

CONSUMERS BANCORP INC /OH/  
Form S-1/A  
April 11, 2013

As filed with the Securities and Exchange Commission on February 26, 2013

Registration No. \_\_\_\_\_

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

PRE EFFECTIVE AMENDMENT NO 1 TO

FORM S-1

REGISTRATION STATEMENT

*UNDER  
THE SECURITIES ACT OF 1933*

CONSUMERS BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Ohio	6021	34-1771400
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification Number)
	614 East Lincoln Way	
	P.O. Box 256	
	Minerva, Ohio 44657	
	(330) 868-7701	

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

Ralph J. Lober, II, President and Chief Executive Officer  
614 East Lincoln Way

**P.O. Box 256**

**Minerva, Ohio 44657**

**(330) 868-7701**

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

*Copies to:*

**Cipriano S. Beredo**

**Squire Sanders (US) LLP**

**4900 Key Tower**

**127 Public Square**

**Cleveland, Ohio 44114**

**(216) 479-8280**

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

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box:

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered(3); Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Subscription Rights, each to purchase one share of our Common Stock, without par value		(1)
Shares of Common Stock, without par value, underlying the Subscription Rights		(1)
Total	\$ 10,000,000	\$ 1,364.00

Pursuant to Rule 457(o) under the Securities Act of 1933, as amended, the registration fee is calculated based upon (1) the maximum aggregate offering price of all securities listed (determined as provided below). Pursuant to Rule 457(o), the table omits certain information.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) of the Securities Act.

The registrant is registering hereunder an indeterminate number or amount of subscription units and common (3) stock. In no event will the aggregate maximum offering price of all securities issued pursuant to this registration statement exceed \$10,000,000.

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

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED APRIL 11, 2013**

**PROSPECTUS**

**Consumers Bancorp, Inc.**

**\_\_\_\_\_ shares of Common Stock,  
including up to \_\_\_\_\_ shares of Common Stock  
issuable upon the exercise of Subscription Rights at \$\_\_\_\_\_ per share**

We are distributing, at no charge to our shareholders, non-transferable subscription rights to purchase up to \_\_\_\_\_ shares of our common stock, without par value. In the rights offering, you will receive one subscription right for each share of common stock you held as of 5:00 p.m. Eastern Time, on March 26, 2013, the record date of the rights offering.

Each subscription right will entitle you to purchase [\_\_\_\_\_] shares of our common stock at a subscription price of \$\_\_\_\_\_ per share, which we refer to as the basic subscription privilege, subject to certain limitations and subject to allotment. If you fully exercise your basic subscription privilege and other shareholders do not fully exercise their basic subscription privileges, you will be entitled to exercise an over-subscription privilege, subject to certain limitations and subject to allotment, to purchase a portion of the unsubscribed shares of our common stock at the same subscription price of \$\_\_\_\_\_ per share. To the extent you properly exercise your over-subscription privilege for an amount of shares that exceeds the number of the unsubscribed shares available to you, any excess subscription payments received by the subscription/escrow agent will be returned to you promptly, without interest, following the expiration of the stock offering.

The subscription rights will expire if they are not exercised by 5:00 pm., Eastern Time, on [ ], 2013. We reserve the right to extend the expiration date one or more times, but in no event will we extend the rights offering beyond [ ], 2013. You should carefully consider whether to exercise your subscription rights before the expiration of the rights offering. All exercises of subscription rights are irrevocable. The subscription rights may not be sold, transferred or assigned.

**Our board of directors is not making a recommendation regarding your exercise of the subscription rights. You should carefully consider whether to exercise your subscription rights prior to the expiration of the rights offering.**

**Investing in our common shares involves risks. See “*Risk Factors*” beginning on page 7 to read about factors you should consider before exercising your subscription rights.**

We may offer any of the shares of common stock that remain unsubscribed (after taking into account all over-subscription privileges exercised) at the expiration of the rights offering to the public at \$\_\_\_\_\_ per share on a best efforts basis by Boenning & Scattergood, Inc. (Boenning). Because the public offering is a best efforts offering, our selling agent is not required to purchase any common shares, but will use its best efforts to sell all the shares offered. The public offering will close as soon as practicable after the expiration date of the rights offering, but in no event later than [\_\_\_\_\_], 2013. The rights offering and the public offering may be referred to collectively as the stock offering.

We may in our sole discretion cancel the rights offering at any time and for any reason. If we cancel this offering, the subscription/escrow agent will return all subscription payments it has received for the cancelled rights offering without interest or penalty.

We have engaged Registrar and Transfer Company to serve as the subscription/escrow agent. The subscription/escrow agent will hold in escrow the funds we receive from subscribers until we complete or cancel the rights offering.

Our common shares are traded on the OTC Markets under the trading symbol “CBKM.” The last reported sales price of our shares of common stock on [ ], 2013 was \$[ ] per share. The shares of common stock issued in the rights offering will also be traded on the OTC Markets. The subscription rights will not be listed for trading on any stock exchange or market. As of the close of business on [ ], 2013 there were [ ] shares of common stock issued and outstanding.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

**These shares of common stock are not savings accounts, deposits, or other obligations of our bank subsidiary or any of our non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.**

**STOCK OFFERING SUMMARY**

**PRICE: \$\_\_\_\_\_ PER SHARE**

	<b>50% of Maximum</b>	Maximum
Number of shares	_____ (1)	_____
Gross stock offering proceeds	\$ _____	\$ _____
Estimated offering expenses excluding financial advisor/selling agent fees and expenses	\$ _____	\$ _____
<b>Financial advisor/selling agent fees and expenses</b> (1)	\$ _____	\$ _____
All fees and expenses per share	\$ _____	\$ _____
Net proceeds	\$ _____	\$ _____
Net proceeds per share	\$ _____	\$ _____

We have engaged Boenning as our financial and marketing advisor in connection with the rights offering and as (1) our selling agent in connection with the public offering, if any. See “*Plan of Distribution - Financial Advisor and Selling Agent*” for a discussion of Boenning’s compensation.

**This investment involves risks, including the possible loss of principal.**

**Please read “Risk Factors” beginning on page 7.**

The date of this prospectus is [ ], 2013.

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**You should rely only on the information contained in this prospectus. We have not, and our financial advisor and selling agent, Boenning, has not authorized anyone to provide you with additional or different information from that contained in this prospectus. The information contained in this prospectus is accurate only as of the date on the front cover of this prospectus regardless of the time of delivery of this prospectus or any exercise of the rights.**

The distribution of this prospectus and the rights offering and sale of shares of our common shares in certain jurisdictions may be restricted by law. This prospectus does not constitute an offer of, or a solicitation of an offer to buy, any shares of common stock in any jurisdiction in which such offer or solicitation is not permitted. No action is being taken in any jurisdiction outside the United States to permit an offering of the common shares or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to those jurisdictions.

In this prospectus, all references to the “Company,” “Consumers,” “we,” “us” and “our” refer to Consumers Bancorp, Inc. and subsidiaries, unless the context otherwise requires or where otherwise indicated. References to “Consumers National Bank” or the “Bank” mean our wholly-owned banking subsidiary. In this prospectus, we will refer to the rights offering and the public offering collectively as the “stock offering.”





## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of our statements contained in this prospectus are “forward-looking statements” within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements are not guarantees of performance or results. When we use words such as “may,” “plan,” “contemplate,” “anticipate,” “believe,” “intend,” “continue,” “expect,” “project,” “predict,” “target,” “could,” “is likely,” “should,” “would,” “will,” and similar expressions, you should consider them as identifying forward-looking statements, although we may use other phrasing. All statements other than statements of historical fact included in this prospectus regarding our outlook, financial position and results of operation, liquidity, capital resources and interest rate sensitivity are forward-looking statements.

These forward-looking statements may involve risks and uncertainties that are difficult to predict, may be beyond our control, and could cause actual results to differ materially from those described in such statements. The forward-looking statements contained in this prospectus are based on our beliefs and assumptions and on the information available to us at the time that these disclosures were prepared and involve known and unknown risks, uncertainties and other factors which may cause our actual results to be materially different from any future results expressed or implied by such forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are reasonable, we can give no assurance such expectations will prove to have been correct. Should any known or unknown risks and uncertainties develop into actual events, those developments could have material adverse effects on our business, financial condition and results of operations.

Important factors that could cause actual results to differ materially from those in the forward-looking statements included herein include, but are not limited to:

- regional and national economic conditions becoming less favorable than expected, resulting in, among other things, a deterioration in credit quality of assets and the underlying value of collateral could prove to be less valuable than otherwise assumed;

- the economic impact from the oil and gas activity in the region could be less than expected or the timeline for development could be longer than anticipated;

- an extended period in which market levels of interest rates remain at historical low levels, which could reduce, or put pressure on our ability to maintain, anticipated or actual margins;

- the nature, extent, and timing of government and regulatory actions;
- material unforeseen changes in the financial condition or results of Consumers National Bank's customers;
- competitive pressures on product pricing and services; and
- a deterioration in market conditions causing debtors to be unable to meet their obligations.

For other factors, risks and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, please read the "Risk Factors" section of this prospectus. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary note. Any forward-looking statement speaks only as of the date which such statement was made, and, except as required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

## QUESTIONS AND ANSWERS RELATING TO THE STOCK OFFERING

*The following are examples of what we anticipate will be common questions about the stock offering. The answers are based on selected information included elsewhere in this prospectus. The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about the stock offering. This prospectus contains more detailed descriptions of the terms and conditions of the stock offering and provides additional information about us and our business, including potential risks related to the stock offering, Consumers' common shares and our business.*

What is the rights offering?

We are distributing to holders of shares of our common stock as of 5:00 p.m., Eastern Time, on March 26, 2013, which is the record date for the rights offering, at no charge, non-transferable subscription rights to purchase shares of our common stock. You will receive one subscription right for each share of common stock you owned as of 5:00 p.m., Eastern Time, on March 26, 2013. Each subscription right entitles the holder to a basic subscription privilege and an over-subscription privilege, which are described below. The common shares to be issued in the rights offering, like our existing shares of common stock, will be traded on the OTC Markets under the symbol "CBKM."

Why are we conducting the stock offering?

We are engaging in the stock offering to raise equity capital to further strengthen Consumers National Bank's capital position, provide additional capital to Consumers for general operating purposes and to enable us to be well-positioned for future growth. Our capital management function is a regular process that consists of providing capital both for our current financial position and our anticipated future capital needs. Over the past few years we have experienced steady deposit growth and we believe that increased economic activity in our region, particularly in the energy sector, will lead to additional growth opportunities. The equity capital we raise in this stock offering will be used to enhance Consumers National Bank's overall capital position and for general corporate purposes, which may include, among others, pursuing strategic opportunities that may be presented to us from time to time. Our board of directors considered several alternative capital raising methods and has chosen to raise capital through a rights offering, in part to give our shareholders the opportunity to limit ownership dilution by buying additional shares of common stock. We believe that the stock offering will strengthen our financial condition by generating additional cash and increasing our capital position; however, our board of directors is making no recommendation regarding your exercise of the subscription rights. We cannot assure you that we will not need to seek additional financing or engage in additional capital offerings in the future.

What is the basic subscription privilege?

The basic subscription privilege of each subscription right gives our shareholders the opportunity to purchase [\_\_\_\_\_] shares of our common stock at a subscription price of \$\_\_\_\_\_ per share; however, fractional common shares resulting from the exercise of the subscription right will be eliminated by rounding down to the nearest whole share. We have granted to you, as a shareholder of record as of 5:00 p.m., Eastern Time, on the record date, one subscription right for each share of our common stock you owned at that time. For example, if you owned 100 shares of our common stock as of 5:00 p.m., Eastern Time, on the record date, you would have received 100 subscription rights and would have the right to purchase \_\_\_ shares of common stock for \$\_\_\_\_\_ per share subject to certain limitations and subject to allotment. You may exercise all or a portion of your basic subscription privilege or you may choose not to exercise any subscription rights at all. However, if you exercise less than your full basic subscription privilege, you will not be entitled to purchase any additional shares by using your over-subscription privilege.

If you hold a Consumers stock certificate, the number of rights you may exercise pursuant to your basic subscription privilege is indicated on the enclosed rights certificate. If you hold your shares in the name of a custodian bank, broker, dealer or other nominee, you will not receive a rights certificate. Instead, the Depository Trust Company (DTC) will issue one subscription right to the nominee record holder for each share of our common stock that you own at the record date. If you are not contacted by your custodian bank, broker, dealer or other nominee, you should contact your nominee as soon as possible.

What is the over-subscription privilege?

In the event that you purchase all of the shares of our common stock available to you pursuant to your basic subscription privilege, you may also choose to purchase a portion of any shares of our common stock that are not purchased by our other shareholders through the exercise of their basic subscription privileges. You should indicate on your rights certificate how many additional shares you would like to purchase pursuant to your over-subscription privilege.

If sufficient shares of common stock are available, we will seek to honor your over-subscription request in full. If, however, over-subscription requests exceed the number of shares of common stock available to be purchased pursuant to the over-subscription privilege, we will allocate the available shares of common stock among shareholders who over-subscribed by multiplying the number of shares requested by each shareholder through the exercise of their over-subscription privileges by a fraction that equals (i) the number of shares available to be issued through over-subscription privileges divided by (ii) the total number of shares requested by all subscribers through the exercise of their over-subscription privileges. We will not issue fractional shares through the exercise of over-subscription privileges.

In order to properly exercise your over-subscription privilege, you must deliver the subscription payment related to your over-subscription privilege at the time you deliver payment related to your basic subscription privilege. Because we will not know the actual number of unsubscribed shares prior to the expiration of the rights offering, if you wish to maximize the number of shares you purchase pursuant to your over-subscription privilege, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of shares of our common stock that may be available to you. For that calculation, you must assume that no other shareholder, other than you, will subscribe for any shares of our common stock pursuant to their basic subscription privilege. See *“The Rights Offering—The Subscription Rights—Over-Subscription Privilege.”*

Am I required to exercise all of the subscription rights I receive in the rights offering?

No. You may exercise any number of your subscription rights, or you may choose not to exercise any subscription rights. If you do not exercise any subscription rights, the number of shares of our common stock you own will not change. However, if you choose not to exercise your subscription rights or you exercise less than all of your subscription rights and other shareholders fully exercise their subscription rights or exercise a greater proportion of their subscription rights than you exercise, the percentage of our common shares owned by these other shareholders will increase relative to your ownership percentage, and your voting and other rights in the Company will likewise be diluted. In addition, if you do not exercise your basic subscription privilege in full, you will not be entitled to participate in the over-subscription privilege.

How soon must I act to exercise my subscription rights?

If you received a rights certificate and elect to exercise any or all of your subscription rights, the subscription/escrow agent must receive your completed and signed rights certificate and payment (and your payment must clear) prior to the expiration of the rights offering, which is \_\_\_\_\_, 2013, at 5:00 p.m., Eastern Time. If you hold your shares in the name of a custodian bank, broker, dealer or other nominee, your nominee may establish a deadline prior to 5:00 p.m., Eastern Time, on \_\_\_\_\_, 2013 by which you must provide it with your instructions to exercise your subscription rights and payment for your shares. Our board of directors may, in its discretion, extend the rights offering one or more times, but in no event will the expiration date be later than \_\_\_\_\_, 2013. Our board of directors may cancel or amend the rights offering at any time. In the event that the rights offering is cancelled, all subscription payments received will be returned promptly, without interest or penalty.

Although we will make reasonable attempts to provide this prospectus to holders of subscription rights, the rights offering and all subscription rights will expire at 5:00 p.m., Eastern Time on \_\_\_\_\_, 2013 (unless extended), whether or not we have been able to locate each person entitled to subscription rights.

May I transfer my subscription rights?

No. You may not sell, transfer or assign your subscription rights to anyone. Subscription rights will not be listed for trading on any stock exchange or market. Rights certificates may only be completed by the shareholder who receives them.

Are we requiring a minimum subscription to complete the rights offering?

No. We are not requiring a minimum amount of subscriptions to complete the rights offering.

Has our board of directors made a recommendation to our shareholders regarding the rights offering?

No. Our board of directors is not making a recommendation regarding your exercise of the subscription rights. Shareholders who exercise subscription rights risk investment loss on new money invested. We cannot predict the price at which our shares of common stock will trade and, therefore, we cannot assure you that the market price for our common shares will be above the subscription price or that anyone purchasing shares at the subscription price will be able to sell those shares in the future at the same price or a higher price. You are urged to make your decision based on your own assessment of our business and the rights offering. Please see “*Risk Factors*” for a discussion of some of the risks involved in investing in our common shares.

Are there any limits on the number of shares I may purchase in the rights offering or own as a result of the rights offering?

We will not issue shares of our common stock pursuant to the exercise of basic or over-subscription privileges to any person or entity who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if, as of \_\_\_\_\_, 2013, such clearance or approval has not been obtained and/or any applicable waiting period has not expired. If we elect not to issue shares in such a case, the unissued shares will become available to satisfy over-subscriptions by other shareholders pursuant to their subscription rights and will thereafter be available in the public offering of shares.

In our sole discretion, we may elect not to issue shares of our common stock pursuant to the exercise of basic or over-subscription privileges to any person or entity who, after exercising their basic or over-subscription privileges, would beneficially own more than 9.9% of shares of our common stock outstanding. Such shares will become available to satisfy over-subscriptions by other shareholders pursuant to their subscription rights and will thereafter be available in the public offering, if any. Such ownership limitation is not applicable to existing shareholders who already beneficially own more than 9.9% of shares of our common stock outstanding prior to this stock offering.

How do I exercise my subscription rights if I own shares in certificate form?

If you hold a Consumers stock certificate and you wish to participate in the rights offering, you must take the following steps:

• deliver a properly completed and signed rights certificate, and related subscription documents, to the subscription/escrow agent before 5:00 p.m., Eastern Time, on \_\_\_\_\_, 2013; and

• deliver payment to the subscription/escrow agent (as described below) before 5:00 p.m., Eastern Time, on \_\_\_\_\_, 2013.

In certain cases, you may be required to provide additional documentation or signature guarantees.



Please follow the delivery instructions on the rights certificate. Do not deliver documents to Consumers. You are solely responsible for completing delivery to the subscription/escrow agent of your subscription documents, rights certificate and payment. We urge you to allow sufficient time for delivery of your subscription materials to the subscription/escrow agent so that they are received by the subscription/escrow agent by 5:00 p.m., Eastern Time, on \_\_\_\_\_, 2013.

If you send a payment that is insufficient to purchase the number of shares you requested, or if the number of shares you requested is not specified in the forms, the payment received will be applied to exercise your subscription rights to the fullest extent possible based on the amount of the payment received, subject to the availability of shares in the rights offering and the elimination of fractional shares. Any excess subscription payments received by the subscription/escrow agent will be returned promptly, without interest, following the expiration of the rights offering.

What form of payment is required to purchase the shares of our common stock?

As described in the instructions accompanying the rights certificate, payments submitted to the subscription/escrow agent must be made in full United States currency by:

check payable to Registrar and Transfer Company, the subscription/escrow agent, drawn upon a United States bank;  
or

wire transfer to Registrar and Transfer Company, the subscription/escrow agent.

Payment will be deemed to have been received by the subscription/escrow agent only upon the subscription/escrow agent's receipt of any certified check or bank check or, in the case of an uncertified personal check, receipt and clearance of such check.

Please note that funds paid by uncertified personal check may take at least seven business days to clear. Accordingly, if you wish to pay by means of an uncertified personal check, we urge you to make payment sufficiently in advance of the expiration date to ensure that the subscription/escrow agent receives cleared funds before that time. We also urge you to consider payment by means of a certified check, bank check, bank draft or money order.

What should I do if I want to participate in the rights offering, but my shares are held in the name of a custodian bank, broker, dealer or other nominee?

If you hold your common shares through a custodian bank, broker, dealer or other nominee, then your nominee is the record holder of the shares you own. If you are not contacted by your nominee, you should contact your nominee as soon as possible. Your nominee must exercise the subscription rights on your behalf for the common shares you wish to purchase. You will not receive a rights certificate. Please follow the instructions of your nominee. Your nominee may establish a deadline that may be before the 5:00 p.m., Eastern Time, \_\_\_\_\_, 2013 expiration date that we have established for the rights offering.

When will I receive my new shares?

All shares that you purchase in the stock offering will be issued in book-entry, or uncertificated, form. When issued, the shares will be registered in the name of the holder of record. As soon as practicable after the expiration of the stock offering, the subscription/escrow agent will arrange for the issuance of the shares of common stock purchased in the stock offering. Subject to state securities laws and regulations, we have the discretion to delay distribution of shares you may have elected to purchase in order to comply with state securities laws.

After I send in my payment and rights certificate, may I cancel my exercise of subscription rights?

No. All exercises of subscription rights are irrevocable unless the rights offering is terminated, even if you later learn information that you consider to be unfavorable to the exercise of your subscription rights. You should not exercise your subscription rights unless you are certain that you wish to purchase shares of our common stock in the rights offering.

Will our directors and officers participate in the rights offering?

All holders of our common shares as of the record date for the rights offering will receive, at no charge, the non-transferable subscription rights to purchase shares of our common stock as described in this prospectus. To the extent that our directors and officers held shares of our common stock as of the record date, they will receive the subscription rights and, while they are under no obligation to do so, will be entitled to participate in the rights offering. Our directors and executive officers have indicated that they may purchase between \_\_\_\_\_ and \_\_\_\_\_ common shares in the offering through their basic and oversubscription privileges. If they purchased \_\_\_\_\_ shares, they would own approximately % of the total outstanding common shares immediately after the completion of the rights offering, assuming all of the rights are subscribed for in the rights offering.

