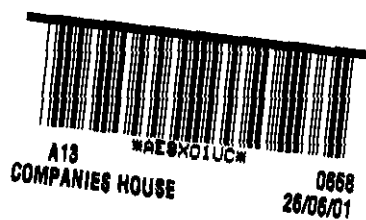


P&O Princess Cruises International Ltd

REGISTERED NUMBER : 03902746

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2000



Report of the directors

The directors present their report and accounts of the Company for the period since incorporation, on 5 January 2000, to 31 December 2000. The consolidated financial statements have been prepared using merger accounting principles as if the businesses comprising the Group have been owned by the Company for all relevant periods.

Principal activity and review of business:

On 23 October 2000, as part of the arrangements announced by The Peninsular and Oriental Steam Navigation Company ("P&O") to demerge its cruise business, the Company's entire issued share capital was acquired by P&O Princess Cruises plc, a company incorporated during 2000 in anticipation of the demerger.

Between the date of incorporation and 26 September 2000 the Company acquired certain cruise assets and liabilities of P&O, primarily by way of the issue of shares, in preparation of the proposed demerger of the cruise business from P&O.

On 22 December 2000 the company paid an interim dividend of \$90.0m to its parent company P&O Princess Cruises plc.

Results:

For the year as a whole, passenger cruise days increased by 22% to over 8.7 million. Princess grew by 12% in North America due to the introduction of Ocean Princess in February and P&O Cruises grew by 32% in the U.K. due to the introduction of Aurora in April. The remaining increase in passenger carryings resulted from the acquisitions of the German businesses AIDA Cruises and Seetours.

Total operating profit for the year was \$373.6 million against \$388.3 million for 1999, reflecting the lower yields, higher fuel prices which increased costs by some \$30 million, adverse exchange rate movements which impacted operating profit by \$6 million and a \$7 million net reduction in the benefit of Millennium cruises, offset by an underlying reduction in unit costs. After interest, tax and an exceptional \$6 million write down of the book value of Victoria, profits were \$280.2 million compared with \$310.8 million for 1999.

Directors and directors' interests:

The directors during the period were:

R M Gradon	appointed 31 January 2000	Resigned 26 September 2000
D E Jones	appointed 26 September 2000	
A H Kaufman	appointed 21 November 2000	
N L Luff	appointed 26 September 2000	
N J Monteith	appointed 31 January 2000	Resigned 26 September 2000
M Owen	appointed 31 January 2000	Resigned 26 September 2000
P G Ratcliffe	appointed 26 September 2000	
Lord Sterling of Plaistow	appointed 26 September 2000	

In the period from incorporation to 31 January 2000 the sole director of the Company was Instant Companies Ltd.

Report of the directors (continued)

According to notifications received by the Company relating to the interests of the directors and their families in the share capital of group companies, there were the following interests in the shares of the ultimate holding company, P&O Princess Cruises plc.

	Ordinary shares		Options	
	At 31 December 2000	At appointment	At 31 December 2000	At appointment
D E Jones	2,696	2,696	74,559	-
A H Kaufman	-	-	73,524	73,524

N L Luff, P G Ratcliffe and Lord Sterling of Plaistow were also members of the board of directors of the ultimate holding company P&O Princess Cruises plc at 31 December 2000, of which this company is a wholly owned subsidiary. Their interests in shares and debentures of group companies are disclosed in the directors' report of that company.

Creditor payment policy:

The Company's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed. Where payment terms have not been specifically agreed, then invoices dated in one calendar month are paid close to the end of the following month. This policy is understood by the purchasing and finance departments. The Company has procedures for dealing promptly with complaints and disputes. The Company had 52 days' purchases outstanding at 31 December 2000.

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. In addition, as a subsidiary of P&O Princess Cruises plc the Company is able to encourage employee ownership of the parent's shares.

Charitable donations:

During the year ended 31 December 2000, the Group made charitable donations totalling U.S.\$0.2 million (1999 - U.S.\$0.2 million).

Report of the directors (continued)

Political contributions:

The Group did not make any contributions to U.K. political parties during the year ended 31 December 2000.

Auditors:

KPMG Audit Plc were appointed first auditors of the Company by the directors. Under section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

77 New Oxford Street
London
WC1A 1PP

On behalf of the Board



Simon Pearce
Secretary
20 June 2001

Directors' responsibilities in respect of the preparation of the accounts

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the report of the auditors on page 5, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Act 1985 to prepare accounts 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 financial year and of the profit or loss of the Group for the financial year.

In preparing the accounts on pages 6 to 28, the directors are required to select appropriate accounting policies, make judgements and estimates that are reasonable and prudent and state whether all accounting standards which they consider to be applicable have been followed. The directors are also required to use a going concern basis in preparing the accounts unless this is inappropriate.

The directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' report to the members of P&O Princess Cruises International Ltd

We have audited the accounts on pages 6 to 28.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 4, 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 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 are properly prepared in accordance with the Companies Act. 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 and transactions with the Group is not disclosed.

Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
20 June 2001

Consolidated profit and loss accounts
Years ended 31 December

	Note	2000 U.S.\$m	1999 U.S.\$m
Turnover	2	2,423.9	2,111.6
Cost of sales		(1,842.0)	(1,536.0)
Administrative expenses		(208.8)	(187.3)
Operating costs		<u>(2,050.8)</u>	<u>(1,723.3)</u>
Group operating profit		373.1	388.3
Share of operating results of joint ventures		0.5	-
Total operating profit	2	<u>373.6</u>	<u>388.3</u>
Loss on disposal of ships		(6.7)	(4.8)
Profit on sale of business		0.2	-
Profit on ordinary activities before interest		<u>367.1</u>	<u>383.5</u>
Net interest and similar items	4	(45.6)	(25.7)
Profit on ordinary activities before taxation		<u>321.5</u>	<u>357.8</u>
Taxation	5	(41.3)	(47.0)
Profit on ordinary activities after taxation		<u>280.2</u>	<u>310.8</u>
Equity minority interests	17	(2.6)	(0.5)
Profit for the financial period attributable to shareholders		<u>277.6</u>	<u>310.3</u>
Dividends	6	(90.0)	-
Retained profit for the financial year	16	<u>187.6</u>	<u>310.3</u>

In both years profits and losses arise from continuing activities.
See accompanying notes to the financial statements.

**Consolidated balance sheets
As at 31 December**

	Note	2000 U.S.\$m	1999 U.S.\$m
Fixed assets			
Intangible assets			
Goodwill	7	121.0	14.2
Tangible assets			
Ships	8	3,608.0	3,036.0
Properties and other fixed assets	9	219.6	199.7
		<u>3,827.6</u>	<u>3,235.7</u>
Investments			
Other investments	10	10.9	8.4
		<u>3,959.5</u>	<u>3,258.3</u>
Current assets			
Stocks	11	79.8	78.9
Debtors	12	322.3	264.6
Cash at bank and in hand		82.5	63.2
		<u>484.6</u>	<u>406.7</u>
Creditors: amounts falling due within one year	13	(1,595.2)	(1,143.4)
Net current liabilities		<u>(1,110.6)</u>	<u>(736.7)</u>
Total assets less current liabilities		<u>2,848.9</u>	<u>2,521.6</u>
Creditors: amounts falling due after one year	13	(281.9)	(216.7)
Provisions for liabilities and charges	14	(106.6)	(108.4)
		<u>2,460.4</u>	<u>2,196.5</u>
Capital and reserves			
Called up share capital	15	331.0	325.3
Share premium account	16	1,078.9	996.5
Merger reserve	16	(70.9)	(72.1)
Profit and loss account	16	1,121.2	939.1
Equity shareholders' funds		<u>2,460.2</u>	<u>2,188.8</u>
Equity minority interests	17	0.2	7.7
		<u>2,460.4</u>	<u>2,196.5</u>

See accompanying notes to the financial statements.

Approved by the Board of Directors on 20 June 2001 and signed on its behalf by:



**Company balance sheet
As at 31 December**

	Note	2000 U.S.\$m
Fixed assets		
Tangible assets		
Ships	8	666.6
Properties and other fixed assets	9	15.4
Investments - Subsidiaries	23	1,321.4
		<hr/> 2,003.4
Current assets		
Stocks	11	8.5
Debtors	12	418.8
Cash at bank and in hand		41.9
		<hr/> 469.2
Creditors: amounts falling due within one year	13	(755.5)
Net current liabilities		<hr/> (286.3)
Total assets less current liabilities		1,717.1
Creditors: amounts falling due after one year	13	(267.1)
Net assets		<hr/> 1,450.0
Capital and reserves		
Called up share capital	15	331.0
Share premium	16	1,078.9
Profit and loss account	16	40.1
Equity shareholders' funds		<hr/> 1,450.0

See accompanying notes to the financial statements.

Approved by the Board of Directors on 20 June 2001 and signed on its behalf by:



Consolidated statements of total recognised gains and losses
Years ended 31 December

	2000 U.S.\$m	1999 U.S.\$m
Profit for the year	277.6	310.3
Exchange movements on foreign currency net investments	(5.5)	(2.6)
Total recognised gains and losses for the year	<u>272.1</u>	<u>307.7</u>

Reconciliations of movements in shareholders' funds
Years ended 31 December

	Group 2000 U.S.\$m	Group 1999 U.S.\$m	Company 2000 U.S.\$m
Total recognised gains and losses for the year	272.1	307.7	130.1
Dividends	(90.0)	-	(90.0)
Shares issued on acquisition of Aida	88.1	-	88.1
Shares issued to P&O	-	-	1,321.8
Investment in P&O Princess Cruises by P&O	1.2	117.7	-
Increase in net investment	<u>271.4</u>	<u>425.4</u>	<u>1,450.0</u>
Shareholders' funds at beginning of year	2,188.8	1,763.4	-
Shareholders' funds at end of year	<u>2,460.2</u>	<u>2,188.8</u>	<u>1,450.0</u>

See accompanying notes to the financial statements.

