denominated shipbuilding contracts. If any of the shipyards are unable to perform under the related contract, the foreign currency forward contracts related to that shipyard's shipbuilding contracts would still have to be honored. This might require us to realize a loss on an existing contract without having the ability to have an offsetting gain on our foreign currency denominated shipbuilding contract, thus adversely affecting our financial results.

**Risks related to the Proposed Carnival Transaction**

We also face risks associated with the Proposed Carnival DLC Transaction. These risks will be described in detail in the documents posted to our shareholders in connection with the Proposed Carnival DLC Transaction, including a shareholder circular with respect to the extraordinary general meeting of P&O Princess and a joint Form S-4/F-4 with respect to the deemed exchange of P&O Princess shares in connection with the Proposed Carnival DLC Transaction and the Partial Share Offer (collectively, the "Shareholder Documents"). The Shareholder Documents will contain important information, including risk factors, with respect to the Proposed Carnival DLC Transaction, the Partial Share Offer and an investment in P&O Princess and investors and P&O Princess shareholders are strongly encouraged to read the Shareholder Documents when they are posted to shareholders.