What effects will the stock offering have on our outstanding shares of common stock?

As of [ \_\_\_\_\_ ], 2013, we had \_\_\_\_\_ shares of our common stock issued and outstanding. Assuming all shares are sold in the stock offering, we expect approximately \_\_\_\_\_ shares of our common stock will be outstanding immediately after completion of the stock offering.

The issuance of shares of our common stock in the stock offering will dilute, and thereby reduce, your proportionate ownership in our shares of common stock unless you fully exercise your basic subscription privilege. In addition, the issuance of shares of our common stock at a subscription price which is less than the market price as of \_\_\_\_\_, 2013 may cause the market price of our common shares to decrease.

How much will we receive in net proceeds from the stock offering?

We expect the aggregate stock offering proceeds, net of expenses, to be approximately \_\_\_\_\_, assuming all shares in the stock offering are sold. We intend to invest the net proceeds to enhance Consumers National Bank's overall capital position and for general corporate purposes. Please see "*Use of Proceeds.*"

Are there risks in exercising my subscription rights?

Yes. The exercise of your subscription rights involves risks. Exercising your subscription rights involves the purchase of additional shares of our common stock and should be considered as carefully as you would consider any other equity investment. Among other things, you should carefully consider the risks described under the heading "*Risk Factors*" in this prospectus.

If the rights offering is not completed, will my subscription payment be refunded to me?

Yes. The subscription/escrow agent will hold all funds it receives in a segregated bank account until completion of the rights offering. If the rights offering is not completed, all subscription payments received by the subscription/escrow agent will be returned promptly, without interest or penalty. If your shares are held in the name of a custodian bank, broker, dealer or other nominee, it may take longer for you to receive the refund of your subscription payment because the subscription/escrow agent will return payments through the record holder of your shares.

What is the public offering of shares?

If shares of common stock remain available for sale after the closing of the rights offering, we may offer and sell all or some of those remaining shares to the public on a best efforts basis at the \$\_\_\_\_ per share subscription price.

Will I receive interest on any funds I deposit with the subscription/escrow agent?

No. You will not be entitled to any interest on any funds that are deposited with the subscription/escrow agent pending completion or cancellation of the rights offering. If the rights offering is cancelled for any reason, the subscription/escrow agent will return this money to subscribers, without interest or penalty, as soon as practicable.

When can I sell the shares of common stock I receive upon exercise of the subscription rights?

If you exercise your subscription rights, you will be able to resell the shares of common stock purchased by exercising your subscription rights once your account has been credited with those shares, provided you are not otherwise restricted from selling the shares (for example, because you are an affiliate who holds control stock or because you possess material nonpublic information about the Company). Although we will endeavor to issue the shares as soon as practicable after completion of the rights offering, there may be a delay between the expiration date of the rights offering and the time that the shares are issued. In addition, we cannot assure you that, following the exercise of your subscription rights, you will be able to sell your common shares at a price equal to or greater than the subscription price.

What are the U.S. federal income tax consequences of exercising my subscription rights?

The receipt and exercise of subscription rights should generally not be taxable for U.S. federal income tax purposes. You should, however, seek specific tax advice from your tax advisor in light of your particular circumstances and as to the applicability and effect of any other tax laws. See “*Material U.S. Federal Income Tax Considerations.*”

What fees or charges apply if I purchase shares of common stock in the stock offering?

We are not charging any fee or sales commission to issue subscription rights to you or to issue shares to you. If you purchase your shares through a custodian bank, broker, dealer or other nominee, you are responsible for paying any fees your nominee may charge you.

What is the role of Boenning in the stock offering?

We have entered into an agreement with Boenning, pursuant to which Boenning is acting as our financial and marketing advisor in connection with the rights offering and as our selling agent in connection with the public offering, if any. We have agreed to pay certain fees to, and expenses of, Boenning.

Who should I contact if I have other questions?

If you have other questions regarding Consumers, Consumers National Bank or the stock offering, or if you have any questions regarding completing a rights certificate or submitting payment in the rights offering, please contact the Company at (800) 948-1262 (toll free), Monday through Friday (except bank holidays), between 9:00 a.m. and 4:00 p.m., Eastern Time.

To whom should I send my forms and payment?

If your shares are held in the name of a broker, dealer, custodian bank or other nominee, then you should send your subscription documents and subscription payment to that record holder. If you are the record holder, then you should send your rights certificate and other documents, and subscription payment to the address provided below. If sent by mail, we recommend that you send documents and payments by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription/escrow agent. Do not send or deliver these materials to Consumers.

*By mail, hand or overnight courier:*

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016  
Attn: Reorg/Exchange Department

You, or, if applicable, your nominee, are solely responsible for completing delivery to the subscription/escrow agent of your subscription rights election form and other documents and subscription payment. You should allow sufficient time for delivery of your subscription materials to the subscription/escrow agent and clearance of payment before the expiration of the rights offering period.

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## SUMMARY

*This summary highlights the information contained elsewhere in this prospectus. Because this is only a summary, it does not contain all of the information that you should consider before deciding whether to purchase shares in the stock offering. You should carefully read this entire prospectus, including the information contained in the sections entitled "Risk Factors" and "The Rights Offering," our audited consolidated financial statements and the accompanying notes for the year ended June 30, 2012, and our unaudited consolidated financial statements for the quarter ended December 31, 2012, both of which are incorporated into this prospectus by reference, in their entirety before you decide to exercise your subscription rights.*

### The Company

Known at the time as Minerva National Bank, Consumers National Bank was originally chartered on August 30, 1965. Consumers is a full service financial institution engaged in commercial and retail banking through twelve full service locations and 13 ATM's throughout Stark, Carroll and Columbiana counties in northeast Ohio. Consumers Bancorp, Inc. is a bank holding company that was formed in 1995 to acquire all the issued and outstanding capital stock of Consumers National Bank. Consumers is a bank holding company under the Bank Holding Company Act of 1956, as amended, and is a registered bank holding company, incorporated under the laws of the State of Ohio. Its activities have been limited primarily to holding the common shares of the Bank. Our common shares are traded on the over-the-counter market under the trading symbol "CBKM."

As of December 31, 2012, we had total assets of \$344.6 million, total gross loans of \$205.7 million, total deposits of \$292.2 million and total shareholders' equity of \$29.1 million. At December 31, 2012, our tier 1 leverage capital ratio was 7.30%, tier 1 risk-based capital ratio was 11.41% and total risk-based capital ratio was 13.39%. For the sixth months ended December 31, 2012, our return on average assets was 0.79% and our return on average equity was 9.45%.

The Company is focused on growing business relationships and building core deposits, profitable loans and non-interest income. We believe that we have built a solid franchise that meets the financial needs of our clients and communities by providing an array of personalized products and services delivered by seasoned banking professionals with decisions made at the local level. We strive to be the leading community bank in each of our markets.

We believe that our core lending and deposit business segments have performed well in a very challenging economic environment that began in 2008. For the five fiscal years ending June 30, 2012, our net charge-offs averaged only 0.16% of average loans. For the six months ended December 31, 2012, our annualized net charge-offs were only 0.05% of average loans. As of December 31, 2012, we had non-performing assets of \$1.73 million which represented 0.50% of total assets. At that date, we had no other real estate owned. Management believes that the Company is well positioned to build on its core performance to continue to grow profitably. Additional employees and infrastructure are needed to manage the increased customer relationships that come with growth. Plans have begun to replace the Minerva Corporate Headquarters and branch with a new facility by spring of 2015. The new facility will provide a much improved customer experience in the branch, upgraded staff work spaces and basic amenities, operating efficiencies and increased capacity that will allow us to meet future staffing needs.

We are a community-oriented financial institution that offers a wide-range of commercial and consumer loan and deposit products, as well as mortgage, financial planning and investment services to individuals, farmers and small and medium sized businesses in our markets. We seek to be the provider of choice for financial solutions to customers who value exceptional personalized service, local decision making, and modern banking technology. Our business involves attracting deposits from local businesses and individual customers and using such deposits to originate commercial, agricultural, mortgage, and consumer loans in Stark, Columbiana, Carroll and contiguous counties in Ohio. We also invest in securities consisting primarily of obligations of U.S. government sponsored entities, municipal obligations and mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

Consumers is supervised by the Board of Governors of the Federal Reserve System and Consumers National Bank is subject to supervision, regulation and periodic examination by the Office of the Comptroller of the Currency. Our executive offices are located at 614 East Lincoln Way, Minerva, Ohio and our telephone number is (330) 868-7701. Our internet address is [www.consumersbank.com](http://www.consumersbank.com). The information contained on our website should not be considered part of this prospectus, and the reference to our website does not constitute incorporation by reference of the information contained on the website.

Additional information about us and our subsidiaries is included in documents incorporated by reference in this prospectus. See “*Where You Can Find More Information*” beginning on page 26 of this prospectus.

## **Our Management Team**

Our executive management team consists of seven seasoned banking professionals with an average of 25 years of experience each in the financial services industry. All seven members of our executive management team have worked in northeast Ohio for the majority of their respective careers. Our executive officers’ experience and local market knowledge have been instrumental in managing through challenging economic times and in positioning the Company to take advantage of future opportunities. To ensure management continuity well into the future, we have developed a leadership program for current executives and future leaders.



The executive management team of Consumers consists of:

<b>Executive</b>	<b>Title</b>	<b>Years in Financial Services</b>
Ralph J. Lober, II	President & CEO	22
Phillip M. Suarez	Executive Vice President, Senior Loan Officer	41
Renee K. Wood	Executive Vice President, Chief Financial Officer	20
Randy L. Gilroy	Senior Vice President, Chief Credit Officer	32
Bryan D. Walters	Senior Vice President, Chief Risk Officer	21
Derek G. Williams	Senior Vice President, Retail Operations and Sales	34
Kimberly K. Chuckalovchak	Vice President, Information Technology Manager	7

## Our Markets

Headquartered in Minerva, we operate in the northeastern Ohio counties of Stark, Carroll and Columbiana. These counties are located in and around the region known as the Utica Shale Formation. According to the Ohio Oil & Gas Association (OOGA), from 2011 to 2015, oil and gas producers are projected to spend over \$34 billion in exploration and development, midstream, royalty and lease expenditures in the Utica. Over that same timeframe, OOGA estimates the creation of over 200,000 jobs with more than \$12 billion of annual salary and personal income. Although OOGA's projections are based on drilling results to date, there have been a number of significant investments including:

Chesapeake Energy - Over \$2 billion for development of the Utica Shale in 2012; this is in addition to the more than \$1 billion it paid to Ohio landowners in the form of leasing and royalty payments, according to the *Cleveland Plain Dealer*;

Vallourec – Announced the successful production of its first pipes at its new US state-of-the-art mill in Youngstown, Ohio after investing \$350 million, according to *Reuters*; and

M3 Midstream LLC – Over \$1 billion for the first of several large natural gas processing plants in eastern Ohio scheduled to open in May 2013, according to the *Cleveland Plain Dealer*.

Although we do not specifically lend to energy exploration concerns, the development and production of natural resources in our markets has caused a significant increase in economic development which, both directly and indirectly, is contributing to our increased growth and profitability. At the same time we are enjoying the positive effect of the Utica shale, we have been strategically expanding our access to more populous areas through the opening of offices in Hartsville and Canton, Ohio. We believe that the demographic profiles of these areas are complementary to our existing markets and provide our business with geographic diversification. Through these new offices we are able to capitalize on our staff's market knowledge and have gained access to additional small business and agricultural customers.

Situated in close proximity to Canton, Akron, Cleveland, Youngstown, and Pittsburgh, we believe that the markets we serve will provide meaningful growth opportunities for us. According to the Department of Labor, compared to data from the previous year, as of February 2013, all of our markets experienced meaningful job growth. The unemployment rates in each of our counties had a double-digit percentage decline year-over-year, compared to a 7.2% decline in the national unemployment rate. In 2012, the State of Ohio added more jobs than all other states except Texas, California, and New York.

## Competitive Strengths

We believe that the following business strengths have been instrumental to the success of our core operations and will enable us to continue profitable growth and to maximize value to our shareholders, while remaining fundamentally sound.

*Community Banking Philosophy.* As the leading community bank in our region, we believe the key to our franchise value is our dedication to making a difference in the markets we serve. We provide our clients with local decision making and individualized service coupled with the products and services offered by our larger institutional competitors. As our business lenders, officers, and company directors are based in or reside in the communities we serve, we are able to maintain a high-level of involvement in local organizations and establish a strong understanding of the banking needs of the respective communities. We believe that our customer-centric business philosophy and sales approach enables us to build long-term relationships with desirable customers, which enhances the quality and stability of our funding and lending operations. Our mission and philosophy has positioned us well in the communities across our market area and has enabled us to attract and maintain a very talented and experienced management team.

*Disciplined Credit Culture.* We achieve our strong credit quality by adherence to sound underwriting and credit administration standards and by maintaining long-term customer relationships. The results of our focus on credit quality are evidenced by a ratio of non-performing assets to total assets of only 0.50% at December 31, 2012 and 0.65% at December 31, 2011, and a net charge-offs to average total loans ratio of 0.05% annualized for the six months ended December 31, 2012. Our ratio of allowance for loan losses to total loans was 1.15% at December 31, 2012 and 1.18% at December 31, 2011. While the challenging operating environment in 2008 and 2009 was disastrous for many banks across the country, our management team maintained excellent asset quality throughout. In part, this credit culture is the result of the level of stock ownership by our directors and executive officers.

*Strong Capital Position.* We exceed the regulatory guidelines to be classified “well capitalized.” Our capital position is strong and has consistently grown. At December 31, 2012, our tier 1 leverage capital ratio was 7.30%, our tier 1 risk-based capital ratio was 11.41% and our total risk-based capital ratio was 13.39%. We believe that our capital position enhances our ability to grow organically because it enables the Company to continue lending and to remain focused on our customers’ needs. We believe that completion of this stock offering will further enhance our capital strength and ability to grow.

*Technology.* Throughout our history, we have been a leader in investing in the technology necessary to meet the developing demands of our commercial and retail customers. We utilize a strong core operating system that enables us to efficiently offer high-end deposit and loan products and have partnered with industry-leading internet banking, cash management, mobile banking, application-based banking, and telephone banking providers to offer a complete banking experience to all customers, regardless of their preference. We participate in a nationwide automated teller machine network and recently invested in fiber optics throughout our branch network.

*Profitable Growth Opportunities.* We believe that we can attract new customers and expand our total loans and deposits within our existing market areas and through strategic branching and possible acquisition opportunities. The economic crisis and subsequent regulatory response will continue to create opportunities to attract new clients and in some cases, may become the catalyst for mergers and acquisitions. We will grow the loan portfolio, open new

branches and consider new acquisitions only after rigorous due diligence and substantial quantitative analysis regarding the financial and capital impacts of such transactions. We believe that maintaining our financial discipline will generate long-term shareholder value.

#### Financial Results for Six Months Ending December 31, 2012 and Fiscal Years 2012, 2011 and 2010

The following tables set forth certain information concerning the consolidated financial position and results of operations of Consumers for the periods indicated. This selected consolidated financial data should be read in conjunction with the consolidated financial statements incorporated into this prospectus by reference.

## SELECTED CONSOLIDATED FINANCIAL DATA:

	At December 31, 2012	At June 30, 2012	At June 30, 2011	At June 30, 2010
(In thousands, except per share data)				
Total amount of:				
Assets	\$ 344,582	\$ 334,761	\$ 300,140	\$ 263,393
Total cash and cash equivalents	10,314	13,745	13,828	13,806
Securities, available-for-sale	109,478	105,335	91,889	64,262
Loans – net	203,319	195,095	175,450	172,007
Deposits	292,241	284,481	248,246	216,314
Short term borrowings	14,685	13,722	17,012	13,086
Federal Home Loan Bank advances	6,408	6,446	7,535	8,297
Total shareholders' equity	29,096	27,890	25,324	23,716
Book value per share (all tangible)	14.10	13.56	12.35	11.64

## SELECTED CONSOLIDATED OPERATING DATA:

	Six Months Ended December 31, 2012	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010
(In thousands, except per share data)				
Total interest income	\$ 6,677	\$ 13,078	\$ 12,784	\$ 12,610
Total interest expense	643	1,459	1,916	2,560
Net interest income	6,034	11,619	10,868	10,050
Provision for loan losses	81	315	435	544
Net interest income after provision for loan losses	5,953	11,304	10,433	9,506
Other income	1,342	2,604	2,011	2,148
Other expense	5,595	10,345	9,575	9,048
Income before income taxes	1,700	3,563	2,869	2,606
Income taxes	338	799	621	567
Net income	\$ 1,362	\$ 2,764	\$ 2,248	\$ 2,039
Basic and diluted earnings per share	\$ 0.66	\$ 1.35	\$ 1.10	\$ 1.00
Cash dividends paid per share	\$ 0.24	\$ 0.44	\$ 0.41	\$ 0.40

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Return on average assets (annualized)	0.79	%	0.87	%	0.80	%	0.80	%
Return on average equity (annualized)	9.45	%	10.29	%	9.21	%	8.95	%
Average equity to average assets	8.40	%	8.48	%	8.66	%	8.91	%
Net interest margin	3.94	%	4.04	%	4.22	%	4.28	%
Allowance for loan losses to loans	1.15	%	1.18	%	1.18	%	1.31	%
Allowance to non-performing loans	136.58	%	120.86	%	119.38	%	97.18	%
Net charge-off ratio (annualized)	0.05	%	0.04	%	0.35	%	0.16	%
Non-performing loans to total loans	0.84	%	0.98	%	0.99	%	1.34	%
Non-performing assets to total assets	0.50	%	0.58	%	0.61	%	0.90	%

Available Information

Consumers files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). You may read and copy any materials that the Company files with the SEC at the SEC’s Public Reference Room at 100 F Street NE, Washington, DC 20549. Please call the SEC at 1-800–SEC-0330 for more information about the operation of the Public Reference Room. The SEC also maintains an Internet website, at <http://www.sec.gov>, that contains the Company’s filed reports, proxy and information statements and other information that the Company files electronically with the SEC. Additionally, the Company makes these filings available, free of charge, on its website at <http://www.Consumersbank.com> as soon as reasonably practicable after the Company electronically files such materials with, or furnishes them to, the SEC. Additional information about the Company is included in documents incorporated by reference in this prospectus. See “Where You Can Find More Information” beginning on page 26 of this prospectus.

## STOCK OFFERING SUMMARY

*The following summary describes the principal terms of the stock offering, but is not intended to be complete. See the information under the heading “The Rights Offering” in this prospectus for a more detailed description of the terms and conditions of the rights offering.*

<b><i>Securities Offered</i></b>	We are distributing to you, at no charge, one non-transferable subscription right for each share of our common stock that you owned as of 5:00 p.m., Eastern Time, on _____, either as a holder of record or, in the case of shares held of record by custodian banks, brokers, dealers or other nominees on your behalf, as a beneficial owner of such shares.
<b><i>Subscription Price</i></b>	[\$____] per share of common stock. To be effective, any payment related to the exercise of a subscription right must clear prior to the expiration of the rights offering period.
<b><i>Record Date</i></b>	5:00 p.m., Eastern Time, on March 26, 2013.
<b><i>Expiration of the Rights Offering</i></b>	5:00 p.m., Eastern Time, on [ ], 2013. We may extend the rights offering without notice to you until [ ], 2013.
<b><i>Use of Proceeds</i></b>	We expect the aggregate net proceeds from the stock offering to be approximately \$_____ million if all rights are exercised. We intend to use the proceeds of the stock offering to enhance Consumers National Bank’s overall capital position and for general corporate purposes, which may include, among others, pursuing strategic opportunities that may be presented to us from time to time.
<b><i>Basic Subscription Privilege</i></b>	The basic subscription privilege of each subscription right entitles you to purchase [____] shares of our common stock at a subscription price of \$_____ per share; however, fractional common shares resulting from the exercise of the subscription right will be eliminated by rounding down to the nearest whole share. The number of rights you may exercise appears on your rights certificate. You may not be able to exercise all of your rights.
<b><i>Over-Subscription Privilege</i></b>	In the event that you purchase all of the shares of our common stock available to you pursuant to your basic subscription privilege, you may also choose to subscribe for a portion of any shares of our common stock that are not purchased by our shareholders through the exercise of their basic subscription privileges. You may subscribe for shares of common stock pursuant to your over-subscription privilege, subject to the purchase and ownership limitations described below under the heading “ <i>Limitations on the Purchase of Shares.</i> ”
<b><i>Limitations on the Purchase of Shares</i></b>	We will not issue shares of our common stock pursuant to the exercise of basic subscription or over-subscription privileges to any person or entity who, in our sole opinion, could be

required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if as of [ ], 2013, such clearance or approval has not been obtained and/or any applicable waiting period has not expired.

In our sole discretion, we may elect not to issue shares of our common stock pursuant to the exercise of basic or over-subscription privileges to any person or entity who, after exercising their basic or over-subscription privileges, would beneficially own more than 9.9% of shares of our common stock outstanding. Such shares will become available to satisfy over-subscriptions by other shareholders pursuant to their subscription rights and will thereafter be available in the public offering, if any. Such ownership limitation is not applicable to existing shareholders who already beneficially own more than 9.9% of shares of our common stock outstanding prior to this stock offering.

***Non-Transferability  
of Rights***

The subscription rights may not be sold, transferred or assigned and will not be listed for trading on any stock exchange or market.

***No Board  
Recommendation***

Our board of directors is making no recommendation regarding the exercise of your subscription rights or purchase of our shares in the public offering, if any. You are urged to make your decision based on your own assessment of our business and the stock offering.