Notes to the financial statements

1 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, "P&O Princess Cruises", accounts comprise the consolidation of the accounts of the company and all its subsidiaries and incorporate the Group's interest in its joint ventures and associates. The accounts of its subsidiaries and joint ventures and associates are made up to 31 December.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United Kingdom under the historical cost convention, and in accordance with applicable U.K. accounting standards.

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a parent undertaking which has produced a group cash flow statement in accordance with the provisions of the standard.

Basis of consolidation

P&O Princess Cruises International Ltd ("POPCIL") acquired the cruise businesses of The Peninsular and Oriental Steam Navigation Company ("P&O") during the period from incorporation up to 26 September 2000. The acquisition was primarily affected by way of share for share exchanges between POPCIL and P&O.

The consolidated financial statements have been prepared using merger accounting principles as if the businesses comprising POPCIL had been part of the same group 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.

Goodwill arising on acquisitions

Goodwill arising on business acquisitions 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.

Joint ventures

Joint ventures are stated at the Group's share of underlying net assets. The Group's share of the profits or losses of joint ventures is included in the consolidated profit and loss account on an equity accounting basis.

1 Accounting policies (continued)

Tangible fixed assets

Ships are stated at cost less accumulated depreciation. Subsequent ship improvement costs are capitalized as additions to the ship, while costs of repairs and maintenance are charged to the profit and loss account.

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 capitalized 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 (and freehold buildings prior to 31 December 1999) are not depreciated. In accordance with FRS 15 freehold buildings are depreciated over the remaining useful economic life of the asset.

Impairment

The Group 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 realizable value.

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 at the time 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.

Dry-docking costs

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

Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

1 Accounting policies (continued)

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.

Deferred taxation

Deferred taxation is provided on items dealt with for taxation purposes in periods different from those for accounting purposes, to the extent that the reduction or increase in the tax charge due to timing differences cannot be expected with reasonable probability to continue for the foreseeable future.

Derivatives and other financial instruments

The Group 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 its major capital expenditure. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Foreign currencies

The 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's 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 except for material exceptional items which are translated at the rate ruling on the date of transaction. 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.

Related party transactions

The Company is a wholly owned subsidiary of P&O Princess Cruises plc and as such, it has taken advantage of the exemption available under Financial Reporting Standard 8, not to disclose transactions with other group companies.

2 Segmental analysis

The Group has a single business of operating cruise ships and related landside assets under various brand names including; Princess, P&O Cruises, Swan Hellenic, AIDA and Seetours. These brand names are marketed by operations in North America, Europe and Australia.

	2000 U.S.\$m	1999 U.S.\$m
Turnover (by origin)		
North America	1,796.7	1,680.9
Europe and Australia	627.2	430.7
	<u>2,423.9</u>	<u>2,111.6</u>
Total operating profit		
North America	279.6	300.2
Europe and Australia	94.0	88.1
	<u>373.6</u>	<u>388.3</u>

3 Operating costs

	2000 U.S.\$m	1999 U.S.\$m
Direct operating costs	1,558.0	1,301.9
Selling and administration expenses	348.2	304.5
Depreciation and amortisation	144.6	116.9
	<u>2,050.8</u>	<u>1,723.3</u>
Operating costs include		
	2000 U.S.\$m	1999 U.S.\$m
Auditors' remuneration:		
Audit	0.6	0.7
Other fees paid to the auditors and their associates	5.3	2.0
Hire of ships	<u>13.3</u>	<u>12.5</u>

Of the U.S.\$5.3m (1999 U.S.\$2.0m) charged for non-audit services provided by the Company's auditors U.S.\$0.1m (1999 nil) was for services in the UK. Included within the non-audit services is U.S.\$5.1m (1999 U.S.\$1.3m) which was in respect of tax advice. The audit fee of the Company was U.S.\$0.2m.