Please see “*Risk Factors*” for a discussion of some of the risks involved in investing in our common shares.

***Revocation***

All exercises of subscription rights are irrevocable, even if you later learn of information that you consider to be unfavorable to the exercise of your subscription rights. You should not exercise your subscription rights unless you are certain that you wish to purchase shares of our common stock in the rights offering.



**Material U.S. Federal income Tax Considerations** For U.S. federal income tax purposes, you should not recognize gain or loss upon receipt or exercise of a subscription right. You should consult with your own tax advisor as to the tax consequences to you of the receipt, exercise or lapse of the rights in light of your particular circumstances.

**Extension and Cancellation** Although we do not presently intend to do so, we have the option to extend the rights offering expiration date, but in no event will we extend the rights offering beyond [ ], 2013. Our board of directors may cancel the rights offering at any time. In the event that the rights offering is cancelled, all subscription payments received by the subscription/escrow agent will be returned promptly, without interest or penalty.

**Public Offering** If shares of common stock remain available for sale after the closing of the rights offering, we may offer and sell some or all of the remaining shares to the public on a best efforts basis at the \$\_\_\_\_\_ per share subscription price.

**Procedures for Exercising Rights** To exercise your subscription rights, you must take the following steps:

If you hold a Consumers stock certificate, you must deliver payment and a properly completed and signed rights certificate to the subscription/escrow agent to be received before 5:00 p.m., Eastern Time, on [ ], 2013. You may deliver the documents and payment by U.S. mail or courier service. If U.S. mail is used for this purpose, we recommend using registered mail, properly insured, with return receipt requested.

If you are a beneficial owner of shares that are registered in the name of a custodian bank, broker, dealer or other nominee, you will not receive a rights certificate. You should instruct your nominee to exercise your subscription rights on your behalf. Please follow the instructions of your nominee, who may require that you meet a deadline earlier than 5:00 p.m. Eastern Time, on [ ], 2013.

**Subscription Agent** Registrar and Transfer Company, the subscription/escrow agent, will hold funds received in payment for shares of our common stock in a segregated account pending completion of the rights offering. The subscription/escrow agent will hold this money in escrow until the rights offering is completed or is withdrawn and canceled. If the rights offering is canceled for any reason, all subscription payments received by the subscription/escrow agent will be returned promptly, without interest or penalty.

**Financial Advisor and Selling Agent** Boenning is acting as our financial and marketing advisor and selling agent in connection with the stock offering. We have agreed to pay certain fees to, and expenses of, Boenning.

**Shares of Common Stock Outstanding Before the Stock Offering** \_\_\_\_\_ shares of our common stock were outstanding as of \_\_\_\_\_, 2013.

***Shares of Common  
Stock Outstanding  
After Completion of  
the Stock Offering***

Assuming all shares are sold in the rights offering, we expect approximately \_\_\_\_\_ shares of our common stock will be outstanding immediately after completion of the rights offering.

***Risk Factors***

Before you exercise your subscription rights to purchase shares of our common stock, you should be aware that there are risks associated with your investment, including the risks described in the section entitled “*Risk Factors*” of this prospectus, and the risks that we have highlighted in other sections of this prospectus. You should carefully read and consider these risk factors together with all of the other information included in this prospectus before you decide to exercise your subscription rights to purchase shares of our common stock.

***Additional  
Information***

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, which means that we are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, which we refer to as the SEC, all of which are available at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may also obtain copies of the reports, proxy statements and other information from the Public Reference Room of the SEC, at prescribed rates, by calling 1-800-SEC-0330. The SEC maintains an Internet website at <http://www.sec.gov> where you can access reports, proxy information and registration statements, and other information regarding us that we file electronically with the SEC. In addition, we make available, without charge, through our website, [www.Consumersbank.com](http://www.Consumersbank.com), electronic copies of our filings with the SEC, including copies of Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and amendments to these filings, if any. Information on our website should not be considered a part of this prospectus, and we do not intend to incorporate into this prospectus any information contained in our website.

The SEC allows us to “incorporate by reference” the information we file with it, which means that we can disclose important information to you by referring you to those documents filed separately with the SEC. The information we incorporate by reference is an important part of this prospectus and you may see a list of the documents we incorporate by reference under “*Where You Can Find More Information*” on page 26 of this prospectus.

***Questions***

You should direct any questions or requests for assistance concerning the method of subscribing for common shares or for additional copies of this prospectus to the Company by calling, if you are located within the United States, Canada or Puerto Rico, (800) 948-1262 (toll free).

## RISK FACTORS

*An investment in our common share involves certain risks. You should carefully consider the risks described below, together with the other information contained in this prospectus, before making a decision to invest in our common shares. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that case, the trading price of our common shares could decline, and you may lose all or part of your investment.*

### **Risks Related to Our Business**

*Changes in interest rates may negatively affect our earnings, income and financial condition as well as the value of our assets.*

Our earnings and cash flows depend substantially upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond our control, including general economic conditions, competition and policies of various governmental and regulatory agencies and, in particular, the policies of the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investment securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect: (1) our ability to originate loans and obtain deposits; (2) the fair value of our financial assets and liabilities, including our securities portfolio; and (3) the average duration of our interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rates indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk), including a prolonged flat or inverted yield curve environment. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations.

*Our business strategy anticipates continued growth in our markets. Our financial condition and results of operations could be negatively affected if oil and gas activity in our markets were to decrease.*

We intend to continue pursuing a profitable growth strategy both within our existing markets of Stark, Columbiana and Carroll counties as well as in new markets. The economies in our local markets have been positively impacted from the oil and gas activity in the Utica shale region and our plans for future growth are based in part on the assumption that oil and gas industry investments in our markets will continue. If the economic impact from the oil and gas industry is less than expected or the timeline for development takes longer than anticipated, our business, future prospects, financial condition or results of operations could be materially adversely impacted.

***Changes in economic and political conditions could adversely affect our earnings.***

Our success depends, to a certain extent, upon economic and political conditions, local and national, as well as governmental monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond our control may adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings. Because we have a significant amount of real estate loans, additional decreases in real estate values could adversely affect the value of property used as collateral and our ability to sell the collateral upon foreclosure. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings. If during a period of reduced real estate values we are required to liquidate the collateral securing a loan to satisfy the debt or to increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition. The substantial majority of our loans are to individuals and businesses in Ohio. Consequently, significant declines in the economy in Ohio could have a materially adverse effect on our financial condition and results of operations.

***We have significant exposure to risks associated with commercial and residential real estate.***

A substantial portion of our loan portfolio consists of commercial and residential real estate-related loans, including construction and residential and commercial mortgage loans. As of December 31, 2012, we had approximately \$118.7 million of commercial real estate loans outstanding, which represented approximately 57.6% of our loan portfolio. As of that same date, we had approximately \$51.8 million in residential real estate loans outstanding, or approximately 25.2% of our loan portfolio. Consequently, real estate-related credit risks are a significant concern for us. The adverse consequences from real estate-related credit risks tend to be cyclical and are often driven by national economic developments that are not controllable or entirely foreseeable by us or our borrowers.

***Commercial and industrial loans may expose us to greater financial and credit risk than other loans.***

Commercial and industrial loans generally carry larger loan balances and can involve a greater degree of financial and credit risk than other loans. Any significant failure to pay on time by our customers would hurt our earnings. The increased financial and credit risk associated with these types of loans are a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the size of loan balances, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans. In addition, when underwriting a commercial or industrial loan, we may take a security interest in

commercial real estate, and, in some instances upon a default by the borrower, we may foreclose on and take title to the property, which may lead to potential financial risks for us under applicable environmental laws. If hazardous substances were discovered on any of these properties, we may be liable to governmental agencies or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether we knew of, or were responsible for, the contamination.

***Our allowance for loan losses may not be adequate to cover actual future losses.***

We maintain an allowance for loan losses to cover probable and incurred loan losses. Every loan we make carries a certain risk of non-repayment, and we make various assumptions and judgments about the collectability of our loan portfolio including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Through a periodic review and consideration of the loan portfolio, management determines the amount of the allowance for loan losses by considering general market conditions, credit quality of the loan portfolio, the collateral supporting the loans and performance of customers relative to their financial obligations with us. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and these losses may exceed current estimates. We cannot fully predict the amount or timing of losses or whether the loss allowance will be adequate in the future. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Excessive loan losses could have a material adverse impact on our financial condition and results of operations.

***We may be required to increase our provisions for loan losses and to charge off loans in the future, which could materially adversely affect us.***

There is no precise method of predicting loan losses. We can give no assurance that our allowance for loan losses is or will be sufficient to absorb actual loan losses. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management's best estimate of probable incurred losses within the existing portfolio of loans. The level of the allowance reflects management's evaluation of, among other factors, the status of specific impaired loans, trends in historical loss experience, delinquency trends, credit concentrations and economic conditions within our market area. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and judgment and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our allowance for loan losses. Increases in nonperforming loans have a significant impact on our allowance for loan losses.

In addition, bank regulatory agencies periodically review our allowance for loan losses and may require us to increase the provision for loan losses or to recognize further loan charge-offs, based on judgments that differ from those of management. If loan charge-offs in future periods exceed our allowance for loan losses, we will need to record additional provisions to increase our allowance for loan losses. Furthermore, growth in our loan portfolio would generally lead to an increase in the provision for loan losses. Generally, increases in our allowance for loan losses will result in a decrease in net income and shareholders' equity, and may have a material adverse effect on our financial condition, results of operations and cash flows. Material additions to our allowance could also materially decrease our

net income.

***Additional required capital may not be available.***

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support our business or to finance acquisitions, if any, or we may otherwise elect or be required to raise additional capital. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside of our control, and on our financial performance. Accordingly, there can be no assurance that we can raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, it may have a material adverse effect on our financial condition, results of operations and prospects.

***Legislative or regulatory changes or actions, or significant litigation, could adversely impact us or the businesses in which we are engaged.***

The financial services industry is extensively regulated and the level of regulation (and associated cost) has been increasing in recent years. We are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of our operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds, and not to benefit our shareholders. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact us or our ability to increase the value of our business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Additionally, actions by regulatory agencies or significant litigation against us could require us to devote significant time and resources to defending our business and may lead to penalties that materially affect us and our shareholders.

***We extend credit to a variety of customers based on internally established standards and judgment. We manage credit risk through a program of underwriting standards, the review of certain credit decisions and an on-going process of assessment of the quality of the credit already extended. Our credit standards and on-going process of credit assessment might not protect us from significant credit losses.***

We take credit risk by virtue of making loans, extending loan commitments and letters of credit and, to a lesser degree, purchasing non-governmental securities. Our exposure to credit risk is managed through the use of consistent underwriting standards and we avoid highly leveraged transactions as well as excessive industry and other concentrations. Our credit administration function employs risk management techniques to ensure that loans adhere to corporate policy and problem loans are promptly identified. While these procedures are designed to provide us with the information needed to implement policy adjustments where necessary, and to take proactive corrective actions, there can be no assurance that such measures will be effective in avoiding undue credit risk.



***We depend on our subsidiary for dividends, distributions and other payments.***

As a bank holding company, we are a legal entity separate and distinct from our bank subsidiary. Our principal source of funds to pay dividends on our common shares is dividends from Consumers National Bank. In the event Consumers National Bank becomes unable to pay dividends to us, we may not be able to pay dividends on our common shares. Accordingly, our inability to receive dividends from our bank subsidiary could have a material adverse effect on our business, financial condition, results of operations and stock price.

***We may not be able to attract and retain skilled people.***

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to retain or hire the people we want or need. In order to attract and retain qualified employees, we must compensate our employees at market levels. If we are unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain our competitive position, our performance, including our competitive position, could suffer, and, in turn, adversely affect our business, financial condition and results of operations. The number of experienced banking professionals in our markets may not be the same as in certain other markets.

*The soundness of other financial institutions could adversely affect us.*

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral that we hold cannot be realized upon or is liquidated at prices insufficient to recover the full amount of the loan. We cannot assure you that any such losses would not materially and adversely affect our business, financial condition or results of operations.

Risks Related to the Share Offering

The future price of our common shares may be less than the \$\_\_\_\_\_ purchase price per share in the rights offering.

If you exercise your subscription rights to purchase common shares in the rights offering, you may not be able to sell them later at or above the \$\_\_\_\_\_ purchase price in the rights offering. The actual market price of our common shares could be subject to wide fluctuations in response to numerous factors, some of which are beyond our control. These factors include, among other things, operating results and cash flow, business conditions in our markets and the general state of the securities markets and the market for other financial stocks, changes in capital markets that affect the perceived availability of capital to companies in our industry, governmental legislation or regulation, as well as general economic and market conditions, such as downturns in our economy and recessions.

Once you exercise your subscription rights, you may not revoke them. If you exercise your subscription rights and, afterwards, the public trading market price of our common shares decreases below the subscription price, you will have committed to buying our common shares at a price above the prevailing market price and could have an immediate unrealized loss. Our common shares are traded on the OTC Markets under the ticker symbol "CBKM" and the last reported sales price of our common shares was \$\_\_\_\_\_ per share. We cannot assure you that the market price of our common shares will not decline after you exercise your subscription rights. Moreover, we cannot assure you that following the exercise of your subscription rights you will be able to sell your common shares at a price equal to or greater than the subscription price.

This offering may cause the price of our common shares to decrease.

The additional issuance of common shares as a result of this offering may result in an immediate decrease in the market value of our common shares. This decrease may continue after the completion of this share offering. If that occurs, you may be unable to profitably sell your common shares. Further, if a substantial number of subscription rights are exercised and shares of common stock are issued, and if the holders of the common shares in this offering choose to sell some or all of those shares, the resulting sales could depress the market price of our common shares.

The subscription price of the shares in this offering has been determined by our board of directors and does not necessarily represent the price at which a buyer can be found for the shares now or in the future.

Our board of directors has not elected to receive a fairness opinion with respect to the consideration to be paid to Consumers prior to the closing of the share offering. In determining the subscription price, our board of directors considered a number of factors, including: the price at which our shareholders might be willing to participate in the rights offering; historical and current trading prices for our common shares; the need to offer the common shares at a price that would be attractive to shareholders; the long-term need to enhance our capital structure; alternatives available to us for raising capital and the desire to provide an opportunity to our shareholders to participate in the rights offering on a pro rata basis.

In conjunction with its review of these factors, our board of directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, the outlook for our industry and our current financial condition and regulatory status. As a result, the subscription price is not necessarily a reflection of the market price at which our common shares may sell after the share offering or of any intrinsic or fair value of our common shares.

The share offering may reduce your percentage ownership in Consumers.

If you do not exercise your subscription rights or you exercise less than all of your rights, and other shareholders fully exercise their rights or exercise a greater proportion of their rights than you exercise, you will suffer dilution of your percentage ownership of our equity securities relative to such other shareholders. As of the record date, there were \_\_\_\_\_ common shares outstanding. If all of our shareholders exercise their subscription rights in full, we will issue \_\_\_\_\_ common shares in the rights offering, which represents approximately \_\_\_\_% of the \_\_\_\_\_ common shares potentially outstanding upon the completion of the rights offering.

Our directors and executive officers own, and expect to continue to own after completion of the stock offering, a significant portion of our common shares and can exert significant control over our business and corporate affairs.

Our directors and executive officers, as a group, beneficially owned approximately \_\_\_\_\_% of our outstanding common stock, as of \_\_\_\_\_, 2013. Following the stock offering, our current directors and executive officers, together with their affiliates, are expected to own approximately \_\_\_\_\_% of our total outstanding shares of common stock. As a result of their ownership, the directors and executive officers will have the ability, by voting their shares in concert, to significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors and the approval of significant corporate transactions, including potential mergers, consolidations or sales of all or substantially all of our assets.

***We are limited in our ability to issue additional shares of common stock.***

As of February 11, 2013, we had 2,063,538 shares of common stock outstanding. Our articles of incorporation currently authorize us to issue 3,500,000 shares of common stock. We expect to issue a significant amount of our available authorized shares of common stock in connection with this stock offering. Accordingly, in the future we may have to seek shareholder approval to increase our authorized shares of common stock. We can make no assurance that our shareholders will approve any increase to our authorized shares of common stock.

*You may not revoke your exercise of rights; we may terminate the rights offering.*

Once you exercise your subscription rights, you may not revoke or change the exercise unless we are required by law to permit revocation. Accordingly, if you exercise your subscription rights and later learn information about us that you consider unfavorable, you will be committed to buying shares and may not revoke or change your exercise. We may terminate the rights offering at our discretion. If we terminate the rights offering, none of Consumers, Boenning or the subscription/escrow agent will have any obligation to you with respect to the rights except to return any payment received by the subscription/escrow agent, without interest or penalty.

The subscription rights are non-transferable and thus there will be no market for them.

You may not sell, transfer or assign your subscription rights to anyone else. We do not intend to list the subscription rights on any securities exchange or any other trading market. Because the subscription rights are non-transferable, there is no market or other means for you to directly realize any value associated with them.

If you do not act promptly and follow the subscription instructions, your exercise of subscription rights will be rejected.

Shareholders who desire to purchase shares in the rights offering must act promptly to ensure that all required forms and payments are actually received by the subscription/escrow agent, and all payments clear, prior to the expiration of the rights offering period. If you are a beneficial owner of shares, you must act promptly to ensure that your broker, dealer, custodian bank or other nominee acts for you and that all required forms and payments are actually received by the subscription/escrow agent prior to the expiration of the rights offering period. We are not responsible if your broker, dealer, custodian bank or nominee fails to ensure that all required forms and payments are actually received by the subscription/escrow agent, and all payments clear, prior to the expiration of the rights offering period. If you fail to complete and sign the required subscription forms, send an incorrect payment amount or otherwise fail to follow the subscription procedures that apply to your exercise in the rights offering or your payment does not clear prior to the expiration of the rights offering period, the subscription/escrow agent may, depending on the circumstances, reject your subscription or accept it only to the extent of any payment that has been received and has cleared. Neither we nor the subscription/escrow agent will undertake to contact you concerning, or attempt to correct, an incomplete or incorrect subscription form. We have the sole discretion to determine whether the exercise of your subscription rights properly and timely follows the subscription procedures.

You may not be able to resell any shares of our common stock that you purchase pursuant to the exercise of subscription rights immediately upon expiration of the subscription rights offering period.

If you exercise your subscription rights, you may not be able to resell the common shares purchased by exercising your subscription rights until your account has been credited with those shares. Moreover, you will have no rights as a shareholder of the shares you purchased in the rights offering until we issue the shares to you. Although we will endeavor to issue the shares as soon as practicable after expiration of the rights offering, there may be a delay between the expiration date of the rights offering and the time that the shares are issued.

Because we do not have any formal commitments from any of our shareholders to participate in the rights offering and because no minimum subscription is required, we cannot assure you of the amount of proceeds, if any, that we will receive from the rights offering.

We do not have any formal commitments from any of our shareholders to participate in the rights offering and there is no minimum subscription required. We cannot assure you that any of our shareholders will exercise all or any part of their subscription rights. Therefore, we cannot assure you of the amount of proceeds that we will receive in the rights offering. If our shareholders subscribe for fewer shares of our common stock than anticipated, the net proceeds we receive from the rights offering could be reduced and we could incur damage to our reputation.

We have broad discretion in the use of proceeds of the stock offering.

We have not designated the anticipated net proceeds of the stock offering for specific uses. Accordingly, our management will have considerable discretion in the application of the net proceeds of the stock offering and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. See *“Use of Proceeds.”*

#### Risks Related to Ownership of Our Common Shares

Although publicly traded, our common shares have substantially less liquidity than stocks listed on the New York Stock Exchange or NASDAQ Global Market.

Although our common shares can be traded on the OTC Markets, our common shares have substantially less liquidity than companies listed on the New York Stock Exchange or NASDAQ Global Market. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common shares at any given time. This marketplace depends on the individual decisions of

investors and general economic and market conditions over which we have no control. This limited market may affect your ability to sell your shares on short notice, and the sale of a large number of shares at one time could temporarily depress the market price of our common shares.

The market price of our common shares may fluctuate in the future, and this volatility may be unrelated to our performance. General market price declines or overall market swings in the future could adversely affect the price of our common shares, and the current market price may not be indicative of future market prices.

An investment in our shares of common stock is not an insured deposit.

Our common shares are not a bank deposit and, therefore, are not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common shares is inherently risky for the reasons described in this “*Risk Factors*” section and elsewhere in this prospectus and is subject to the same market forces that affect the price of common shares in any company. As a result, our shareholders may lose some or all of their investment in our common shares.

## USE OF PROCEEDS

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the stock offering will be until the stock offering is completed, we estimate that the aggregate net proceeds from the stock offering, after deducting estimated offering expenses, will be approximately \$\_\_\_\_\_ million. Our capital management function is a regular process that consists of providing capital both for our current financial position and our anticipated future capital needs. Over the past few years we have experienced steady deposit growth and we believe that increased economic activity in our region, particularly in the energy sector, will lead to additional growth opportunities. The equity capital we raise in this stock offering will be used to enhance Consumers National Bank's overall capital position and for general corporate purposes, which may include, among others, pursuing strategic opportunities that may be presented to us from time to time. We currently have no arrangements or understandings regarding any specific use of proceeds. Our board of directors considered several alternative capital raising methods and has chosen to raise capital through a rights offering, in part to give our shareholders the opportunity to limit ownership dilution by buying additional shares of common stock. We believe that the stock offering will strengthen our financial condition by generating additional cash and increasing our capital position; however, our board of directors is making no recommendation regarding your exercise of the subscription rights. We cannot assure you that we will not need to seek additional financing or engage in additional capital offerings in the future.

## CAPITALIZATION

The following table sets forth our capitalization at December 31, 2012 and as adjusted to reflect the sale of an assumed \_\_\_\_\_ shares of our common stock at the subscription price of \$\_\_\_\_\_ per share and the receipt of the net proceeds from the rights offering after deducting estimated offering expenses in the amount of \$\_\_\_\_\_. The table does not reflect the use of proceeds from the rights offering. The information presented in the table below should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference into this prospectus.

	As of December 31, 2012	
	Actual	As Adjusted
	(Dollars in thousands)	
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock – 350,000 shares authorized, none outstanding	\$—	
Common stock – 3,500,000 shares authorized, 2,193,283 and [1] shares issued, respectively	\$5,304	
Retained earnings		23,607



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Treasury stock, at cost – 129,745 common shares	(1,650 )
Accumulated other comprehensive income	1,835
Total shareholders' equity	\$29,096

Capital Ratios for Consumers National Bank:

Tier 1 leverage ratio	7.30 %
Tier 1 risk-based capital ratio	11.41 %
Total risk-based capital ratio	13.39 %

## PRICE RANGE OF COMMON shares AND DIVIDEND POLICY

Our common shares are traded on the OTC Markets under the symbol “CBKM.” At December 31, 2012, we had [ ] common shares outstanding and approximately 748 holders of record and an estimated 243 additional beneficial holders whose stock was held in nominee name. On [ ], 2013, the most recent practicable date before the date of this prospectus, the closing price of our common shares was \$[ ] per share.

The following quoted market prices reflect inter-dealer prices, without adjustments for retail markups, markdowns, or commissions and may not represent actual transactions. The market prices represent highs and lows reported during the quarterly period, together with the dividends declared per share of common shares for the periods indicated.

	Close Price		Cash Dividends Declared
	High	Low	
Fiscal year Ending June 30, 2013			
First Quarter	\$16.00	\$14.55	\$ 0.12
Second Quarter	17.50	14.75	0.12
Third Quarter	20.50	15.51	0.12
Fourth Quarter (through April __)			
Fiscal Year Ending June 30, 2012			
First Quarter	12.40	10.85	0.11
Second Quarter	13.00	11.40	0.11
Third Quarter	13.50	11.60	0.11
Fourth Quarter	15.00	13.48	0.11
Fiscal Year Ended June 30, 2011			
First Quarter	13.25	10.75	0.10
Second Quarter	13.85	11.25	0.10
Third Quarter	12.50	11.55	0.10
Fourth Quarter	13.25	11.85	0.11

We do not have knowledge of the prices paid in all transactions and have not verified the accuracy of those prices that have been reported. Because of the lack of an established market for our common shares, these prices may not reflect the prices at which the common shares would trade in an active and liquid market.

Our management is currently committed to continuing to pay regular cash dividends; however, there can be no assurance as to future dividends because they are dependent on our future earnings, capital requirements and financial condition. Our principal source of funds for dividend payment is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years.

## THE rights OFFERING

The following describes the rights offering in general and assumes, unless specifically provided otherwise, that you are a record holder of our common shares on the record date. If you hold your shares in a brokerage account or through a broker, dealer, custodian bank or other nominee, please also refer to “— *Method of Exercising Subscription Rights – Subscription by Beneficial Owners*”.

### The Subscription Rights

We are distributing to holders of shares of our common stock as of 5:00 p.m., Eastern Time, on \_\_\_\_\_, 2013, which is the record date for the rights offering, at no charge, non-transferable subscription rights to purchase shares of our common stock at \$\_\_\_\_\_ per share. Each holder of record of our common shares will receive one subscription right for each share of our common stock owned by such holder as of 5:00 p.m., Eastern Time, on \_\_\_\_\_, 2013. Each subscription right entitles the holder to a basic subscription privilege and an over-subscription privilege. The subscription rights entitle the holders of our common shares to purchase an aggregate of \_\_\_\_\_ shares of our common stock for an aggregate purchase price of \$\_\_\_\_\_ million. The shares to be issued in the rights offering, like our existing shares of common stock, will be traded on the over-the-counter market under the symbol “CBKM.”

***Basic Subscription Privilege*** . The basic subscription privilege of each subscription right provides the holder of the subscription right the opportunity to purchase [ ] share of our common stock, subject to delivery of the required documents and payment of the subscription price of \$\_\_\_\_\_ per share, prior to the expiration of the rights offering. You may exercise all or a portion of your basic subscription privilege or you may choose not to exercise any subscription rights at all. However, if you exercise less than your full basic subscription privilege, you will not be entitled to purchase shares under your oversubscription privilege.

***Over-Subscription Privilege***. In the event that you purchase all of the shares of common stock available to you pursuant to your basic subscription privilege, you may also choose to purchase a portion of any shares of our common stock that are not purchased by other shareholders through the exercise of their basic subscription privileges. If sufficient shares of common stock are available, we will seek to honor the oversubscription requests in full. If, however, over-subscription requests exceed the number of shares of common stock available to be purchased pursuant to the over-subscription privilege, we will allocate the available shares of common stock among shareholders who over-subscribed by multiplying the number of shares requested by each shareholder through the exercise of their over-subscription privileges by a fraction equal to (i) the number of shares available to be issued through over-subscription privileges divided by (ii) the total number of shares requested by all subscribers through the exercise of their over-subscription privileges. We will not issue fractional shares through the exercise of over-subscription

privileges.

In order to properly exercise your over-subscription privilege, you must deliver the subscription payment related to your over-subscription privilege at the time you deliver payment related to your basic subscription privilege. Because we will not know the actual number of unsubscribed shares prior to the expiration of the rights offering, if you wish to maximize the number of shares you purchase pursuant to your over-subscription privilege, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of shares of our common stock that are available to you. For that calculation, you must assume that no shareholder other than you will subscribe for any shares of our common stock pursuant to their basic subscription privilege.

We can provide no assurances that you will be able to purchase the number of shares issuable upon the exercise of your over-subscription privilege in full. We will not be able to satisfy any orders for shares pursuant to the over-subscription privilege if all of our shareholders exercise their basic subscription privileges in full. We can only honor an over-subscription privilege to the extent sufficient shares of our common stock are available following the exercise of subscription rights under the basic subscription privileges.

To the extent the aggregate subscription price of the actual number of unsubscribed shares available to you pursuant to the over-subscription privilege is less than the amount you paid in connection with the exercise of the over-subscription privilege, you will be allocated only the number of unsubscribed shares actually available to you, and any excess subscription payments will be returned to you promptly, without interest or penalty.

To the extent the amount you paid in connection with the exercise of the over-subscription privilege is less than the aggregate subscription price of the actual number of unsubscribed shares available to you pursuant to the over-subscription privilege, you will be allocated the number of unsubscribed shares for which you actually paid in connection with the over-subscription privilege.

#### Public Offering of Remaining Shares

In the event all or any portion of the subscription rights are not exercised by the holders of common shares prior to the expiration of the rights offering, we may offer all or a portion of those remaining shares of common stock to the public at \$\_\_\_\_\_ per share in a best efforts offering.

## Reasons for the Stock Offering

We are engaging in the stock offering to raise equity capital to further strengthen Consumers National Bank's capital position, provide additional capital to Consumers for general operating purposes and to enable us to be well-positioned for future growth, which may include, among others, pursuing strategic opportunities that may be presented to us from time to time. See "*Use of Proceeds*." Our capital management function is a regular process that consists of providing capital both for our current financial position and our anticipated future capital needs. Over the past few years we have experienced steady deposit growth and we believe that increased economic activity in our region, particularly in the energy sector, will lead to additional growth opportunities. Our board of directors considered several alternative capital raising methods and has chosen to raise capital through a rights offering, in part to give our shareholders the opportunity to limit ownership dilution by buying additional shares of common stock. We believe that the stock offering will strengthen our financial condition by generating additional cash and increasing our capital position; however, our board of directors is making no recommendation regarding your exercise of the subscription rights. We cannot assure you that we will not need to seek additional financing or engage in additional capital offerings in the future.

## Determination of Subscription Price

In determining the subscription price, our board of directors considered a number of factors, including: the price at which our shareholders might be willing to participate in the rights offering; historical and current trading prices for our common shares; the need to offer the common shares at a price that would be attractive to shareholders; the long-term need to enhance our capital; alternatives available to us for raising capital; and the desire to provide an opportunity to our shareholders to participate in the rights offering on a pro rata basis. In conjunction with its review of these factors, our board of directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, and subscription prices in various rights by other companies. We did not request and have not received a fairness opinion regarding the subscription price. The subscription price is not necessarily related to our book value, net worth or any other established criteria of value and may or may not be considered the fair value of our common shares to be offered in the rights offering.

We cannot assure you that the market price of our shares of common stock will not decline during or after the stock offering. We also cannot assure you that you will be able to sell shares of our common stock purchased during the stock offering at a price equal to or greater than the subscription price. We urge you to obtain a current quote for our common shares before exercising your subscription rights.

## Method of Exercising Subscription Rights

One non-transferable subscription right is being distributed for each share of our common stock that you owned as of 5:00 p.m., Eastern Time, on March 26, 2013. The exercise of subscription rights is irrevocable and may not be cancelled or modified. You may exercise your subscription rights as follows:

**Subscription by Registered Holders.** If you are a registered holder of shares of our common stock, the number of rights you may exercise pursuant to your basic subscription privilege is indicated on the enclosed rights certificate. You may exercise your subscription rights by properly completing and executing the rights certificate and forwarding it, together with your full payment, to the subscription/escrow agent at the address set forth below under “–Subscription/Escrow Agent,” to be received prior to 5:00 p.m., Eastern Time, on \_\_\_\_\_, 2013.

**Subscription by Beneficial Owners.** If you are a beneficial owner of shares of our common stock that are registered in the name of a custodian bank, broker, dealer or other nominee, you will not receive a rights certificate. Instead, one subscription right will be issued to the nominee record holder for each share of our common stock that you own at the record date. If you are not contacted by your nominee, you should promptly contact your nominee in order to subscribe for shares of our common stock in the rights offering.

If you hold your shares of common stock in the name of a custodian bank, broker, dealer or other nominee, your nominee will exercise the subscription rights on your behalf in accordance with your instructions. Your nominee may establish a deadline that may be before the 5:00 p.m., Eastern Time, \_\_\_\_\_, 2013 expiration date that we have established for the rights offering.

#### Payment Method

As described in the instructions accompanying the rights certificate, payments submitted to the subscription/escrow agent must be made in full United States currency by:

check payable to Registrar and Transfer Company, the subscription/escrow agent, drawn upon a United States bank;  
or

wire transfer to Registrar and Transfer Company, the subscription/escrow agent.

Payment will be deemed to have been received by the subscription/escrow agent only upon the subscription/escrow agent’s receipt of any certified check or wire transfer or, in the case of an uncertified personal check, receipt and clearance of such check.

Please note that funds paid by uncertified personal check may take at least seven business days to clear. Accordingly, if you wish to pay by means of an uncertified personal check, we urge you to make payment sufficiently in advance of the expiration date to ensure that the subscription/escrow agent receives cleared funds before that time. We also urge you to consider payment by means of a certified check, bank check, bank draft or money order.

**Your subscription rights will not be considered exercised unless the subscription/escrow agent actually receives from you, your custodian bank, broker, dealer or other nominee, as the case may be, all of the required documents and your full subscription price payment (and your payment has cleared) prior to 5:00 p.m., Eastern Time, on [                      ], 2013 the scheduled expiration date of the rights offering.**

You should read and follow the instructions accompanying the rights certificate carefully. As described in the instructions accompanying the rights certificate, in certain cases additional documentation or signature guarantees may be required.

The method of delivery of payments of the subscription amount to the subscription/escrow agent will be at the risk of the holders of subscription rights. If sent by mail, we recommend that you send those documents and payments by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription/escrow agent. Do not send or deliver these materials to us.

There is no sales fee or commission payable by you. We will pay all fees charged by the subscription/escrow agent and the selling agent. If you purchase your shares through a custodian bank, broker, dealer or other nominee, you are responsible for paying any fees your nominee may charge you.



### Medallion Guarantee May Be Required

Your signature on your rights certificate must be guaranteed by an eligible institution, such as a member firm of a registered national securities exchange or a member of the Financial Industry Regulatory Authority, Inc., or a commercial bank or trust company having an office or correspondent in the United States, subject to standards and procedures adopted by the subscription/escrow agent, unless you provide on the rights certificate that shares are to be delivered in your name and to your address of record, as imprinted on the face of the rights certificate.

### Limit on How Many Shares of Common Stock You May Purchase in the Stock Offering

We will not issue shares of common stock pursuant to the exercise of basic subscription privileges or over-subscription privileges to any person or entity who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if, as of \_\_\_\_\_, 2013, such clearance or approval has not been obtained and/or any required waiting period has not expired. If we elect not to issue shares in such case, such shares will become available to satisfy over-subscription by other shareholders pursuant to subscription rights and will thereafter be available in the public offering of shares.

In our sole discretion, we may elect not to issue shares of our common stock pursuant to the exercise of basic or over-subscription privileges to any person or entity who, after exercising their basic or over-subscription privileges, would beneficially own more than 9.9% of shares of our common stock outstanding. Such shares will become available to satisfy over-subscriptions by other shareholders pursuant to their subscription rights and will thereafter be available in the public offering, if any. Such ownership limitation is not applicable to existing shareholders who already beneficially own more than 9.9% of shares of our common stock outstanding prior to this stock offering.

### Missing or Incomplete Subscription Information

If you send a payment that is insufficient to purchase the number of shares you requested, or if the number of shares you requested is not specified in the forms, the payment received will be applied to exercise your subscription rights to the fullest extent possible based on the amount of the payment received, subject to the availability of shares under the over-subscription privilege and the elimination of fractional shares. Any excess subscription payments received by the subscription/escrow agent will be returned promptly, without interest or penalty, following the expiration of the rights offering.

If you deliver your rights certificate and other documents or payment in a manner different from that described in this prospectus, we may not honor the exercise of your subscription rights.

#### Expiration Date

The subscription period during which you may exercise your subscription rights expires at 5:00 p.m., Eastern Time, on \_\_\_\_\_, 2013. If you do not exercise your subscription rights prior to that time, your subscription rights will expire and will no longer be exercisable. We will not be required to issue shares of our common stock to you if the subscription/escrow agent receives your rights certificate or your subscription payment after that time. We have the option to extend the rights offering without notice to you. In no event will the expiration date be later than \_\_\_\_\_, 2013. We may extend the expiration of the rights offering by giving oral or written notice to Boenning prior to the expiration of the rights offering. If we elect to extend the expiration of the rights offering, we will issue a press release announcing such extension no later than the next business day after the board of directors extends the rights offering.

If you hold your shares of common stock in the name of a custodian bank, broker, dealer or other nominee, your nominee will exercise the subscription rights on your behalf in accordance with your instructions. Your nominee may establish a deadline that may be before the 5:00 p.m., Eastern Time, \_\_\_\_\_, 2013, expiration date that we have established for the rights offering.

#### Conditions, Withdrawal and Termination

We reserve the right to withdraw the rights offering at any time for any reason. We may terminate the rights offering if at any time before completion of the rights offering there is any judgment, order, decree, injunction, statute, law or regulation entered, enacted, amended or held to be applicable to the rights offering that in the sole judgment of our board of directors would or might make the rights offering or its completion, whether in whole or in part, illegal or otherwise restrict or prohibit completion of the rights offering. If we terminate the rights offering, all affected subscription rights will expire without value, and all subscription payments received by the subscription/escrow agent will be returned promptly, without interest or penalty.

#### Subscription/Escrow Agent

The subscription/escrow agent for the stock offering is Registrar and Transfer Company. The subscription/escrow agent will maintain the list of subscriptions and calculate any necessary allocations of over-subscription privileges. If your shares are held in the name of a broker, dealer, custodian bank or other nominee, then you should send your

subscription documents and subscription payment to that record holder. If you are the record holder, then you should send your rights certificate and other documents, and subscription payment to the address provided below. If sent by mail, we recommend that you send documents and payments by registered mail, properly insured, with return receipt requested, and that you allow a sufficient number of days to ensure delivery to the subscription/escrow agent. Do not send or deliver these materials to Consumers.

*By Mail, Express Mail or Overnight Courier:*

*Registrar and Transfer Company*

*10 Commerce Drive*

*Cranford, NJ 07016*

*Attn: Reorg/Exchange Dept.*

Financial Advisor

We have appointed Boenning as financial and marketing advisor for the rights offering. We will pay the fees and expenses of Boenning and have also agreed to indemnify Boenning from certain liabilities that it may incur in connection with the rights offering.

## No Fractional Shares

We will not issue fractional shares in connection with the rights offering. Fractional shares of our common stock resulting from the exercise of the basic or oversubscription privileges will be eliminated by rounding down to the nearest whole share. Any excess subscription payments received by the information agent will be returned promptly, without interest or penalty.

## Notice to Nominees

If you are a custodian bank, broker, dealer or other nominee who holds shares of our common stock for the account of others on the record date, you should notify the beneficial owners of the shares for whom you are the nominee of the rights offering as soon as possible to learn their intentions with respect to exercising their subscription rights. You should obtain instructions from the beneficial owners with respect to their subscription rights, as set forth in the instructions we have provided to you for your distribution to beneficial owners. If the beneficial holder so instructs, you should complete the rights certificate and submit it to the subscription/escrow agent together with the form entitled “Nominee Holder Certification” and with the proper payment. We will provide the Nominee Holder Certification form to you with your rights offering materials. If you did not receive this form, you should contact the subscription/escrow agent to request a copy. If you hold shares of our common stock for the account(s) of more than one beneficial owner, you may exercise the number of subscription rights to which all such beneficial owners in the aggregate otherwise would have been entitled had they been direct record holders of our common shares on the record date, provided that you, as a nominee record holder, make a proper showing to the subscription/escrow agent by submitting the Nominee Holder Certification form.

In the case of subscription rights that you hold of record on behalf of others through the DTC, those subscription rights may be exercised by instructing DTC to transfer the subscription rights from your DTC account to the subscription/escrow agent’s DTC account, and by delivering to the subscription/escrow agent the required certification as to the number of shares subscribed for pursuant to the exercise of the subscription rights of the beneficial owners on whose behalf you are acting, together with payment of the full subscription price.

## Beneficial Owners

If you are a beneficial owner of shares of our common stock and will receive your subscription rights through a custodian bank, broker, dealer or other nominee, we will ask your nominee to notify you of the rights offering. If you

wish to exercise your subscription rights, you will need to have your custodian bank, broker, dealer or other nominee act for you, as described above. To indicate your decision with respect to your subscription rights, you should follow the instructions of your nominee. If you wish instead to obtain a separate rights certificate, you should contact your nominee as soon as possible and request that a rights certificate be issued to you. You should contact your nominee if you do not receive notice of the rights offering, but you believe you are entitled to participate in the rights offering. We are not responsible if you do not receive the notice by mail or otherwise from your nominee or if you receive notice without sufficient time to respond to your nominee by the deadline established by your nominee, which may be before the 5:00 p.m., Eastern Time, \_\_\_\_\_, 2013, expiration date.

#### Non-Transferability of Subscription Rights

The subscription rights granted to you are non-transferable and, therefore, you may not sell, transfer or assign your subscription rights to anyone. The subscription rights will not be listed for trading on any stock exchange or market. The shares of our common stock issuable upon exercise of the subscription rights will be traded on the OTC Markets under the ticker symbol "CBKM."

#### Validity of Subscriptions

We will resolve, in our sole discretion, all questions regarding the validity and form of the exercise of your subscription rights, including time of receipt and eligibility to participate in the rights offering. Our determination will be final and binding. Once made, subscriptions and directions are irrevocable, and we will not accept any alternative, conditional or contingent subscriptions or directions. We reserve the absolute right to reject any subscriptions or directions not properly submitted or the acceptance of which would be unlawful. You must resolve any irregularities in connection with your subscriptions before the subscription period expires, unless waived by us in our sole discretion. None of Consumers, Boenning or the subscription/escrow agent shall be under any duty to notify you or your representative of defects in your subscriptions. A subscription will be considered accepted, subject to our right to withdraw or terminate the rights offering, only when a properly completed and duly executed rights certificate and any other required documents and the full subscription payment have been received by the subscription/escrow agent. Our interpretations of the terms and conditions of the rights offering will be final and binding.

#### Escrow Arrangements; Return of Funds

Registrar and Transfer Company, the subscription/escrow agent, will hold funds received in payment for shares of our common stock in a segregated account pending completion of the rights offering. The subscription/escrow agent will hold this money in escrow until the rights offering is completed or is withdrawn and canceled. If the rights offering is canceled for any reason, all subscription payments received by the subscription/escrow agent will be returned to subscribers, without interest or penalty as soon as practicable.

## Uncertificated Shares of Common Stock

All shares of our common stock that you purchase in the rights offering will be issued in book-entry, or uncertificated, form. When issued, the shares will be registered in the name of the subscription rights holder of record. As soon as practicable after the expiration of the rights offering, the subscription/escrow agent will arrange for issuance to each subscription rights holder of record that has validly exercised its subscription rights the shares of common stock purchased in the rights offering. Subject to state securities laws and regulations, we have the discretion to delay distribution of any shares you may have elected to purchase by exercise of your rights in order to comply with state securities laws.

## Rights of Subscribers

You will have no rights as a shareholder with respect to the shares of our common stock purchased in the rights offering until your account, or your account at your broker, dealer, custodian bank or other nominee, is credited with such shares.