4 Net interest and similar items

	2000 U.S.\$m	1999 U.S.\$m
Interest payable on:		
Bank loans and overdrafts	(24.1)	(12.5)
Loans from P&O	(39.7)	(30.0)
Loans from P&O Princess Cruises plc	(6.8)	-
	<hr/> (70.6)	<hr/> (42.5)
Interest capitalised	23.5	13.7
Interest receivable on other deposits	1.3	3.0
	<hr/> (45.8)	<hr/> (25.8)
Joint ventures	0.2	0.1
	<hr/> (45.6)	<hr/> (25.7)

Interest capitalised relates to tangible fixed assets under construction. The aggregate interest capitalized at each period end was:

	2000 U.S.\$m	1999 U.S.\$m
Ships	140.8	121.8
Properties	3.5	3.1
	<hr/> 144.3	<hr/> 124.9

5 Taxation

	2000 U.S.\$m	1999 U.S.\$m
The taxation charge on profit on ordinary activities is as follows:		
Corporation tax		
Current	40.2	30.3
Deferred	1.1	16.7
	<hr/> 41.3	<hr/> 47.0

The taxation charge includes a credit of U.S.\$1.4m for the year ended 31 December 1999 in respect of profits and losses on sale of ships and other fixed assets. There was no charge or credit in respect of such items in 2000.

The U.S. Federal and State income tax returns of the Group for the tax years 1992 to 1996 have been under examination. In connection with this examination, the Group has concluded an Advanced Pricing Agreement with the U.S. Internal Revenue Service for years 1998 - 2000, covering the principal issues arising from the examination and with the agreed upon methodology being rolled back to all open years. Provision for the outcome of this issue had previously been made and settlement has not had a material impact on the overall tax charge for the year.

6 Dividends

	2000 U.S.\$m	1999 U.S.\$m
Dividends paid, declared, proposed and accrued are as follows:		
Equity share capital		
Interim dividend paid (39.29 cents per share)	90.0	-

7 Goodwill

Group	U.S.\$m
Cost	
Cost at 31 December 1999	24.5
Exchange movements	1.3
Additions	107.2
Cost at 31 December 2000	133.0
Amortisation	
Amortisation at 31 December 1999	(10.3)
Exchange movements	0.6
Amortisation charge for year	(2.3)
Amortisation at 31 December 2000	(12.0)
Net book value	
At 31 December 2000	121.0
At 31 December 1999	14.2

The principal movements in goodwill during the year relate to the acquisitions of Seetours International Ltd in April 2000 and the minority interest in AIDA Cruises Ltd in September 2000. The goodwill arising on the AIDA Cruises Ltd minority interest acquisition is estimated, as part of the consideration is contingent on the level of combined future results of AIDA Cruises Ltd and Seetours International Ltd. The useful economic life of goodwill arising on the acquisition of Seetours International Ltd is estimated at 20 years and for the AIDA Cruises Ltd minority interest at 40 years.

8 Ships

	Owned U.S.\$m	Leased U.S.\$m	Total U.S.\$m
Group			
Cost			
Cost at 31 December 1999	3,610.2	68.4	3,678.6
Exchange	(87.8)	(1.6)	(89.4)
Additions	772.8	-	772.8
Disposals	(50.0)	-	(50.0)
Cost at 31 December 2000	4,245.2	66.8	4,312.0
Depreciation			
Depreciation at 31 December 1999	(586.8)	(55.8)	(642.6)
Exchange	19.3	1.3	20.6
Charge for period	(122.9)	(0.8)	(123.7)
Disposals	41.7	-	41.7
Depreciation at 31 December 2000	(648.7)	(55.3)	(704.0)
Net book value			
At 31 December 2000	3,596.5	11.5	3,608.0
At 31 December 1999	3,023.4	12.6	3,036.0

Ships under construction included in the above totalled U.S.\$401.5m (1999 U.S.\$376.3m).

The depreciation charge for the year includes U.S.\$6.0m relating to the disposal of Victoria, which was agreed on 12 February 2001.

	Owned U.S.\$m	Leased U.S.\$m	Total U.S.\$m
Company			
Cost			
On incorporation	-	-	-
Additions	654.8	3.2	658.0
Exchange	22.5	0.1	22.6
Cost at 31 December 2000	677.3	3.3	680.6
Depreciation			
On incorporation	-	-	-
Charge for period	(7.7)	-	(7.7)
Exceptional write down on Victoria	(6.0)	-	(6.0)
Exchange	(0.3)	-	(0.3)
Depreciation at 31 December 2000	(14.0)	-	(14.0)
Net book value			
At 31 December 2000	663.3	3.3	666.6

9 Properties and other fixed assets

Group	Freehold properties U.S.\$m	Fixtures, fittings and motor vehicles U.S.\$m	Total U.S.\$m
Cost			
Cost at 31 December 1999	99.2	180.3	279.5
Exchange movements	-	(3.1)	(3.1)
Additions	12.5	36.0	48.5
On acquisition of subsidiaries	-	0.3	0.3
Disposals	-	(8.4)	(8.4)
 Cost at 31 December 2000	 111.7	 205.1	 316.8
Depreciation			
Depreciation at 31 December 1999	-	(79.8)	(79.8)
Exchange movements	-	1.5	1.5
Charge for the period	(2.9)	(21.7)	(24.6)
Disposals	-	5.7	5.7
 Depreciation at 31 December 2000	 (2.9)	 (94.3)	 (97.2)
Net book value			
At 31 December 2000	108.8	110.8	219.6
At 31 December 1999	99.2	100.5	199.7

The book value of freehold land is U.S.\$3.4m (1999 U.S.\$2.4m), which is not depreciated.