## Foreign Shareholders

We will not mail this prospectus or rights certificates to shareholders with addresses that are outside the United States or that have an army post office or foreign post office address. The subscription/escrow agent will hold these rights certificates for their account. To exercise subscription rights, our foreign shareholders must notify the subscription/escrow agent prior to 5:00 p.m., Eastern Time, at least three business days prior to the expiration of the rights offering (or, if the rights offering is extended, on or before three business days prior to the extended expiration date) and demonstrate to the satisfaction of the subscription/escrow agent that the exercise of such subscription rights does not violate the laws of the jurisdiction of such shareholder.

### No Revocation or Change

Once you submit the rights certificate or have instructed your nominee of your subscription request, you are not allowed to revoke or change the exercise or request a refund of monies paid, unless we are required by law to grant revocation rights. All exercises of subscription rights are irrevocable, unless we are required by law to grant revocation rights, even if you learn information about us that you consider to be unfavorable. You should not exercise your subscription rights unless you are certain that you wish to purchase the shares of our common stock offered pursuant to the rights offering.

### Regulatory Limitation

We will not issue shares of common stock pursuant to the exercise of basic subscription privileges or oversubscription privileges to any person or entity, who, in our sole opinion, could be required to obtain prior clearance or approval from or submit a notice to any state or federal bank regulatory authority to acquire, own or control such shares if, as of \_\_\_\_\_, 2013 such clearance or approval has not been obtained and/or any required waiting period has not expired. If we elect not to issue shares in such case, such shares will become available to satisfy oversubscriptions by other shareholders pursuant to subscription rights and will be available thereafter in the public offering of shares.

### Material U.S. Federal Income Tax Treatment of Rights Distribution

For U.S. federal income tax purposes, you should not recognize gain or loss upon receipt or exercise of these subscription rights to purchase shares of our common stock for the reasons described in “*Material U.S. Federal Income Tax Consequences.*”

### No Recommendation

Our board of directors is making no recommendation regarding your exercise of the subscription rights or purchase of shares in the public offering. Shareholders who purchase shares in the stock offering risk investment loss on money invested. We cannot predict the price at which our shares of common stock will trade and, therefore, we cannot assure you that the market price for our common shares will be above the subscription price or that anyone purchasing shares at the subscription price will be able to sell those shares in the future at the same price or a higher price. You are urged

to make your decision based on your own assessment of our business and the stock offering. Please see “*Risk Factors*” for a discussion of some of the risks involved in investing in our common shares.

#### Shares of Our Common Stock Outstanding After the Rights Offering

As of \_\_\_\_\_, 2013, we had \_\_\_\_\_ shares of our common stock issued and outstanding. Assuming all shares are sold in the rights offering, we expect approximately \_\_\_\_\_ shares of our common stock will be outstanding immediately after completion of the stock offering.

#### Other Matters

We are not making the rights offering in any state or other jurisdiction in which it is unlawful to do so, nor are we distributing or accepting any offers to purchase any shares of our common stock from subscription rights holders who are residents of those states or other jurisdictions or who are otherwise prohibited by federal or state laws or regulations to accept or exercise the subscription rights. We may delay the commencement of the rights offering in those states or other jurisdictions, or change the terms of the rights offering, in whole or in part, in order to comply with the securities laws or other legal requirements of those states or other jurisdictions. Subject to state securities laws and regulations, we also have the discretion to delay allocation and distribution of any shares you may elect to purchase by exercise of your subscription rights in order to comply with state securities laws. We may decline to make modifications to the terms of the rights offering requested by those states or other jurisdictions, in which case, if you are a resident in those states or jurisdictions or if you are otherwise prohibited by federal or state laws or regulations from accepting or exercising the subscription rights, you will not be eligible to participate in the rights offering. However, we are not currently aware of any states or jurisdictions that would preclude participation in the rights offering.



## THE PUBLIC OFFERING OF REMAINING SHARES

### Public Offering

Following completion of the rights offering subscription process, we may elect to sell all or a portion of the remaining registered shares in a public offering. We have engaged Boenning as our selling agent in connection with the public offering, if any.

### Discretion to Accept Subscriptions

We have the right, in our sole discretion, to accept or reject any subscription in the public offering in whole or in part on or before the public offering expiration date. We generally will accept subscriptions in the public offering in the order in which they are received. As a result, you may not receive any or all of the shares for which you subscribe. We will notify subscribers as soon as practicable following the public offering expiration date as to whether and to what extent their subscriptions have been accepted. If we do not accept all or a portion of a subscription, we will return to the subscriber the unaccepted portion of the subscription funds, without interest or penalty.

### Expiration Date and Cancellation Rights

The public offering period will expire at the earlier of 5:00 p.m. Eastern Time, [Public Offering Expiration Date] or the date on which we have accepted subscriptions for all shares remaining for purchase.

We may cancel the public offering of remaining shares at any time for any reason, including following the expiration date. If we cancel the public offering of any remaining shares of common stock, we will return all subscription payments promptly, without interest or penalty.

### Escrow Arrangements; Return of Funds

Registrar and Transfer Company, the subscription/escrow agent, will hold funds received in connection with the public offering with an acknowledgement of subscription in a segregated account. The subscription/escrow agent will hold these funds in escrow until such time as we accept the subscription or until the public offering is canceled. If the public offering of remaining shares is canceled, the subscription/escrow agent will return the subscription payments promptly, without interest. We may still accept the rights offering subscriptions even though the public offering is canceled.

#### No Revocation or Change

Once you submit the acknowledgement of subscription and your payment, you will not be allowed to revoke your subscription or request a refund of monies paid. All acknowledgements of subscriptions are irrevocable, even if you learn information about us that you consider to be unfavorable. You should not submit an acknowledgment of subscription unless you are certain that you wish to purchase shares or our common stock at the subscription price.

## DESCRIPTION OF COMMON Shares

*The following description of our capital stock is based upon our articles of incorporation, our regulations and applicable provisions of law. We have summarized certain portions of the articles of incorporation and regulations below. The summary is not complete. The articles of incorporation and regulations are incorporated by reference as exhibits to the registration statement of which this prospectus forms a part. You should read the articles of incorporation and regulations for the provisions that are important to you.*

### Common Shares

We are authorized to issue 3,500,000 shares of common stock, without par value. There were 2,056,349 shares of common stock outstanding as of June 30, 2012.

**Dividend Rights.** Holders of our common shares are entitled to receive such dividends as may be declared by our board of directors out of legally available funds, and to receive pro rata any assets distributable to holders of our common shares upon our liquidation.

**Voting Rights.** Holders of our common shares are entitled to vote for the election of directors and upon all other matters, which may be submitted to a vote of shareholders generally, with each share being entitled to one vote. Under the Ohio General Corporation Law, which we refer to as the OGCL, our shareholders will have the right to cumulative voting if a shareholder provides written notice to our President or Secretary not less than 48 hours before the time fixed for holding our annual meeting. Upon announcement of this notice at our annual meeting, each shareholder will have cumulative voting rights. Cumulative voting means that each shareholder may cast as many votes in the election of directors as the number of directors to be elected multiplied by the number of shares held. The votes may be cast for one nominee or distributed among as many nominees as the shareholder desires.

Directors are elected by a plurality of the votes cast at the meeting (*i.e.*, the nominees receiving the highest number of votes will be elected regardless of whether such votes constitute a majority of the shares represented at the meeting). Any other matter submitted to the shareholders at a meeting at which a quorum is present shall be decided by the vote of the holders of a majority of the shares represented in person or by proxy at the meeting, unless the matter is one upon which a different vote is required by applicable law, our articles of incorporation or our regulations, each as amended, in which case such express provision shall govern and control the decision of such matter. Vacancies on our board may be filled by a majority of the directors then in office. Our regulations authorize the removal of a director,

only for cause, by a vote of the holders of a majority of the outstanding common shares entitled to vote in the election of directors, provided that no director shall be removed if the votes of a sufficient number of shares are cast against the director's removal that, if cumulatively voted at an election of all directors of a particular class, would be sufficient to elect at least one director.

**Liquidation Rights.** In the event of any liquidation, dissolution or winding up of Consumers, the holders of our common shares would be entitled to receive, after payment or provision for payment of all our debts and liabilities, all of our assets available for distribution. Holders of our preferred stock, if any such shares are then outstanding, may have a priority over the holders of common shares in the event of any liquidation or dissolution. We have no preferred stock currently outstanding.

**Other Rights.** As set forth in the articles, holders of our common shares have pre-emptive rights, unless the common shares offered or sold are: (1) treasury shares; (2) issued as a share dividend; (3) issued or agreed to be issued for consideration other than money; (4) issued by our board of directors; (5) issued or agreed to be issued upon the conversion of convertible shares authorized in our articles, or upon exercise of the conversion conferred and authorized by our board of directors; (6) offered to shareholders in satisfaction of their pre-emptive rights and not purchased by such shareholders, and thereupon issued and agreed to be issued for a consideration not less than that at which the common shares were so offered to shareholders, less reasonable expenses, compensation, or discount paid or allowed for sale, underwriting, or purchase of the common shares, unless by the affirmative vote or written order of the holders of two-thirds of the common shares otherwise entitled to such pre-emptive rights, if pre-emptive rights are restored as to any of such shares not theretofore issued or agreed to be issued; (7) released from pre-emptive rights by the affirmative vote or written consent of the holders of two-thirds of the shares entitled to such pre-emptive rights; and (8) released from pre-emptive rights by the affirmative vote or written consent of the holders of a majority of the common shares entitled to pre-emptive rights, for offering and sale, or the grant of options with respect thereto, to any or all employees of Consumers or its subsidiary corporations or to a trustee on their behalf, under a plan adopted or to be adopted by the board of directors for that purpose.

There are no redemption or conversion provisions applicable to our common shares, and holders of our common shares are not liable for any further capital call or assessment.

**Transfer Agent and Registrar.** The transfer agent and registrar for our common shares is Registrar and Transfer Company.

#### Preferred Shares

Our articles of incorporation authorize us to issue 350,000 preferred shares. As of the date of this prospectus, we do not have any preferred shares outstanding.

Our board of directors is authorized to issue one or more classes, or one or more series within a class, of preferred shares in the future and to fix the designations, preferences, rights, powers, including voting powers and par value, if any (or qualifications, limitations and restrictions) of such preferred shares. As a result, the board of directors could adversely affect the rights of the holders of common shares without a vote of such shareholders.

#### Anti-Takeover Effects of Our Articles of Incorporation and Regulations

There are provisions in our corporate governance documents, and in the Ohio General Corporation Law, that could discourage potential takeover attempts and make attempts by shareholders to change management more difficult. These provisions could adversely affect the market price of our shares.

***Classified Board of Directors.*** Our articles provide for our board to be divided into three classes of directors, as nearly equal in number as possible, serving staggered terms. Approximately one-third of our board will be elected by the shareholders each year. This classification system makes it more difficult to replace a majority of the directors and may tend to discourage a third-party from making a tender offer or otherwise attempting to gain control of us. It also may maintain the incumbency of our board.

***Business Combinations.*** Subject to certain exceptions, our articles prohibit us from consummating a “Business Combination” except with the approval by the affirmative vote of the holders of shares entitling them to exercise at least 80% of the voting power. Our articles define a “Business Combination” to mean any:

merger or consolidation of Consumers;

- sale, lease, exchange or other disposition of all or substantially all of our assets; or
- the issuance or transfer of any securities of Consumers to any other entity for cash.

Our articles do not require the affirmative vote of the holders of shares entitling them to exercise at least 80% of the voting power for any transaction described above as a “Business Combination”,

with another corporation if a majority, by vote, of the outstanding shares of all classes of capital stock of such other corporation entitled to vote generally in the election of directors, considered for this purpose as one class, is owned of record or beneficially by Consumers and/or its subsidiary;

with another corporation, person or other entity if the board of directors of Consumers shall by resolution have approved a memorandum of understanding with such other corporation, person or other entity with respect to and substantially consistent with such transaction prior to the time such other corporation, person or other entity became the beneficial owner, directly or indirectly, of 10% or more of the outstanding shares of capital stock of Consumers entitled to vote generally in the election of directors;

· approved by resolution adopted by the affirmative vote of at least a majority of the members of the whole board of directors of Consumers at any time prior to the consummation thereof;

with another corporation, person or other entity if, as of the date of the amendment of our articles to include this article sixth, such corporation, person, or entity owned 10% or more of the outstanding shares of capital stock of Consumers entitled to vote in the election of directors; or

with another corporation, person or entity if such corporation, person or entity is an heir, devisee or assign of a shareholder described immediately above that, as a result of such inheritance, devise or assignment from a shareholder described immediately above, owns 10% or more of the capital stock of Consumers entitled to vote in the election of directors.

***Ohio Merger Moratorium Statute.*** We are an “issuing public corporation” as defined under Ohio law. Chapter 1704 of the OGCL governs transactions between an issuing public corporation and:

an “interested shareholder,” which, generally, means someone who becomes a beneficial owner of 10% or more of the shares of the corporation without the prior approval of the board of directors of the corporation; and

persons affiliated or associated with an interested shareholder.

For at least three years after an interested shareholder becomes such, the following transactions are prohibited if they involve both the issuing public corporation and either an interested shareholder or anyone affiliated or associated with an interested shareholder:

the disposition or acquisition of any interest in assets;

mergers, consolidation, combinations and majority share acquisitions;

voluntary dissolutions or liquidations; and the issuance or transfer of shares or any rights to acquire shares in excess of 5% of the outstanding shares.

Subsequent to the three-year period, these transactions may take place provided that either of the following conditions are satisfied:

the transaction is approved by the holders of shares with at least two-thirds of the voting power of the corporation, or a different proportion set forth in the articles of incorporation, including at least a majority of the outstanding shares after excluding shares controlled by the interested shareholder; or

the business combination results in shareholders, other than the interested shareholder, receiving a fair price, as determined by Section 1704.03(A)(4), for their shares.

If, prior to the acquisition of shares by which a person becomes an interested shareholder, the board of directors of the corporation approves the transaction by which the person would become an interested shareholder, then Chapter 1704's prohibition does not apply. The prohibition imposed by Chapter 1704 continues indefinitely after the initial three-year period unless the subject transaction is approved by the requisite vote of the shareholders or satisfies statutory conditions relating to the fairness of consideration received by shareholders, other than the interested shareholder.

Chapter 1704 does not apply to a corporation if its articles of incorporation or code of regulations state that it does not apply. We have not opted out of the application of this statute.

**Ohio Control Share Statute.** Section 1701.831 of the OGCL requires the prior authorization of the shareholders of an issuing public corporation in order for any person to acquire, either directly or indirectly, shares of that corporation

that would entitle the acquiring person to exercise or direct the exercise of one-fifth or more of the voting power of that corporation in the election of directors or to exceed specified other percentages of voting power.

A person proposing to make an acquisition of our shares subject to Section 1701.831 of the OGCL must deliver to the issuing public corporation a statement disclosing, among other things:

- the number of shares owned, directly or indirectly, by the person;
- the range of voting power that may result from the proposed acquisition;
- and the identity of the acquiring person.

Within 10 days after receiving this statement, the issuing public corporation must call a special meeting of shareholders to vote on the proposed acquisition. The acquiring person may complete the proposed acquisition only if the acquisition is approved by the affirmative vote of the holders of at least a majority of the voting power of all shares entitled to vote in the election of directors represented at the meeting excluding the voting power of all “interested shares.” Interested shares include any shares held by the acquiring person and those held by officers and directors of the corporation as well as by certain others, including many holders commonly characterized as arbitrageurs.



Section 1701.831 does not apply to a corporation if its articles of incorporation or code of regulations state that it does not apply. We have not opted out of the application of this statute.

## **PLAN OF DISTRIBUTION**

### Directors, Executive Officers and Employees

Our directors and executive officers may participate in the solicitation of the exercise of subscription rights for the purchase of common shares. These persons will not receive any commissions or compensation in connection with these activities, other than their normal compensation, but they will be reimbursed for their reasonable out-of-pocket expenses incurred in connection with any solicitation. Other trained employees of Consumers National Bank may assist in the rights offering in ministerial capacities, providing clerical work in effecting an exercise of subscription rights or answering questions of a ministerial nature. Other questions of prospective purchasers will be directed to our executive officers or registered representatives of Boenning, our financial advisor and selling agent. Our other employees have been instructed not to solicit the exercise of subscription rights for the purchase of shares of common stock or to provide advice regarding the exercise of subscription rights. We will rely on Rule 3a4-1 under the Securities Exchange Act of 1934, as amended, and the solicitation of subscription rights and the sales of the common shares underlying such subscription rights will be conducted within the requirements of Rule 3a4-1, so as to permit officers, directors and employees to participate in the sale of our common shares. None of our officers, directors or employees will be compensated in connection with their participation in the offering by the payment of commissions or other remuneration based either directly or indirectly on the transactions in the shares of common stock.

### Financial Advisor and Selling Agent

We have engaged Boenning as our financial and marketing advisor in connection with the rights offering and as our selling agent for the public offering, if any, pursuant to an agency agreement between Boenning and us. Boenning is a nationally recognized investment banking firm with significant experience in advising financial institutions. In the ordinary course of its investment banking business, Boenning is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

In its capacity as financial and marketing advisor, Boenning provided advice to us regarding the structure and the financial and market impact of the rights offering as well as with respect to marketing the common shares to be issued in the rights offering. Boenning will assist our directors and executive officers in the solicitation of the exercise of subscription rights for the purchase of shares of common stock.

Boenning has also agreed, subject to the terms and conditions contained in the agency agreement with us, to sell in a public offering, on a best efforts basis, any shares not subscribed in the rights offering. Because the public offering is on a best efforts basis, Boenning is not obligated to purchase any shares if they are not sold to the public, nor is it required to sell any specific number or dollar amount of shares.

As compensation for its services, we have agreed to pay Boenning the following amounts:

An advisory fee of \$20,000; and

Except for subscription rights exercised by shareholders in Arizona, a placement fee equal to the sum of (i) 2.00% (200 basis points) of the aggregate purchase price of shares sold in the rights offering to the Company's existing shareholders pursuant to their basic subscription privileges, plus (ii) 6.00% (600 basis points) of the aggregate purchase price of shares sold through the exercise of over-subscription privileges in the rights offering or in a public offering; provided, however, that the applicable placement fee for any shares purchased by members of the Company's board of directors or Company employees in connection with basic subscription privileges, over-subscription privileges or in a public offering will instead be 1.00% (100 basis points) for the first \$1,000,000 of the aggregate purchase price of shares sold to such directors and employees and then 2.00 % (200 basis points) thereafter. The advisory fee will be credited against the placement fee.

In addition to the fees described above, we have agreed to reimburse Boenning for its reasonable out-of-pocket expenses pertaining to its engagement. With the exception of legal fees, such expenses will not exceed \$2,500 individually without the Company's prior written approval. The total amount of such expenses will not exceed \$100,000 without the Company's prior written approval, or \$150,000 with the Company's approval. If the agency agreement is terminated or the offering is not consummated, we will reimburse Boenning for out-of-pocket expenses actually incurred, provided that the amount will not exceed \$100,000 without the Company's consent, or \$150,000 with the Company's consent.

Although Boenning has no obligation to act, and will not act, in any capacity as an underwriter in the stock offering, if it were nonetheless deemed to be an underwriter under the Securities Act, the fees and commissions to be paid to it might be deemed to be underwriting fees and commissions. Boenning may in the future provide other investment banking services to us and will receive compensation for such services.

#### Delivery of Shares

As soon as practicable after the record date for the rights offering, we will distribute the subscription rights and rights certificates to individuals who owned shares of our common stock at 5:00 p.m., Eastern Time, on March 26, 2013.

If your shares are held in the name of a broker, dealer, custodian bank or other nominee, then you should send your subscription documents and subscription payment to that record holder. If you are the record holder, then you should send your rights certificate and other documents, and subscription payment to the address provided below. If sent by mail, we recommend that you send documents and payments by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription/escrow agent. Do not send or deliver these materials to Consumers.

*By Mail, Express Mail or Overnight Courier:*

Registrar and Transfer Company

10 Commerce Drive

Cranford, NJ 07016-3572

Attn: Reorg/Exchange Department

See “*The Rights Offering—Method of Exercising Subscription Rights.*” If you have any questions regarding Consumers, Consumers National Bank, or the stock offering, or you have any questions regarding completing a rights certificate or submitting payment in the rights offering, please call the Company at (800) 948-1262 (toll free), Monday through Friday (except bank holidays), between 9:00 a.m. and 4:00 p.m., Eastern Time.

## MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of material U.S. federal income tax consequences relating to the receipt and exercise (or expiration) of the subscription rights, or, if applicable, the oversubscription privilege, acquired through the rights offering, and the ownership and disposition of common shares received upon exercise of the subscription rights or, if applicable, the oversubscription privilege.

This summary deals only with subscription rights and the oversubscription privilege held by a U.S. Holder (as defined below) and common shares that are held as capital assets by a U.S. Holder who is issued the common shares upon exercise of the subscription rights or, if applicable, the oversubscription privilege. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to such U.S. Holders in light of their personal circumstances. This discussion also does not address tax consequences to U.S. Holders that may be subject to special tax rules, including, without limitation, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax-exempt organizations, employee stock purchase plans, partnerships and other pass-through entities, persons holding common shares as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, financial institutions, brokers, dealers in securities or currencies, traders that elect to mark-to-market their securities, persons that acquired common shares in connection with employment or other performance of services, U.S. Holders that have a functional currency other than the U.S. dollar, U.S. expatriates and foreign holders. In addition, the discussion does not describe any tax consequences arising out of the tax laws of any state, local or foreign jurisdiction, or any U.S. federal tax considerations other than income taxation (such as Medicare contribution taxation or estate or gift taxation). Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder, as of the date hereof, and such authorities may be repealed, revoked or modified, perhaps retroactively. The Company has not sought, and will not seek, any rulings from the Internal Revenue Service (the “IRS”) regarding the matters discussed below. There can be no assurance that the IRS or a court will not take positions concerning the tax consequences of the receipt and exercise (or expiration) of the subscription rights acquired through the rights offering, the exercise of the oversubscription privilege or, if applicable, the oversubscription privilege, and the ownership and disposition of common shares received upon exercise of the subscription rights or, if applicable, the oversubscription privilege that are different from those discussed below.