Company	Fixtures, fittings and motor vehicles U.S.\$m
Cost	
On incorporation	-
Additions	17.3
Disposals	(2.3)
Exchange movements	0.5
 Cost at 31 December 2000	 15.5
Depreciation	
On incorporation	-
Charge for the period	(1.4)
Disposals	1.3
 Depreciation at 31 December 2000	 (0.1)
Net book value	
At 31 December 2000	15.4

10 Investments - Group

	Joint Venture U.S.\$m	Other investments U.S.\$m	Total U.S.\$m
Cost or valuation at 31 December 1999	3.0	5.4	8.4
Exchange movements	(0.3)	0.2	(0.1)
On acquisition of subsidiaries	-	1.9	1.9
Share of retained profits for period	0.9	-	0.9
Disposals	-	(0.2)	(0.2)
Cost or valuation at 31 December 2000	<u>3.6</u>	<u>7.3</u>	<u>10.9</u>

The principal joint venture is P&O Travel Limited, a travel agency incorporated in Hong Kong, in which the Group had a 50% interest at 31 December 2000.

The Group's share of turnover, gross assets and gross liabilities of P&O Travel Limited, Hong Kong for the two years ended 31 December 2000 and as at 31 December 1999 and 2000 respectively was:

	2000 U.S.\$m	1999 U.S.\$m
Turnover	<u>4.8</u>	<u>4.2</u>
Gross assets	7.4	5.8
Gross liabilities	(3.8)	(2.8)
	<u>3.6</u>	<u>3.0</u>

11 Stocks

	Group 2000 U.S.\$m	Group 1999 U.S.\$m	Company 2000 U.S.\$m
Raw materials and consumables	52.8	47.8	3.2
Goods for resale	27.0	31.1	5.3
	<u>79.8</u>	<u>78.9</u>	<u>8.5</u>

12 Debtors

	Group 2000 U.S.\$m	Group 1999 U.S.\$m	Company 2000 U.S.\$m
Amounts recoverable within one year			
Trade debtors	38.6	52.1	15.3
Amounts owed by P&O	3.7	-	-
Amounts owed by subsidiary undertakings	-	-	367.0
Amounts owed by joint ventures	-	3.6	-
Other debtors	74.5	51.8	16.2
Prepayments and accrued income	176.7	123.0	20.3
Total amounts recoverable within one year	293.5	230.5	418.8
Amounts recoverable after more than one year			
Other debtors	21.7	19.6	-
Prepayments and accrued income	7.1	14.5	-
Total amounts recoverable after more than one year	28.8	34.1	-
Total debtors	322.3	264.6	418.8

13 Creditors

	Group 2000 U.S.\$m	Group 1999 U.S.\$m	Company 2000 U.S.\$m
Amounts falling due within one year			
Overdrafts	(0.3)	(2.0)	(4.2)
Bank loans	(163.6)	(37.1)	(48.9)
Amounts owed to P&O	-	(445.6)	(3.3)
Amounts owed to P&O Princess Cruises plc	(714.9)	-	(476.9)
Amounts owed to subsidiary undertakings	-	-	(77.4)
Trade creditors	(152.6)	(122.5)	(47.0)
Corporation tax	(93.3)	(88.1)	-
Other creditors	(23.9)	(9.4)	(3.2)
Accruals	(78.2)	(80.4)	(6.7)
Deferred income	(368.4)	(358.3)	(87.9)
	(1,595.2)	(1,143.4)	(755.5)
Amounts falling due after more than one year			
Bank loans, loan notes and bonds:			
Between one and five years			
Bank loans	(139.2)	(120.8)	(137.6)
Over five years			
Bank loans	(134.0)	(89.8)	(129.5)
Accruals and deferred income	(8.7)	(6.1)	-
	(281.9)	(216.7)	(267.1)

Bank loans and overdrafts include amounts of U.S.\$432.5m (1999 U.S.\$247.7m) secured on ships and other assets. In the Company bank loans and overdrafts include amounts of U.S.\$316.0m secured on ships and other assets.

14 Provisions for liabilities and charges

	Deferred taxation U.S.\$m	Other U.S.\$m	Total U.S.\$m
Group			
At 31 December 1999	(106.5)	(1.9)	(108.4)
Exchange differences	11.9	0.7	12.6
Charge to profit and loss account	(1.1)	0.2	(0.9)
Applied during the year	-	0.3	0.3
On acquisition of subsidiaries	-	(10.2)	(10.2)
At 31 December 2000	(95.7)	(10.9)	(106.6)

Other provisions principally relate to contingent consideration payable on the acquisition of subsidiaries.