As used herein, a “U.S. Holder” means a beneficial owner of subscription rights, the oversubscription privilege or common shares that is:

- An individual who is a citizen or resident of the United States for U.S. federal income tax purposes;

A corporation (or other business entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

An estate the income of which is subject to U.S. federal income tax regardless of its source; or

A trust (a) if a court within the United States can exercise primary supervision over its administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or (b) that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

If any entity or arrangement that is treated as a partnership for U.S. federal income tax purposes is a beneficial owner of subscription rights, the oversubscription privilege or common shares, the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. U.S. Holders that are partnerships (and partners in such partnerships) are urged to consult their own tax advisors.

U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES UNDER FEDERAL ESTATE AND GIFT TAX LAWS, FOREIGN, STATE, AND LOCAL LAWS AND TAX TREATIES OF RECEIVING, OWNING AND EXERCISING SUBSCRIPTION RIGHTS AND THE OVERSUBSCRIPTION PRIVILEGE AND ACQUIRING, HOLDING AND DISPOSING OF COMMON SHARES.

#### Taxation of Subscription Rights

**Receipt of Subscription Rights.** Your receipt of subscription rights pursuant to the rights offering will not be treated as a taxable distribution with respect to your existing common shares for U.S. federal income tax purposes. Under Section 305 of the Code, a shareholder who receives a right to acquire shares will, in certain circumstances, be treated as having received a taxable dividend in an amount equal to the fair market value of such right. A common stockholder who receives a right to acquire shares of common stock generally will be treated as having received a taxable dividend if such stockholder's proportionate interest in the earnings and profits or assets of the corporation is increased and any other stockholder receives a distribution of cash or other property. A common stockholder who receives a right to acquire shares of common stock will be treated as having received a taxable dividend if the distribution is treated as part of a "disproportionate distribution." A disproportionate distribution of stock or stock rights occurs when a distribution (or series of distributions) from a corporation results in (a) an increase the stockholder's proportionate interest in the earnings and profits or assets of the corporation and (b) the receipt by other stockholders of cash or other property. For purposes of the above, "stockholder" includes holders of warrants, options and convertible securities. We do not believe, however, that a disproportionate distribution will occur and, therefore, the receipt of subscription rights will not be taxable to a stockholder.

**Tax Basis in the Subscription Rights.** If the fair market value of the subscription rights you receive is less than 15% of the fair market value of your existing common shares on the date you receive the subscription rights, the

subscription rights will be allocated a zero basis for U.S. federal income tax purposes, unless you elect to allocate your basis in your existing common shares between your existing common shares and the subscription rights in proportion to the relative fair market values of the existing common shares and the subscription rights determined on the date of receipt of the subscription rights. If you choose to allocate basis between your existing common shares and the subscription rights, you must make this election on a statement included with your timely filed tax return (including extensions) for the taxable year in which you receive the subscription rights. Such an election is irrevocable.

However, if the fair market value of the subscription rights you receive is 15% or more of the fair market value of your existing common shares on the date you receive the subscription rights, then you must allocate your basis in your existing common shares between your existing common shares and the subscription rights you receive in proportion to their fair market values determined on the date you receive the subscription rights.

The fair market value of the subscription rights on the date that the subscription rights are distributed is uncertain, and we have not obtained, and do not intend to obtain, an appraisal of the fair market value of the subscription rights on that date. In determining the fair market value of the subscription rights, you should consider all relevant facts and circumstances, including any difference between the subscription price of the subscription rights and the trading price of our common shares on the date that the subscription rights are distributed, the length of the period during which the subscription rights may be exercised and the fact that the subscription rights are non-transferable.



**Exercise of Subscription Rights.** Generally, you will not recognize gain or loss on the exercise of a subscription right in the rights offering.

Your tax basis in a common share acquired through exercise of a subscription right will equal the sum of (1) the subscription price and (2) your tax basis, if any, in the subscription right (determined as described above).

The holding period of a common share acquired through exercise of a subscription right will begin on the date of exercise.

If you exercise a subscription right received in the rights offering after disposing of the common shares with respect to which such subscription right is received, then certain aspects of the tax treatment of the exercise of the subscription right are unclear, including (1) the allocation of tax basis between the common shares previously sold and the subscription right, (2) the impact of such allocation on the amount and timing of gain or loss recognized with respect to the common shares previously sold, and (3) the impact of such allocation on the tax basis of common shares acquired through exercise of the subscription right. If you exercise a subscription right received in the rights offering after disposing of the common shares with respect to which the subscription right is received, you should consult with your tax advisor.

**Exercise of Oversubscription Privilege.** Generally, you will not recognize gain or loss upon exercise of the oversubscription privilege. Your tax basis in a new common share acquired upon exercise of the oversubscription privilege generally will be equal to the subscription price. The holding period of a common share acquired upon exercise of the oversubscription privilege will begin on the date of exercise.

**Expiration of Subscription Rights.** If you allow subscription rights received in the rights offering to expire, you should not recognize any gain or loss for U.S. federal income tax purposes, and you should re-allocate any portion of the tax basis in your existing common shares previously allocated to the subscription rights that have expired to the existing common shares.

Taxation of Common Shares

**Distributions.** Distributions with respect to common shares acquired upon exercise of subscription rights or the oversubscription privilege will be taxable as dividend income when actually or constructively received to the extent of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. To the extent that the amount of a distribution exceeds our current and accumulated earnings and profits, such distribution will be treated first as a tax-free return of capital to the extent of your adjusted tax basis in such common shares and thereafter as capital gain.

**Dispositions.** If you sell or otherwise dispose of common shares acquired upon exercise of subscription rights or the oversubscription privilege, you will generally recognize capital gain or loss equal to the difference between the amount realized and your adjusted tax basis in the common shares. Such capital gain or loss will be long-term capital gain or loss if your holding period for the common shares is more than one year. Long-term capital gain of an individual is generally taxed at favorable rates. The deductibility of capital losses is subject to limitations.

**Legislation Affecting Taxation of Common Shares Held By or Through Foreign Entities.** Recently enacted legislation may impose withholding taxes on certain types of payments made to “foreign financial institutions” and certain other non-U.S. entities. The legislation and subsequent guidance including Treasury Regulations issued on January 17, 2013, impose a 30% withholding tax on dividends paid after December 31, 2013, on, or gross proceeds paid after December 31, 2016, from the sale or other disposition of, our common stock paid to such entities that fail to satisfy certain due diligence, disclosure and reporting rules. Non-U.S. persons that are otherwise eligible for an exemption from, or a reduction of, U.S. withholding tax with respect to such distributions and sale proceeds would be required to seek a refund from the IRS to obtain the benefit of such exemption or reduction. We will not pay any additional amounts in respect of any such amounts withheld. Additional requirements and conditions may be imposed pursuant to an Intergovernmental Agreement (if and when entered into) between the United States and the non-U.S. entity's home jurisdiction. U.S. holders should consult their tax advisors regarding this legislation.

**Health Care and Reconciliation Act of 2010.** On March 30, 2010, President Obama signed into law the Health Care and Reconciliation Act of 2010, which requires certain U.S. stockholders who are individuals, estates or trusts to pay a 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of stock for taxable years beginning after December 31, 2012. U.S. holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our common stock.

#### Information Reporting and Backup Withholding

You may be subject to information reporting and/or backup withholding with respect to dividend payments on or the gross proceeds from the disposition of our common shares acquired through the exercise of subscription rights or, if applicable, the over-subscription privilege. Backup withholding may apply under certain circumstances if you (1) fail to furnish your social security or other taxpayer identification number (“TIN”), (2) furnish an incorrect TIN, (3) fail to report interest or dividends properly, or (4) fail to provide a certified statement, signed under penalty of perjury, that the TIN provided is correct, that you are not subject to backup withholding and that you are a U.S. person. Any amount withheld from a payment under the backup withholding rules is allowable as a credit against (and may entitle you to a refund with respect to) your U.S. federal income tax liability, provided that the required information is

furnished to the IRS. Certain persons are exempt from backup withholding, including corporations and financial institutions. You are urged to consult your own tax advisor as to your qualification for exemption from backup withholding and the procedure for obtaining such exemption.

THE PRECEDING DISCUSSION OF MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES IS NOT TAX ADVICE. EACH U.S. HOLDER SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF RECEIVING, OWNING AND EXERCISING SUBSCRIPTION RIGHTS AND THE OVERSUBSCRIPTION PRIVILEGE AND ACQUIRING, HOLDING AND DISPOSING OF COMMON SHARES, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

## LEGAL MATTERS

The validity of the shares of common stock issuable upon exercise of the rights and offered by this prospectus will be passed upon for us by Squire Sanders (US) LLP, Cleveland, Ohio.

## EXPERTS

Our consolidated balance sheets as of June 30, 2012 and 2011 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years then ended appearing in our Annual Report) and/or other relevant document(s) of title, or which are subject to verification. (e)If the Partial Share Offer becomes or is declared unconditional as to acceptances, it will not remain open for acceptances for any further period. 3. Announcements (a)Without prejudice to paragraph 4(a) below, by 8.00 a.m. on the next business day (the "relevant day") following the day on which the Partial Share Offer is due to expire or becomes or is declared unconditional or is revised or extended (or such later time or date as the Panel may agree), Carnival will make an appropriate announcement to the London Stock Exchange (through a Regulatory Information Service) and through the Dow Jones News Service. Such announcement will also state (unless otherwise permitted by the Panel) the total number of P&O Princess shares and rights over P&O Princess shares (as nearly as practicable): (i)for which acceptances of the Partial Share Offer have been received (showing the extent, if any, to which such acceptances have been received from any person acting in concert or deemed to be acting in concert with Carnival for the purposes of the Partial Share Offer); (ii)acquired or agreed to be acquired by or on behalf of Carnival or any person acting in concert or deemed to be acting in concert with Carnival for the purposes of the Partial Share Offer during the course of the Offer Period; and (iii)held by or on behalf of Carnival or any person acting in concert or deemed to be acting in concert with Carnival for the purposes of the Partial Share Offer prior to the Offer Period, and will specify the percentage of the P&O Princess shares represented by each of these figures. Any decision to extend the time and/or date by which the conditions to the Partial Share Offer have to be fulfilled may be made at any time up to, and will be announced not later than, 8.00 a.m. on the relevant day (or such later time and/or date as the Panel may agree) and the announcement will state the next expiry date. In computing the number of P&O Princess shares represented by acceptances and/or purchases, there may be included or excluded for announcement purposes, acceptances and purchases not in all respects in order or not accompanied by the relevant share certificate(s) and/or other document(s) of title, in respect of P&O Princess shares held in certificated form, or which are subject to verification. (b)In this

Appendix I, references to the making of an announcement or the giving of notice by or on behalf of Carnival includes the release of an announcement by public relations consultants or by Merrill Lynch and UBS Warburg, in each case on behalf of Carnival, and the delivery by hand or telephone, telex or facsimile or other electronic transmission of an announcement to the London Stock Exchange (through a Regulatory Information Service) and the Dow Jones News Service, as the case may be. An announcement made otherwise than to the London Stock Exchange shall be notified simultaneously (unless the Panel agrees otherwise) to the London Stock Exchange (through a Regulatory Information Service) and through the Dow Jones News Service. (c) Without limiting the manner in which Carnival may choose to make any public announcement and, subject to Carnival's obligations under applicable law (including Rules 14d-4(c) and 14d-6(c) under the Exchange Act relating to Carnival's obligations to disseminate promptly public announcements concerning material changes to the Partial Share Offer), Carnival will have no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release to the London Stock Exchange and the Dow Jones News Service.

4. Rights of withdrawal (a) P&O Princess shares in respect of which valid acceptances have been received may be withdrawn pursuant to the procedures set out below at any time prior to the Partial Share Offer becoming unconditional and in certain other circumstances described below. P&O Princess shares in respect of which valid acceptances have been received prior to the Partial Share Offer becoming unconditional and that are not validly withdrawn prior to the Partial Share Offer becoming unconditional may not be withdrawn. 93 (b) Withdrawal rights will terminate upon the declaration by Carnival that the Partial Share Offer has become unconditional, unless Carnival then fails to comply by 8:00 a.m. on the relevant day (as defined in paragraph 3(a) of this Part B) (or such later time and/or date as the Panel may agree) with any of the other requirements specified in paragraph 3(a) of this Part B, in which case a P&O Princess shareholder who has previously accepted the Partial Share Offer may withdraw his acceptance of the Partial Share Offer by written notice in compliance with paragraphs 4(c) and (d) of this Part B (if appropriate) given by post or by hand to the UK Receiving Agent or the U.S. Exchange Agent at the addresses set out in the Letter of Transmittal. Alternatively, in the case of P&O Princess shares held in uncertificated form, withdrawals can also be effected in the manner set out in paragraph 4(g) below. (c) To be effective, a written notice of withdrawal must be received, subject to paragraph 4(b) of this Part B, prior to the time the Partial Share Offer becomes unconditional by the party (either the UK Receiving Agent or the U.S. Exchange Agent) to whom the Form of Acceptance or Letter of Transmittal (as appropriate) was originally returned by the relevant P&O Princess shareholder and must specify the name of the person from whom the acceptance was received, the number of P&O Princess shares to be withdrawn and (if share certificates or P&O Princess ADRs, as the case may be, have been provided) the name of the registered holder of the relevant P&O Princess shares, if different from the name of the person from whom the acceptance was received. (d) In respect of P&O Princess ADSs, if P&O Princess ADRs have been delivered or otherwise identified to the U.S. Exchange Agent, then, prior to the physical release of such P&O Princess ADRs, the serial numbers shown on such P&O Princess ADRs must be submitted and, unless the P&O Princess ADSs evidenced by such P&O Princess ADRs have been delivered by an Eligible Institution, the signatures on the notice of withdrawal must be guaranteed by an Eligible Institution. If interests in P&O Princess ADSs evidenced by P&O Princess ADRs have been delivered pursuant to the procedures for book-entry transfer set out in paragraph (c) of Part D of this Appendix, any notice of withdrawal must specify the name and number of the account at the appropriate Book-Entry Transfer Facility to be credited with the withdrawn P&O Princess ADSs and must otherwise comply with such Book-Entry Transfer Facility's procedures. (e) Withdrawals of P&O Princess shares in respect of which valid acceptances have been received may not be rescinded (without Carnival's consent) and any P&O Princess shares properly withdrawn and in respect of which valid acceptances have not been received thereafter will thereafter be deemed not to be the subject of a valid acceptance for the purposes of the Partial Share Offer. Withdrawn P&O Princess shares may be subsequently the subject of a valid acceptance, however, by following one of the procedures described in either Part C or Part D of this Appendix, as the case may be, at any time whilst the Partial Share Offer remains open. (f) In this paragraph 4, "written notice" (including any letter of appointment, direction or authority) means notice in writing bearing the original signature(s) of the relevant accepting P&O Princess shareholder(s) or his/their agent(s) duly appointed in writing (satisfactory evidence of whose appointment must be produced with the notice). Notification by telex or facsimile or other electronic transmission or copies will not be sufficient to constitute written notice. No notice which is postmarked in, or otherwise appears to Carnival or its agents to have been sent from, the Excluded Territories will be treated as valid. (g) In the case of P&O Princess shares held in uncertificated form, if withdrawals are permitted pursuant to this paragraph 4 of this Part B, an accepting P&O

Princess shareholder may withdraw his acceptance through CREST by sending (or, if a CREST sponsored member, procuring that his CREST sponsor sends) an ESA instruction to settle in CREST in relation to each Electronic Acceptance to be withdrawn. Each ESA instruction must, in order for it to be valid and settle, include the following details: . the number of P&O Princess shares to be withdrawn, together with their ISIN number; . the member account ID of the accepting shareholder, together with his participant ID; . the member account ID of the Escrow Agent included in the relevant Electronic Acceptance, together with the Escrow Agent's participant ID; . the transaction reference number of the Electronic Acceptance to be withdrawn; . the intended settlement date for the withdrawal; and . the corporate action number for the Partial Share Offer. 94 Any such withdrawal will be conditional upon the UK Receiving Agent verifying that the withdrawal request is validly made. Accordingly, the UK Receiving Agent will on behalf of Carnival reject or accept the withdrawal by transmitting in CREST a receiving agent reject (AEAD) or receiving agent accept (AEAN) message. (h)All questions as to the validity (including time of receipt) of any notice of withdrawal or ESA instruction will be determined by Carnival, whose determination (except as required by the Panel) will be final and binding. None of Carnival, any of its advisers, the UK Receiving Agent, the U.S. Exchange Agent or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give such notification or for any determination under this paragraph. 5. Revised Partial Share Offer (a)Although no such revision is envisaged, if the Partial Share Offer (in its original or any previously revised form(s)) is revised (either in its terms or conditions or in the value or form of the consideration offered or otherwise), and any such revised Partial Share Offer(s) represent(s) on the date on which such revision is announced (on such basis as Carnival may consider appropriate) an improvement (or no diminution) in the value of the consideration compared with that previously offered, the benefit of the revised Partial Share Offer will, subject as provided in paragraphs 5(b), 5(c) and 6 below, be made available to any P&O Princess shareholder who has validly accepted the Partial Share Offer in its original or previously revised form(s), and not validly withdrawn such acceptance in accordance with paragraph 4 of this Part B (each a "Previous Acceptor"). The acceptance by or on behalf of a Previous Acceptor of the Partial Share Offer in its original or any previously revised form(s) shall be deemed to be an acceptance of the Partial Share Offer as so revised and shall also constitute a separate appointment of each of Carnival and its directors as his attorney and/or agent with authority to accept any such revised Partial Share Offer on behalf of such Previous Acceptor and, if such revised Partial Share Offer includes alternative forms of consideration, to make on his behalf elections for and/or to accept such alternative forms of consideration on his behalf in such proportion as such attorney and/or agent in his absolute discretion thinks fit and to execute on behalf of and in the name of such Previous Acceptor all such further documents (if any) and take such further actions (if any) as may be required to give effect to such acceptances and/or elections. In making any such acceptances or making any such election, the attorney and/or agent shall take into account the nature of any previous acceptances and/or elections made by or on behalf of the Previous Acceptor and such other facts or matters as he may reasonably consider relevant. (b)The deemed acceptances and elections referred to in this paragraph 5 shall not apply and the authorities conferred by paragraph 5(a) above shall not be exercised if, as a result thereof, the Previous Acceptor would (on such basis as Carnival may consider appropriate) thereby receive and/or retain (as appropriate) less consideration in aggregate under the Partial Share Offer or otherwise than would have been received and/or retained (as appropriate) in aggregate consideration as a result of acceptance of the Partial Share Offer in the form in which it was originally accepted and/or elected by such Previous Acceptor or on his behalf (unless such Previous Acceptor has previously agreed to receive and/or retain (as appropriate) less in aggregate consideration). (c)The deemed acceptances and elections referred to in this paragraph 5 shall not apply and the authorities conferred by this paragraph 5 shall be ineffective to the extent that a Previous Acceptor: (i)in respect of P&O Princess shares in certificated form, lodges with the UK Receiving Agent at its address set out in the Letter of Transmittal, within 14 days of the posting of the document pursuant to which the revision of the Partial Share Offer is made available to P&O Princess shareholders (or such later date as Carnival may determine), a Form of Acceptance or some other form issued by or on behalf of Carnival in which he validly elects to receive the consideration receivable by him under such revised Partial Share Offer in some other manner; or (ii)in respect of P&O Princess shares in uncertificated form, sends (or, if a CREST sponsored member, procures that his CREST sponsor sends) an ESA instruction to settle in CREST in 95 relation to each Electronic Acceptance in respect of which an election is to be varied. Each ESA instruction must, in order for it to be valid and settle, include the following details: . the number of P&O Princess shares in respect of which the changed election is made, together with their ISIN number; . the member account ID of the Previous Acceptor, together with his participant ID; . the member

account ID of the UK Receiving Agent in its capacity as Escrow Agent included in the relevant Electronic Acceptance, together with the UK Receiving Agent's participant ID; . the transaction reference number of the Electronic Acceptance in respect of which the election is to be changed; . the intended settlement date for the changed election; . the corporate action number for the Partial Share Offer; and, in order that the desired change of election can be effected, must include: . the member account ID of UK Receiving Agent in its capacity as Escrow Agent relevant to the new election. Any such change of election will be conditional upon the UK Receiving Agent verifying that the request is validly made. Accordingly, the UK Receiving Agent will on behalf of Carnival reject or accept the requested change of election by transmitting in CREST a receiving agent reject (AEAD) or receiving agent accept (AEAN) message. (d)The authorities conferred by this paragraph 5 and any acceptance of a revised Partial Share Offer and/or any election pursuant thereto shall be irrevocable unless and until the Previous Acceptor becomes entitled to withdraw his acceptance under paragraph 4 above and duly does so. (e)Carnival reserves the right to treat an executed Form of Acceptance, TTE Instruction or Letter of Transmittal (as appropriate) relating to the Partial Share Offer (in its original or any previously revised form(s)) which is received (or dated) on or after the announcement or issue of the Partial Share Offer in any revised form as a valid acceptance of the revised Partial Share Offer and, where applicable, a valid election for any alternative form of consideration made available pursuant thereto, and such acceptance shall constitute an authority in the terms of paragraph 5(a) above on behalf of the relevant P&O Princess shareholder. (f)If Carnival makes a material change in the terms of the Partial Share Offer or if it waives a material condition of the Partial Share Offer prior to the time the Partial Share Offer becomes unconditional, Carnival will disseminate additional tender offer materials and extend the Partial Share Offer to the extent required by Rules 14d-4(d), 14d-6(c) and 14e-1 under the Exchange Act. The minimum period during which an offer must remain open following material changes in the terms of the Partial Share Offer, other than a change in price or a change in the percentage of securities sought, will depend upon the facts and circumstances then existing, including the materiality of the changes. With respect to a change in price or, subject to certain limitations, a change in the percentage of securities sought, a minimum of ten U.S. business days is generally required to allow for adequate dissemination to P&O Princess shareholders. 6. General (a)Except with the consent of the Panel, the Partial Share Offer will lapse unless all conditions relating to the Partial Share Offer have been satisfied or (if capable of waiver) waived or, where appropriate, have been determined by Carnival in its reasonable opinion to be or remain satisfied, by midnight on 7 May 2003 or such later date as Carnival may, with the consent of the Panel, decide. If the Partial Share Offer lapses for any reason, the Partial Share Offer will cease to be capable of further acceptance and P&O Princess shareholders and Carnival will cease to be bound by prior acceptances. (b)Subject to the Partial Share Offer becoming or being declared unconditional in all respects, settlement of the consideration to which any P&O Princess shareholder is entitled under the Partial Share Offer will be effected in the case of acceptances received, valid and complete in all respects, within 14 days of the date on which the Partial Share Offer becomes or is declared 96 unconditional in all respects. If the Partial Share Offer does not become or is not declared unconditional in all respects (i) share certificate(s), P&O Princess ADRs and/or other document(s) of title will be returned by post (or such other method as may be approved by the Panel) within 14 days of the Partial Share Offer lapsing, to the person or agent whose name and address (outside the Excluded Territories) is set out in the Form of Acceptance or Letter of Transmittal (as appropriate) or, if none is set out, to the first named or sole holder at his registered address (outside the Excluded Territories), (ii) the relevant escrow agent will, immediately after the lapsing of the Partial Share Offer (or within such longer period, not exceeding 14 days after the Partial Share Offer lapses, as the Panel may approve), give the appropriate instruction to CRESTCo to transfer all P&O Princess shares held in escrow balances and in relation to which it is the escrow agent for the purposes of the Partial Share Offer to the original available balances of the P&O Princess shareholders concerned, and (iii) in respect of P&O Princess ADSs delivered by book-entry transfer into the U.S. Exchange Agent's account at a Book Entry Transfer Facility, P&O Princess ADSs will be credited to an account maintained at the appropriate Book Entry Transfer Facility. (c)Except with the consent of the Panel, settlement of the consideration to which any P&O Princess shareholder is entitled under the Partial Share Offer will be implemented in full in accordance with the terms of the Partial Share Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Carnival may otherwise be, or claim to be, entitled as against such P&O Princess shareholder. Subject to paragraph 7 below, no consideration will be sent to an address in the Excluded Territories. (d)The Partial Share Offer and all acceptances and elections in respect of the Partial Share Offer, or pursuant thereto, and all contracts made pursuant thereto and any action taken or made or deemed to be taken or made under any of the

foregoing shall be governed by and construed in accordance with English law. Execution by or on behalf of a P&O Princess shareholder of a Form of Acceptance or a Letter of Transmittal or the sending of a TTE Instruction by or on behalf of a P&O Princess shareholder (as appropriate) constitutes his irrevocable submission in relation to all matters arising out of or in connection with the Partial Share Offer to the jurisdiction of the courts of England and his agreement that nothing shall limit the right of Carnival to bring any action, suit or proceeding arising out of or in connection with the Partial Share Offer in any other manner permitted by law or in any court of competent jurisdiction. However, the conduct of the Partial Share Offer is also subject to U.S. federal securities laws and the securities laws of the States and other jurisdictions in the U.S. in which the Partial Share Offer is being made if, and to the extent, applicable to the Partial Share Offer. (e) All references in this document to 17 April 2003 shall (except in the definition of "Offer Period" and in paragraph 2(a) above and where the context otherwise requires) be deemed, if the expiry date of the Partial Share Offer is extended, to refer to the expiry date of the Partial Share Offer as so extended. (f) Any omission or failure to dispatch this document, the Form of Acceptance, the Letter of Transmittal or any notice required to be dispatched under the terms of the Partial Share Offer to, or any failure to receive the same by, any person to whom the Partial Share Offer is made, or should be made, shall not invalidate the Partial Share Offer in any way or create any implication that the Partial Share Offer has not been made to any such person. (g) Subject to the Takeover Code, notwithstanding any other provision in this Part B of Appendix I, Carnival reserves the right to treat acceptances of the Partial Share Offer and/or elections pursuant thereto as valid if received by the UK Receiving Agent, the U.S. Exchange Agent or otherwise by or on behalf of Carnival at any place or places or in any manner determined by it otherwise than as set out in this document or in the Form of Acceptance, Brokerage Account Election Form or Letter of Transmittal (as appropriate). (h) All powers of attorney, appointments of agents and authorities in the terms conferred by or referred to in this Appendix I or in the Form of Acceptance or Letter of Transmittal (as appropriate) are given by way of security for the performance of the obligations of the P&O Princess shareholder concerned and are irrevocable in accordance with section 4 of the Powers of Attorney Act 1971 unless and until the donor of such power of attorney or authority or appointment validly withdraws his acceptance in accordance with paragraph 4 above. 97 (i) No acknowledgement of receipt of any Form of Acceptance, Letter of Transmittal, TTE Instruction, ESA Instruction, Brokerage Account Election Form, share certificate(s), P&O Princess ADRs and/or other document(s) of title will be given. All communications, notices, certificates, documents of title and remittances to be delivered by or sent to or from P&O Princess shareholders (or their designated agent(s)) will be delivered by or sent to or from such P&O Princess shareholders (or their designated agent(s)) at their own risk. (j) In relation to any acceptance of the Partial Share Offer in respect of a holding of P&O Princess shares which is in uncertificated form, Carnival reserves the right to make such alterations, additions or modifications as may be necessary or desirable to give effect to any purported acceptance of the Partial Share Offer, whether in order to comply with the facilities or requirements of CREST or otherwise, provided such alterations, additions or modifications are consistent with the requirements of the Code or are otherwise made with the consent of the Panel. (k) For the purposes of this document, the time of receipt of a TTE Instruction, an ESA Instruction or an Electronic Acceptance shall be the time at which the relevant instruction settles in CREST. (l) All references in this Appendix I to any statute or statutory provision shall include a statute or statutory provision which amends, consolidates or replaces the same (whether before or after the date hereof). (m) The Partial Share Offer is made on 17 March 2003 and is capable of acceptance thereafter. The Partial Share Offer is being made by means of this document and by means of an advertisement inserted in the Financial Times (UK edition) dated 18 March 2003. Additional copies of this document, the Form of Acceptance, the Letter of Transmittal and any related documents may be collected from the UK Receiving Agent and the U.S. Exchange Agent. (n) The Partial Share Offer extends to all the P&O Princess shares unconditionally allotted or issued on 17 March 2003 and any further P&O Princess shares unconditionally allotted or issued while the Partial Share Offer remains open for acceptance (or such earlier date or dates as Carnival may decide). (o) The instructions, terms, provisions and authorities contained in or deemed to be incorporated in the Form of Acceptance, Brokerage Account Election Form, or Letter of Transmittal (as appropriate) will also constitute part of the terms of the Partial Share Offer. Words and expressions defined in this document have the same meaning when used in the Form of Acceptance or Letter of Transmittal (as appropriate) unless the context otherwise require. The provisions of this Appendix I shall be deemed to be incorporated in and form part of each Form of Acceptance or Letter of Transmittal (as appropriate). (p) The P&O Princess shares are to be acquired by Carnival fully paid and free from all liens, charges and encumbrances, rights of pre-emption and any other third party rights of any nature, whatsoever and together with all

rights attaching thereto, including the right to all dividends or other distributions declared, paid or made after the date the Partial Share Offer becomes unconditional in all respects. For the avoidance of doubt, P&O Princess shareholders on the P&O Princess share register on 21 February 2003 shall be entitled to payment of the dividend declared by the P&O Princess board on 7 January 2003. (q)The Carnival shares will be issued credited as fully paid and will rank pari passu in all respects with the Carnival shares in issue at the date the Partial Share Offer becomes unconditional in all respects. (r)Fractions of Carnival shares will not be issued to accepting P&O Princess shareholders. Therefore, P&O Princess shareholders who hold less than four P&O Princess shares will not be able to tender their shares in the Partial Share Offer. Fractional entitlements to Carnival shares will be aggregated and sold in the market and the net proceeds of sale distributed pro rata to the P&O Princess shareholders entitled thereto, except that individual entitlements of less than (Pounds)3.00 will be retained for the benefit of the Combined Group. (s)If the Partial Share Offer lapses: (i)in respect of P&O Princess shares held in certificated form, share certificate(s) and/or other document(s) of title will be returned by post (or such other method as may be approved by the Panel) within 14 days of the Partial Share Offer lapsing, at the risk of the person entitled thereto, to the person or agent whose name and address outside the Excluded Territories is set out in the relevant box in the Form of Acceptance or, if none is set out, to the first- 98 named or sole holder at his registered address outside the Excluded Territories. No such document will be sent to an address in the Excluded Territories; (ii)in respect of P&O Princess shares held in uncertificated form, the UK Receiving Agent will, immediately after the lapsing of the Partial Share Offer (or within such longer period as the Panel may permit, not exceeding 14 days after the lapsing of the Partial Share Offer), give instructions to CRESTCo to transfer all P&O Princess shares held in escrow balances and in relation to which it is the Escrow Agent for the purposes of the Partial Share Offer to the original available balances of the P&O Princess shareholders concerned. 7. Overseas shareholders (a)The making of the Partial Share Offer in, or to P&O Princess shareholders resident in, or citizens or nationals of, jurisdictions outside the UK or the U.S., or to persons who are custodians, nominees of or trustees for, citizens, residents or nationals of such jurisdictions, may be prohibited or affected by the laws of the jurisdiction in which such persons are resident. Such persons should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person wishing to accept the Partial Share Offer to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents, which may be required and the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any such person will be responsible for any such issue, transfer or other taxes or other requisite payments by whomsoever payable and Carnival and Merrill Lynch and UBS Warburg and any person acting on their behalf shall be fully indemnified and held harmless by such person for any such issue, transfer or other taxes as Carnival (or its agents) may be required to pay. (b)In particular, the Partial Share Offer will not be made, directly or indirectly, in or into the Excluded Territories, or by use of the mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or of any facilities of a national securities exchange of, the Excluded Territories, and the Partial Share Offer should not be accepted by any such use, means, instrumentality or facility or otherwise from within the Excluded Territories. Accordingly, copies of this document, the Form of Acceptance or Letter of Transmittal (as appropriate) and any related offering documents are not being, and should not be, mailed or otherwise forwarded, distributed or sent in the Excluded Territories. Persons receiving such documents (including, without limitation, custodians, nominees and trustees) should not distribute them in, into or from the Excluded Territories or use such mails or any such means, instrumentality or facility for any purpose directly or indirectly in connection with the Partial Share Offer, and so doing may render invalid any related purported acceptance of the Partial Share Offer. Persons wishing to accept the Partial Share Offer should not use the mails of any of the Excluded Territories or any such means, instrumentality or facility for any purpose directly or indirectly relating to acceptance of the Partial Share Offer. Envelopes containing the Form of Acceptance or Letter of Transmittal (as appropriate), evidence of title or other documents relating to the Partial Share Offer should not be postmarked in the Excluded Territories or otherwise dispatched from the Excluded Territories and all acceptors must provide addresses outside the Excluded Territories for the receipt of the consideration to which they are entitled under the Partial Share Offer or for the return of Forms of Acceptance or Letters of Transmittal (as appropriate) and (in relation to P&O Princess shares in certificated form) share certificate(s), and/or other document(s) of title. For more detail, overseas shareholders (i) completing a Form of Acceptance should refer to paragraph 1 of Part C of this Appendix I, (ii) accepting electronically should refer to paragraph 2 of Part C of this Appendix I, and (iii) tendering



P&O Princess ADSs should refer to Part D of this Appendix I. (c)A P&O Princess shareholder holding P&O Princess ordinary shares may be deemed NOT to have accepted the Partial Share Offer if (i) he puts "NO" in Box 4 of the Form of Acceptance and therefore does not give the representation and warranty set out in paragraph 1(c) of Part C of this Appendix I; or (ii) he completes Box 4 of the Form of Acceptance with an address in the Excluded Territories or has a registered address in the Excluded Territories and in each case does not insert in Box 4 of the Form of Acceptance the name and address of a person or agent outside the Excluded Territories to whom he wishes the consideration to which he is entitled under the Partial Share Offer to be sent; or (iii) he inserts in Box 4 of the Form of Acceptance the name and 99 address and/or telephone number of a person or agent in the Excluded Territories to whom he wishes the consideration to which he is entitled under the Partial Share Offer to be sent; or (iv) the Form of Acceptance received from him is received in an envelope postmarked in, or which otherwise appears to Carnival or its agents to have been sent from the Excluded Territories; or (v) he makes a Restricted Escrow Transfer pursuant to paragraph 7(d) below unless he also makes a related Restricted ESA instruction which is accepted by the UK Receiving Agent. Carnival reserves the right, in its sole discretion, to investigate, in relation to any acceptance, whether the representation and warranty set out in paragraph 1(c) or, as the case may be, 2(c) of Part C of this Appendix I could have been truthfully given by the relevant P&O Princess shareholder and, if such investigation is made and as a result Carnival determines (for any reason) that such representation and warranty could not have been so given, such acceptances and any election thereunder may be rejected as invalid. (d)If a P&O Princess shareholder holding P&O Princess ordinary shares in uncertificated form is unable to give the warranty set out in paragraph 2(c) of Part C of this Appendix I, but nevertheless can provide evidence satisfactory to Carnival that he is able to accept the Partial Share Offer in compliance with all relevant legal and regulatory requirements, he may only purport to accept the Partial Share Offer by sending (or if a CREST sponsored member, procuring that his CREST sponsor sends) both (1) a Transfer to Escrow instruction to a designated escrow balance detailed below (a "Restricted Escrow Transfer") and (2) one or more valid ESA instructions (a "Restricted ESA instruction") which specify the form of consideration which he wishes to receive (consistent with the alternatives offered under the Partial Share Offer). Such purported acceptance will not be treated as a valid acceptance unless both the Restricted Escrow Transfer and the Restricted ESA instruction(s) settle in CREST and Carnival decides, in its absolute discretion, to exercise its right described in this paragraph 7 of Part B of Appendix I to waive, vary or modify the terms of the Partial Share Offer relating to overseas shareholders, to the extent required to permit such acceptance to be made in each case during the acceptance period set out in paragraph 1 of this Part B of Appendix I. If Carnival accordingly decides to permit such acceptance to be made, the UK Receiving Agent will on behalf of Carnival accept the purported acceptance as an Electronic Acceptance on the terms of this document (as so waived, varied or modified) by transmitting in CREST a receiving agent accept (AEAN) message. Otherwise, the UK Receiving Agent will, on behalf of Carnival, reject the purported acceptance by transmitting in CREST a receiving agent reject (AEAD) message. Each Restricted Escrow Transfer must, in order for it to be valid and settle, include the following details: the ISIN number for the P&O Princess shares; the number of P&O Princess shares in respect of which the Partial Share Offer is to be accepted; the member account ID and participant ID of the P&O Princess shareholder; the participant ID of the Escrow Agent (this is 3RA19) and its member account ID specific to a Restricted Escrow Transfer (this is CARPOPO1); and the intended settlement date. Each Restricted ESA instruction must, in order for it to be valid and settle, include the following details: the ISIN number for the P&O Princess shares; the number of P&O Princess shares relevant to that Restricted ESA instruction; the member account ID and participant ID of the accepting P&O Princess shareholder; the member account ID and participant ID of the Escrow Agent set out in the Restricted Escrow Transfer; the participant ID and the member account ID of the Escrow Agent relevant to the form of consideration required; the transaction reference number of the Restricted Escrow Transfer to which the Restricted ESA instruction relates; the intended settlement date; and the corporate action number for the Partial Share Offer. (e)Carnival reserves the right to notify any matter, including the fact that the Partial Share Offer has been made, to all or any P&O Princess shareholders: (i)with a registered address outside the UK; or (ii)whom Carnival knows to be a custodian, trustee or nominee holding P&O Princess shares for persons who are citizens, residents or nationals of jurisdictions outside the UK, by announcement or by paid advertisement in a daily national newspaper published and circulated in the UK (in which event such notice shall be deemed to have been sufficiently given, notwithstanding any failure by any such P&O Princess shareholder to receive or see such notice) and all references in this document to notice or the provision of information in writing by or on behalf of Carnival shall be construed accordingly. 100 (f)The provisions of this paragraph 7 override any terms of the

Partial Share Offer inconsistent with them. The provisions of this paragraph 7 and/or any other terms of the Partial Share Offer relating to overseas P&O Princess shareholders may be waived, varied or modified as regards specific P&O Princess shareholder(s) or on a general basis by Carnival in its absolute direction. In particular, without limitation, Carnival reserves the right in its sole discretion to treat as valid an acceptance received from a person unable to give the representation and warranty set out in paragraphs 1(c) or 2(c) of Part C of Appendix I, and, in the event of such acceptance being treated as valid then such person shall be deemed to have given an authority to Carnival and its agents, as agent(s) of such shareholder in respect of the Carnival shares to which such shareholder becomes entitled, to sell or arrange for the sale or allotment of Carnival shares to which any such shareholder may otherwise be entitled pursuant to or in connection with the Partial Share Offer, to receive the share certificates or other documents of title and to execute instruments of transfer in respect of the same and to remit the cash proceeds of such sale or allotment, net of expenses, to any such shareholder instead, save that proceeds of less than (Pounds)3.00 attributable to any shareholder shall be retained for the benefit of the Carnival group. Carnival will not have any obligations or liability whatsoever in relation to the timing of such sales or allotments or the price or prices obtained or for any loss or alleged loss arising therefrom or otherwise arising in connection therewith and such sales or allotments may be made individually or together with other shares to which such provisions apply. In such circumstances such shareholder shall be deemed to have appointed any director of Carnival to effect any such sale as his or her attorney with full power (including the power of delegation) to do all such things as may be necessary for or ancillary to such purpose. (g)References in this paragraph 7 to a P&O Princess shareholder shall include the person or persons executing a Form of Acceptance and, in the event of more than one person executing a Form of Acceptance, the provisions of this paragraph shall apply to them jointly and to each of them. (h)In connection with the commencement of the Partial Share Offer to P&O Princess shareholders resident in the U.S., Carnival has filed a registration statement with the SEC on Form S-4 (which registration statement is also a registration of P&O Princess on Form F-4) and a statement on Schedule TO. This document will constitute the prospectus contained in the registration statement. The registration statement, when declared effective by the SEC, will register under the Securities Act, among other securities, the Carnival shares offered in connection with the Partial Share Offer to holders of P&O Princess shares and P&O Princess ADSs. Overseas shareholders should inform themselves about and observe any applicable legal or regulatory requirements. If you are in any doubt about your position you should consult your professional adviser in the relevant jurisdiction. 101 Part C. Procedures for tendering P&O Princess ordinary shares 1. Form of Acceptance Each P&O Princess shareholder by whom, or on whose behalf, a Form of Acceptance is executed irrevocably and lodged with UK Receiving Agent undertakes, represents, warrants and agrees to and with Carnival and UK Receiving Agent (so as to bind him, his personal representatives, heirs, successors and assigns) to the following effect: (a)that the execution of the Form of Acceptance, whether or not any other boxes are completed shall constitute: (i)an acceptance, subject to paragraph 7 of Part B of this Appendix I of the Partial Share Offer in respect of 20 per cent. of the relevant P&O Princess shareholder's entire holding of P&O Princess shares in certificated form (or such other number as may have been inserted in Box 1 of the Form of Acceptance provided that if no number is inserted in Box 1 the acceptance will be deemed to have been made in respect of the 20 per cent. of P&O Princess shareholder's entire holding of P&O Princess shares in certificated form or if a number is inserted in Box 1 which exceeds such P&O Princess shareholder's holding of P&O Princess shares in certificated form the acceptance will be deemed to have been made in respect of the P&O Princess shareholder's entire holding of P&O Princess shares in certificated form); (ii)an undertaking to execute any further documents, take any further action and given any further assurances which may be required to enable Carnival to obtain the full benefit of the terms of this Appendix I and/or to perfect any of the authorities expressed to be given hereunder or otherwise in connection with such P&O Princess shareholder's acceptance of the Partial Share Offer; and in each case on and subject to the terms and conditions set out or referred to in this document and the Form of Acceptance and that, subject only to the rights of withdrawal set out in paragraph 4 of Part B of this Appendix I, each such acceptance and election shall be irrevocable; (b)that the P&O Princess shares in certificated form in respect of which the Partial Share Offer is accepted or deemed to be accepted are sold free from all liens, charges, equitable interests, encumbrances, rights of pre-emption and any other third party rights and interests of any nature whatsoever and together with all rights attaching thereto on or after the date the Partial Share Offer becomes unconditional in all respects, including, without limitation, voting rights and the right to receive and retain all dividends or other distributions (if any) declared, made or paid on or after the date the Partial Share Offer becomes unconditional in all respects. For the avoidance of doubt,