Deferred taxation comprises:

	Group 2000 U.S.\$m	Group 1999 U.S.\$m
Accelerated capital allowances	95.7	106.5
Accelerated capital allowances not provided	108.1	92.0
Total potential liability	203.8	198.5

Distributable reserves of overseas subsidiaries and joint ventures comprise approximately U.S.\$958.0m (1999 U.S.\$696.9m). No deferred taxation is provided in respect of these as it is expected that no material liability will arise in the foreseeable future.

15 Share capital

The authorised share capital is 229,055,000 £1 ordinary shares.

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

	No of Shares	U.S.\$m
Issued to P&O between incorporation and 26 September 2000	225,051,002	325.3
Issued to P&O Princess Cruises plc on acquisition of AIDA Cruises Ltd	4,000,000	5.7
At 31 December 2000	229,051,002	331.0

The Company issued 1 share on incorporation and a further 51,001 shares subsequently. The company was wholly owned by "P&O" from incorporation up to 23 October 2000 when it was transferred to P&O Princess Cruises plc. During the period from incorporation up to 26 September 2000 the Company entered into a series of transactions to acquire the cruises businesses of P&O in preparation for the demerger of that business from P&O. As part of this restructuring the company issued shares for ownership of P&O's cruises subsidiaries. On 25 September 2000 the company issued 225,000,000 shares to P&O for cash consideration.

15 Share capital (continued)

On 28 November 2000 the company issued 4,000,000 shares to P&O Princess Cruises plc in connection with the Group's acquisition of the minority interest in Aida Cruises Ltd.

16 Reserves

	Share Premium U.S.\$m	Merger reserve U.S.\$m	Profit and loss account U.S.\$m	Total U.S.\$m
Group				
At 31 December 1999	996.5	(72.1)	939.1	1,863.5
Exchange movements	-	-	(5.5)	(5.5)
Investment in Group by P&O	-	1.2	-	1.2
Shares issued on acquisition of AIDA	82.4	-	-	82.4
Retained profit for the financial year	-	-	187.6	187.6
At 31 December 2000	<u>1,078.9</u>	<u>(70.9)</u>	<u>1,121.2</u>	<u>2,129.2</u>
Company				
On incorporation	-	-	-	-
Exchange movements	-	-	25.3	25.3
Shares issued to P&O between incorporation and 26 September 2000	-	996.5	-	996.5
Shares issued on acquisition of AIDA	-	82.4	-	82.4
Retained profit for the financial period	-	-	14.8	14.8
At 31 December 2000	-	<u>1,078.9</u>	<u>40.1</u>	<u>1,119.0</u>

The Company has taken advantage of s230 of the Companies Act 1985 not to present the Company's own profit and loss account. The profit attributable to shareholders of the Company for the period was U.S.\$104.8m.

17 Equity minority interests

	2000 U.S.\$m
At 31 December 1999	7.7
Exchange movements	(0.8)
Purchase of minority interest	(9.3)
Proportion of profit on ordinary activities after taxation	2.6
At 31 December 2000	<u>0.2</u>

18 Acquisitions

The principal businesses acquired during 2000 were Seetours International Ltd and the outstanding 49% minority interest in AIDA Cruises Ltd. The acquisitions have been accounted for using the acquisition method and the results of the businesses are reflected from the dates of acquisition.

	Book and fair value of net assets acquired	
	Seetours International As at 7 April 2000 U.S.\$m	AIDA Cruises Ltd minority As at 25 September 2000 U.S.\$m
Net assets acquired:		
Fixed assets	2.2	-
Net current liabilities	(5.5)	-
Loans	-	-
Cash and overdrafts	0.5	-
Minority interests acquired	-	9.3
	<u>(2.8)</u>	<u>9.3</u>
Goodwill	18.2	89.0
	<u>15.4</u>	<u>98.3</u>
Satisfied by		
Cash	15.4	-
Shares issued	-	41.3
Contingent cash consideration	-	10.2
Contingent share consideration	-	46.8
	<u>15.4</u>	<u>98.3</u>

The effect on the Group's operating results of the acquisitions of Seetours International Ltd was not material.

19 Employees

	2000	1999
The average number of employees was as follows:		
Shore staff	3,567	3,287
Sea staff	15,461	13,397
	<hr/> 19,028	<hr/> 16,684
	<hr/>	<hr/>
	2000	1999
	U.S.\$m	U.S.\$m
The aggregate payroll costs were:		
Wages and salaries	258.0	243.6
Social security costs	12.2	10.4
Pension costs	9.7	7.8
	<hr/> 279.9	<hr/> 261.8
	<hr/>	<hr/>

Directors remuneration

No director received any remuneration in respect of the Group prior to 23 October 2000. Since 23 October 2000 there have been five directors of the company, all of whom participated in the Group's long term incentive plan and four of whom are members of Group defined benefit pension schemes. The aggregate emoluments of the directors since 23 October 2000 was as follows:

	2000 U.S.\$'000
Directors' emoluments in respect of services provided	282
Company contributions to defined benefit pension schemes	29
	<hr/> 311
	<hr/>

No director exercised any options over the shares of the ultimate holding company, P&O Princess Cruises plc, or any other Group company. There was no award under the Group's long term incentive plan.

P G Ratcliffe, who is the highest paid director, received emoluments of \$160,304 in respect of his services to the Group. He is also a member of the board of the ultimate holding company, P&O Princess Cruises plc, for which he also receives some remuneration. Details of his remuneration, including his pension arrangements, relating to the P&O Princess Cruises plc group as a whole are included in the annual report and accounts of that company.

Employee Option Schemes

When employed by P&O, certain employees of the Group were granted options over P&O deferred stock under P&O executive option schemes. Generally these options were either exercised prior to demerger or lapsed. These options were subsequently replaced by new share options granted under the P&O Princess Cruises Executive Share Option Plan.

Options under the P&O Princess Cruises Executive Share Option Plan are exercisable in a period beginning not normally earlier than three years and ending no later than ten years from the date of the grant. Some options granted immediately after demerger as replacements of options over P&O deferred stock previously held by Group employees are exercisable immediately. The exercise price is set at the market price on the day immediately preceding the date the option was granted.

20 Pensions

During the year, employees of the Group have participated in P&O pension plans up to demerger and P&O Princess Cruises plans since the demerger or separate industry-wide schemes. These plans are principally in the United Kingdom and the United States.

The pension charge for Group employees participating in pension plans was:

	2000 U.S.\$m	1999 U.S.\$m
The P&O Pension Scheme	3.1	2.2
The P&O Princess Cruises Pension Scheme	0.9	-
Merchant navy pension plans	2.7	2.7
Overseas plans	3.0	2.9
	<hr/> 9.7	<hr/> 7.8

Prior to demerger, eligible U.K. employees participated in a defined benefit plan operated by P&O ('P&O Pension Scheme'). Following demerger, P&O Princess Cruises established its own defined benefit plan ('P&O Princess Cruises Pension Scheme') and for those employees wishing to do so, their benefit obligations in the P&O Pension Scheme in relation to service prior to the demerger were transferred to the P&O Princess Cruises Pension Scheme. Under the terms of the demerger agreement a share of the P&O Pension Scheme's assets relating to these benefit obligations is also to be transferred. This is awaiting ratification by the Trustee of the P&O Pension Scheme. Details of actuarial valuations of the P&O Pension Scheme are given in the P&O Princess Cruises plc annual report and accounts.

The assets of the P&O Princess Cruises Pension Scheme are managed on behalf of the trustee by independent fund managers. A formal valuation of the P&O Princess Cruises Pension Scheme has not yet taken place. Differences between the amounts charged and the amounts paid by P&O Princess Cruises are included in prepayments; these amounted to U.S.\$7.5m (1999 U.S.\$0.7m).

The merchant navy industry wide pension plans are defined benefit plans with assets managed on behalf of the respective trustees by independent fund managers. The latest formal valuations were at 31 March 1999 in respect of both plans. The officers' plan's actuary advised that the market value of the plan's assets for the old section of the plan represents approximately 102% of the value of the benefits accrued to members, and for the new section of the plan 96% of the value of the benefits accrued to members allowing for future increases in earnings. For the ratings' plan, its actuary presented a range of results that showed the market value of the assets was between 68% and 82% of the value of the benefits accrued to members allowing for future increases in earnings. The trustee of the ratings' plan has agreed with participating employers and the RMT union a proposal to close the fund for future benefit accrual and replace it with a defined contribution plan. Contributions are to be made to the ratings' plan by participating employers over a six year period from May 2001 to bring the plan to 100% funding on the minimum funding requirement basis. During the year the Group has provided U.S.\$1.7m (1999 U.S.\$1.8m) in respect of its share of contributions to be made.

Outside the U.K. P&O Princess Cruises operates one principal defined contribution plan in the United States ('the Princess Cruises Plan') in which only eligible P&O Princess Cruises employees participate. This has assets held in a separately administered fund.

21 Related party transactions

Prior to the demerger from P&O in October 2000 the Group did not operate as a separate group and consequently there were a number of related party transactions between the Group and P&O. These included the provision by P&O of a number of administrative services such as payroll, legal, treasury and tax assistance. The related charges together with a proportion of the administrative costs relating to the P&O Group's centrally incurred costs are included in the profit and loss account and totalled U.S.\$10.4m (1999 U.S.\$10.0m). The Group leased and continues to lease certain properties from P&O.

Balances owed by and to P&O are set out in notes 12 and 13. Interest charged to the Group by P&O is set out in note 4.

As set out in note 19, employees of the Group were members of the P&O Scheme for pension purposes prior to demerger.

No material trading transactions have taken place between the Group and P&O during the two years ended 31 December 2000.

POPCIL has agreed with P&O a licence to use the P&O name, motif, and flag logo. These arrangements are perpetual, royalty free, worldwide and are exclusive in so far as they relate to cruising.

On the demerger becoming effective, P&O Princess Cruises plc agreed with P&O:

- i) arrangements for the provision of certain administrative services and facilities to the Group by P&O
- ii) cross indemnities whereby each indemnifies the other, with certain limitations, against certain actual and contingent liabilities associated with the respective businesses owned by each of them.

22 Commitments

Capital

	2000 U.S.\$m	1999 U.S.\$m
Contracted		
Ships	3,172.2	3,101.5
Other	8.9	18.5
	<hr/> 3,181.1	<hr/> 3,120.0

The Group had nine ships on order as at 31 December 2000, which are scheduled for delivery from 2001 to 2004. Capital commitments include contract stage payments, design and engineering fees and various owner supplied items but exclude the effect of future capitalised interest. Of the commitments at 31 December 2000 it is expected that the Group will pay U.S.\$522.5m in 2001, U.S.\$992.9m in 2002, U.S.\$906.7m in 2003 and U.S.\$750.1m beyond 2003. Payments due in 2001 include amounts in respect of the Golden Princess which was delivered to the Group on 27 April 2001.

22 Commitments (continued)

Revenue

The minimum annual lease payments to which the Group was committed under non-cancellable operating leases were as follows:

Ships

	2000 U.S.\$m	1999 U.S.\$m
Within one year	13.1	18.6
Between one and two years	11.8	6.2
Between two and three years	3.1	0.4
Between three and four years	0.3	-
Between four and five years	0.2	-
	<hr/> 28.5	<hr/> 25.2

Property

	2000 U.S.\$m	1999 U.S.\$m
Within one year	8.5	10.5
Between one and two years	8.3	6.8
Between two and three years	8.1	5.6
Between three and four years	8.0	4.9
Between four and five years	8.1	4.8
In more than five years	70.2	26.4
	<hr/> 111.2	<hr/> 59.0

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

Ships

	2000 U.S.\$m	1999 U.S.\$m
On leases expiring:		
Within one year	0.8	0.5
Between one and five years	12.3	18.1
	<hr/> 13.1	<hr/> 18.6

Property

	2000 U.S.\$m	1999 U.S.\$m
On leases expiring:		
Within one year	1.2	0.2
Between one and five years	0.5	5.6
After five years	6.8	4.7
	<hr/> 8.5	<hr/> 10.5

23 Contingent liabilities

The Group has provided counter indemnities of U.S.\$215.4m (1999 U.S.\$172.4m), relating to bonds provided by third parties in support of the Group's obligations arising in the normal course of business. Generally these indemnities are required by travel industry regulators in the various jurisdictions in which the Group operates.

The Company has provided a guarantee over \$780.8m of US dollar notes issued by P&O Princess Cruises plc.

24 Investment in subsidiaries

Company	U.S.\$m
Cost	
On incorporation	-
Additions	1,428.0
Disposals	(115.6)
Exchange	9.0
Cost at 31 December 2000	1,321.4

The principal subsidiaries are:

	Country of Incorporation/Registration	Percentage of equity share capital owned at 31 Dec 2000	Business Description
AIDA Cruises 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 Univessoal) 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
P&O Cruises Fleet Management Ltd	England	100% [†]	Shipowner
P&O Holidays Ltd	England	100% [†]	Passenger cruising
P&O Lines (Shipowners) Ltd	England	100% [†]	Passenger cruising
P&O Travel Ltd	England	100% [†]	Travel agent
Princess Cruises Inc	U.S.A.	100%	Cruise services
Princess Cruises Lines Ltd	Bermuda	100% [†]	Passenger cruising
Princess Cruises Ltd	England	100%	Cruise services
Princess Tours Ltd	England	100% [†]	Shipowner
Royal Hyway Tours Inc	U.S.A.	100%	Landtours
Seetours International Ltd	England	100% [†]	Passenger cruising
Sitmar International Inc	Panama	100% [†]	Holding company
Tour Alaska LLC	U.S.A.	100%	Railtours

[†] Held directly by the Company.

25 Post balance sheet event

On 12 February 2001 the Group completed arrangements for the sale of the Victoria for U.S.\$16.5m. The net disposal proceeds including costs are expected to be below the previous carrying value of the vessel. Provision for the estimated shortfall has been made in the accounts.

26 Ultimate holding company

The Peninsular and Oriental Steam Navigation Company was the Company's ultimate holding company until 23 October 2000 when it demerged its cruises business. Since 23 October 2000 the ultimate holding company has been P&O Princess Cruises plc. Its accounts are available to the public from The Registrar of Companies, Companies House, Crown Way, Cardiff CF4 3UZ.