P&O Princess shareholders on the P&O Princess register on 21 February 2003 shall be entitled to payment of the dividend declared by the board of P&O Princess on 7 January 2003; (c)that, unless "NO" is inserted in Box 4 of the Form of Acceptance: (i)the Form of Acceptance and any related offering documents have not been mailed or otherwise distributed or sent (directly or indirectly) in, into or from the Excluded Territories or any other jurisdiction where such actions may constitute a breach of any legal or regulatory requirements of such jurisdiction; (ii)in connection with the Partial Share Offer, there has been no use, directly or indirectly, of the mails of, or any means or instrumentality (including, without limitation, electronic mail, or any electronic publication or advertisement, facsimile transmission, telex or telephone) of interstate or foreign commerce of, or any facility of a national securities exchange of the Excluded Territories or such other jurisdiction; (iii)such P&O Princess shareholder was outside the Excluded Territories when the Form of Acceptance was sent and at the time of accepting the Partial Share Offer in respect of the P&O Princess shares to which such Form of Acceptance relates; (iv)in respect of the P&O Princess shares to which the Form of Acceptance relates, such P&O Princess shareholder is not, and is not accepting the Partial Share Offer through, an agent or fiduciary acting on a non-discretionary basis for a principal, unless such principal is a corporation or partnership and such agent or fiduciary is an authorised employee of such principal or such principal has given any instructions with respect to the Partial Share Offer from outside the Excluded Territories; and 102 (v)such accepting P&O Princess shareholder has observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other required consents, complied with all requisite formalities and paid any issue, transfer or other taxes or other requisite payments due from him in each case in connection with such acceptance, in any jurisdiction and that he has not taken or omitted to take any action which will or may result in Carnival or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Partial Share Offer or his acceptance thereof; (d)that, in relation to P&O Princess shares in certificated form, the execution of the Form of Acceptance and its delivery to UK Receiving Agent constitutes, subject to the Partial Share Offer becoming unconditional in all respects in accordance with its terms and to an accepting P&O Princess shareholder not having validly withdrawn his acceptance, the irrevocable separate appointment of each of Carnival and its respective directors, authorised representatives and agents as such P&O Princess shareholder's attorney and/or agent (the "attorney"), and an irrevocable instruction to the attorney (in accordance with section 4 of the Powers of Attorney Act 1971) (i) to complete and execute all or any form(s) of transfer and/or other document(s) at the discretion of the attorney in relation to the P&O Princess shares referred to in paragraph 1(a)(i) above in favour of Carnival or such other person or persons as Carnival or its agents may direct and (ii) to deliver such form(s) of transfer and/or other document(s) at the discretion of the attorney together with any share certificate(s) and/or other document(s) of title relating to such P&O Princess shares for registration within six months of the Partial Share Offer becoming unconditional in all respects (iii) and to do all such other acts and things as may in the opinion of the attorney be necessary or expedient for the purposes of, or in connection with, the acceptance of the Partial Share Offer and to vest in Carnival or its nominee(s) the P&O Princess shares as aforesaid; (e)that, in relation to P&O Princess shares in certificated form, the execution of the Form of Acceptance and delivery to the UK Receiving Agent constitutes, subject to the Partial Share Offer becoming unconditional in all respects in accordance with its terms and to the accepting P&O Princess shareholder not having validly withdrawn the acceptance, a separate and irrevocable authority and request: (i)to P&O Princess or its agents to procure the registration of the transfer of the P&O Princess shares referred to in paragraph 1(a)(i) above in certificated form pursuant to the Partial Share Offer and the delivery of the share certificate(s) and/or any document(s) of title in respect thereof to Carnival or as it may direct; and (ii)if the P&O Princess shares concerned are in certificated form (subject to the provisions of paragraph 7 of Part B of this Appendix I), to Carnival or its respective agents, to procure the dispatch by post (or such other method as may be approved by the Panel) of a cheque in respect of any cash consideration (in relation to fractional entitlements) to which such P&O Princess shareholder is entitled, at the risk of such P&O Princess shareholder, to the person or agent whose name and address outside the Excluded Territories is set out in Box 5 of the Form of Acceptance or, if none is set out, to the first-named or sole holder at his registered address outside the Excluded Territories. (f)that, in relation to P&O Princess shares in certificated form, the execution of the Form of Acceptance and its delivery to the UK Receiving Agent constitutes a separate authority to each of Carnival and its respective directors in the terms of paragraph 5 of Part B of this Appendix I; (g)that, subject to the Partial Share Offer becoming or being declared unconditional in all respects in accordance with its terms in respect of the P&O Princess shares in certificated form in respect of which the Partial Share Offer has been accepted, or is deemed to be accepted, which acceptance has not

been validly withdrawn, and which have not been registered in the name of Carnival or as it may direct: (i)subject to any restrictions in the articles of association of P&O Princess, Carnival or its agents shall be entitled to direct the exercise of any votes and any or all other rights and privileges (including the right to requisition the convening of a general meeting or separate class meeting of P&O Princess) attaching to any such P&O Princess shares in certificated form in respect of which the Partial Share Offer has been accepted or is deemed to have been accepted and not validly withdrawn; 103 (ii)the execution of a Form of Acceptance by a P&O Princess shareholder in respect of the P&O Princess shares in certificated form comprised in such acceptance and in respect of which such acceptance has not been validly withdrawn shall constitute with regard to such P&O Princess shares: (A)an authority to P&O Princess or its agents from such P&O Princess shareholders to send any notice, circular, warrant or other document or communication which may be required to be sent to him as a member of P&O Princess to Carnival at its registered office or as Carnival or its agents may direct; (B)an authority to Carnival or its agents to sign any consent to short notice of a general meeting or separate class meeting on his behalf and/or to execute a form of proxy in respect of such P&O Princess shares appointing any person nominated by Carnival to attend general meetings and separate class meetings of P&O Princess or its members or any of them (and any adjournment thereof) and to exercise the votes attaching to such P&O Princess shares on his behalf; and (C)the agreement of such P&O Princess shareholder not to exercise any of such rights without the consent of Carnival and the irrevocable undertaking of such P&O Princess shareholder not to appoint a proxy for or to attend any such general meeting or separate class meeting; (h)that he will deliver to UK Receiving Agent at either of the addresses set out in the Letter of Transmittal, his share certificate(s) and/or other document(s) of title in respect of the P&O Princess shares in certificated form referred to in paragraph 1(a)(i) of this Part C and in relation to which acceptance has not been validly withdrawn, or an indemnity acceptable to Carnival in lieu thereof, as soon as possible and in any event within six months of the Partial Share Offer becoming unconditional in all respects; (i)that he will do all such acts and things as shall, in the opinion of Carnival or the UK Receiving Agent be necessary or expedient to vest in Carnival or its nominee(s) or such other person as Carnival may decide title to the number of P&O Princess shares in certificated shares inserted or deemed to be inserted in Box 1 of the Form of Acceptance; (j)that the terms and conditions of the Partial Share Offer contained in this document shall be incorporated in and form part of the Form of Acceptance, which shall be read and construed accordingly; (k)that he agrees to ratify each and every act or thing which may be done or effected by Carnival or any of its respective directors or agents or P&O Princess or its agents, as the case may be, in the proper exercise of any of the powers and/or authorities hereunder; (l)that on execution and delivery, any Form of Acceptance shall take effect as a deed; (m)that if any provision of Part B or this paragraph 1 of Part C of this Appendix I shall be unenforceable or invalid or shall not operate so as to afford Carnival or UK Receiving Agent or any authorised representative of any of them or their respective agents the benefit or authority expressed to be given therein, he shall with all practicable speed do all such acts and things and execute all such documents as may be required to enable those persons to secure the full benefits of Part B or this paragraph 1 of Part C of this Appendix I; and (n)that he submits, in relation to all matters arising out of the Partial Share Offer and the Form of Acceptance, to the jurisdiction of the English courts. References in this paragraph 1 of Part C to a P&O Princess shareholder shall include references to the person or persons executing a Form of Acceptance and in the event of more than one person executing a Form of Acceptance, the provisions of paragraph 1 of this Part C shall apply to them jointly and to each of them. 2. Electronic Acceptances Each P&O Princess shareholder by whom, or on whose behalf, an Electronic Acceptance is made irrevocably undertakes, represents, warrants and agrees to and with Carnival and the UK Receiving Agent (so as to bind him, his personal representatives, heirs, successors and assigns) to the following effect: (a)that the Electronic Acceptance shall constitute an acceptance of the Partial Share Offer in respect of the number of P&O Princess shares in uncertificated form to which a TTE Instruction relates, 104 subject to the terms and conditions set out or referred to in this document and that, subject only to the rights of withdrawal set out in paragraph 4 of Part B of this Appendix I, each such acceptance and election shall be irrevocable; (b)that the P&O Princess shares in uncertificated form in respect of which the Partial Share Offer is accepted or deemed to be accepted are sold free from all liens, charges, equitable interests, encumbrances, rights of pre-emption and any other third party rights and interests of any nature whatsoever and together with all rights attaching thereto on or after the date the partial share offer becomes unconditional in all respects, including, without limitation, voting rights and the right to receive and retain all dividends or other distributions declared, made or paid on or after the date the partial share offer becomes unconditional in all respects; for the avoidance of doubt P&O Princess shareholders on the P&O Princess share register on 21 February 2003 shall

be entitled to the dividend declared by the board of P&O Princess on 7 January 2003; (c)(i) in connection with the Partial Share Offer, there has been no use, directly or indirectly, any facility of a national securities exchange of, the Excluded Territories or such other jurisdiction; (ii) such P&O Princess shareholder was outside the Excluded Territories at the time of the input and settlement of the relevant TTE Instruction; (iii) in respect of the P&O Princess shares to which the Electronic Acceptance relates, such P&O Princess shareholder is not, and is not accepting the Partial Share Offer through, an agent or fiduciary acting on a non-discretionary basis for a principal, unless such principal is a corporation or partnership and such agent or fiduciary is an authorised employee of such principal or such principal has given any instructions with respect to the Partial Share Offer from outside the Excluded Territories; and (vi) if such accepting P&O Princess shareholder is not a citizen, resident or national of the UK, he has observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other required consents, complied with all requisite formalities and paid any issue, transfer or other taxes or other requisite payments due from him in each case in connection with such acceptance, in any jurisdiction and that he has not taken or omitted to take any action which will or may result in Carnival or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Partial Share Offer or his acceptance thereof; (d) that the Electronic Acceptance constitutes the irrevocable separate appointment of each of Carnival, and its directors, authorised representatives and agents as such P&O Princess shareholder's attorney and/or agent (the "attorney"), and an irrevocable instruction to the attorney (in accordance with section 4 of the Powers of Attorney Act 1971) (i) if the Partial Share Offer becomes unconditional in all respects in accordance with its terms, and subject to the accepting P&O Princess shareholder not having validly withdrawn the acceptance, to do all such acts and things as may in the opinion of the attorney be necessary or expedient for the purposes of, or in connection with, the acceptance of the Partial Share Offer and to vest in Carnival or its nominee(s) the P&O Princess shares referred to in paragraph 2(a) above, and (ii) if the Partial Share Offer does not become unconditional in all respects, to give instructions to CRESTCo, immediately after the lapsing of the Partial Share Offer (or within such longer period as the Panel may permit, not exceeding 14 days from the lapsing of the Partial Share Offer), to transfer all Relevant P&O Princess shares to the original available balance of an accepting P&O Princess shareholder; (e) that the Electronic Acceptance constitutes, subject to the Partial Share Offer becoming unconditional in all respects in accordance with its terms and to the accepting P&O Princess shareholder not having validly withdrawn the acceptance, a separate and irrevocable authority and request: (i) to P&O Princess or its agents to procure the transfer to Carnival, or as it may direct, by means of CREST all or any of the P&O Princess shares in uncertificated form referred to in paragraph (a) above; (ii) (subject to the provisions of paragraph 7 of Part B of this Appendix I) to Carnival or its agents to procure, if applicable, that such P&O Princess shareholder's name is entered in the register of holders of Carnival Shares in respect of the Carnival Shares to which he becomes entitled pursuant to the Partial Share Offer; 105 (iii) to Carnival, or its agents, to record and act upon any instructions with regard to payments or notices which have been entered in the records of P&O Princess in respect of such P&O Princess shareholder's holding(s) of P&O Princess shares as if such mandates had been given in respect of his holding of Carnival shares (if any); and (iv) to Carnival, or its agents (subject to the provisions of paragraph 7 of Part B of this Appendix I) to procure the making of a CREST payment obligation in favour of the P&O Princess shareholder's payment bank in accordance with the CREST payment arrangements in respect of any cash consideration (in relation to fractional entitlements) to which such P&O Princess shareholder is entitled, provided in relation to a CREST member whose registered address is in the Excluded Territories, Carnival shall instead procure that all of, and in relation to any other P&O Princess shares Carnival may (if, for any reason, it wishes to do so) determine that all or any part of, any such cash consideration shall be paid by cheque despatched by post and to procure the despatch by post (or such other method as may be approved by the Panel) of the documents of title for any Carnival shares to which such P&O Princess shareholder is entitled to the first-named or sole holder at his registered address outside the Excluded Territories; (f) that in relation to P&O Princess shares in uncertificated form, the Electronic Acceptance constitutes a separate authority to each of Carnival, and its directors in the terms of paragraph 5 of Part B of this Appendix I; (g) that, subject to the Partial Share Offer becoming unconditional in all respects in accordance with its terms, in respect of the P&O Princess shares in uncertificated form in respect of which the Partial Share Offer has been accepted, or is deemed to be accepted, which acceptance has not been validly withdrawn, and which have not been registered in the name of Carnival or as it may direct: (i) subject to any restrictions in the articles of association of P&O Princess, Carnival or its agents shall be entitled to direct the exercise of any votes and any or all other rights and privileges (including the right to requisition the convening of a general

meeting or separate class meeting of P&O Princess) attaching to any such P&O Princess shares in uncertificated form in respect of which the Partial Share Offer has been accepted or is deemed to have been accepted and not validly withdrawn; (ii) the Electronic Acceptance by a P&O Princess shareholder shall constitute with regard to such P&O Princess shares in uncertificated form in respect of which the Partial Share Offer has been accepted or is deemed to have been accepted and not validly withdrawn: (A) an authority to P&O Princess or its agents from such P&O Princess shareholders to send any notice, circular, warrant or other document or communication which may be required to be sent to him as a member of P&O Princess (including any share certificate(s) or other document(s) of title issued as a result of conversion of such P&O Princess shares into certificated form) to Carnival at its registered office or as Carnival or its agents may direct; (B) an authority to Carnival or its agents to sign any consent to short notice of a general meeting or separate class meeting on his behalf and/or to execute a form of proxy in respect of such P&O Princess shares appointing any person nominated by Carnival to attend general meetings and separate class meetings of P&O Princess or its members or any of them (and any adjournment thereof) and to exercise the votes attaching to such P&O Princess shares on his behalf, such votes (where relevant) to be cast so far as possible to satisfy any outstanding condition of the Partial Share Offer; and (C) the agreement of such P&O Princess shareholder not to exercise any of such rights without the consent of Carnival and the irrevocable undertaking of such P&O Princess shareholder not to appoint a proxy for or to attend any such general meeting or separate class meeting; (h) that if, for any reason, any P&O Princess shares in respect of which a TTE Instruction has been effected in accordance with paragraph 3(b) of Section A of Part VI of this document are converted to certificated form, he will (without prejudice to paragraph 2(h)(ii)(A) above immediately deliver or 106 procure the immediate delivery of the share certificate(s) or other document(s) of title in respect of all such P&O Princess shares as so converted to the UK Receiving Agent at either of the addresses referred to in paragraph 3(b) of Section A of Part VI of this document or to Carnival at its registered office or as Carnival or its agents may direct; and he shall be deemed upon conversion to undertake, represent, warrant and agree in the terms set out in Part C of this Appendix I in relation to such P&O Princess shares; (i) that the creation of a CREST payment obligation in favour of his payment bank in accordance with the CREST payment arrangements referred to in paragraph 2(f)(iv) above shall, to the extent of the obligation so created, discharge in full any obligation of Carnival to pay to him the cash consideration (in relation to fractional entitlements) to which he is entitled pursuant to the Partial Share Offer; (j) that, he will do all such acts and things as shall in the opinion of Carnival or the UK Receiving Agent be necessary or expedient to vest in Carnival, or its nominee(s) or such other persons as Carnival may decide, title to the number of P&O Princess shares comprised in the Electronic Acceptance and all such acts and things as may be necessary or expedient to enable the UK Receiving Agent to perform its functions as Escrow Agent for the purposes of the Partial Share Offer; (k) that he agrees to ratify each and every act or thing which may be done or effected by Carnival or the UK Receiving Agent or any of their respective directors or agents or P&O Princess or its agents, as the case may be, in the exercise of any of his powers and/or authorities hereunder; (l) that if any provision of Part B or this paragraph 2 of Part C of this Appendix I shall be unenforceable or invalid or shall not operate so as to afford Carnival or the UK Receiving Agent or any authorised representative of any of them or their respective agents the benefit or authority expressed to be given therein, he shall with all practicable speed do all such acts and things and execute all such documents that may be required to enable those persons to secure the full benefits of Part B and this paragraph 2 of Part C of this Appendix I; (m) that he submits in relation to all matters arising out of the Partial Share Offer and the Electronic Acceptance, to the jurisdiction of the English courts; and (n) that, by virtue of the Regulations, the making of an Electronic Acceptance constitutes an irrevocable power of attorney by the relevant holder of P&O Princess shares in the terms of all the powers and authorities expressed to be given by Part B, this paragraph 2 of Part C and (where applicable by virtue of paragraph 2(i) above) paragraph 1 of Part C of this Appendix I to Carnival, the UK Receiving Agent and any of their respective agents. References in this paragraph 2 of Part C to a P&O Princess shareholder shall include references to the person or persons making an Electronic Acceptance, and in the event of more than one person making an Electronic Acceptance the provisions of this paragraph 2 of Part C shall apply to them jointly and to each of them.

3. Brokerage Account Election If you are a holder of P&O Princess shares and wish to have your Carnival shares credited to your existing U.S. brokerage account instead of receiving a share certificate, you should complete and return a Brokerage Account Election Form to the UK Receiving Agent prior to the Partial Share Offer becoming unconditional. If you hold P&O Princess shares in uncertificated form (that is, in CREST), you must also send a TTE instruction. If you hold P&O Princess shares in certificated form you should also return a Form of Acceptance. Carnival reserves the

right to deliver a share certificate in respect of Carnival shares to a P&O Princess shareholder whose Brokerage Account Election Form is not entirely in order, where Carnival is unable to credit Carnival shares to the nominated U.S. brokerage account or if for any other reason it wishes to do so. 107 Part D. Procedures for tendering P&O Princess ADSs (a)Letter of Transmittal If you are a holder of P&O Princess ADSs evidenced by P&O Princess ADRs, you will have also received a Letter of Transmittal for use in connection with the Partial Share Offer. This section should be read together with the instructions on the Letter of Transmittal. The provisions of this Part D shall be deemed to be incorporated in, and form a part of, the relevant Letter of Transmittal. The instructions printed on the relevant Letter of Transmittal shall be deemed to form part of the terms of the Partial Share Offer. (b)Valid tendering For a holder of P&O Princess ADSs evidenced by P&O Princess ADRs to validly tender such P&O Princess ADSs pursuant to the Partial Share Offer, a properly completed and duly executed Letter of Transmittal, together with any required signature guarantees or, in the case of a book-entry transfer, an Agent's Message, and any other documents required by the Letter of Transmittal, must be received by the U.S. Exchange Agent at its address set out in the Letter of Transmittal and either the P&O Princess ADRs evidencing such P&O Princess ADSs must be received by the U.S. Exchange Agent at such address or such P&O Princess ADRs evidencing such P&O Princess ADSs must be delivered pursuant to the procedure for book-entry transfer set forth below (and a Book-Entry Confirmation received by the U.S. Exchange Agent in accordance with such procedures). The acceptance of the Partial Share Offer by a tendering holder of P&O Princess ADSs evidenced by P&O Princess ADRs pursuant to the procedures described above, subject to the withdrawal rights described below, will be deemed to constitute a binding agreement between such tendering holder of P&O Princess ADSs and Carnival upon the terms and subject to the conditions to the Partial Share Offer. Accordingly, references in this document and in the Letter of Transmittal to a tender of P&O Princess ADSs shall be construed to mean an acceptance of the Partial Share Offer in respect of such P&O Princess ADSs upon the terms and subject to the conditions to the Partial Share Offer. If a P&O Princess ADR evidencing a P&O Princess ADS has been tendered by a holder of P&O Princess ADSs, the P&O Princess shares represented by such P&O Princess ADSs may not be tendered independently by such holder of P&O Princess ADSs. A Letter of Transmittal and other required documents contained in an envelope postmarked in the Excluded Territories or otherwise appearing to Carnival or its agents to have been sent from the Excluded Territories may be rejected as invalid. (c)Book-entry transfer The U.S. Exchange Agent will establish an account at each of the Book-Entry Transfer Facilities with respect to interests in P&O Princess ADSs evidenced by P&O Princess ADRs held in book-entry form for the purposes of the Partial Share Offer within two U.S. business days from the date of this document. Any financial institution that is a participant in any of the Book-Entry Transfer Facility's systems may make book-entry delivery of interests in P&O Princess ADSs by causing a Book-Entry Transfer Facility to transfer such interests in P&O Princess ADSs into the U.S. Exchange Agent's account at such Book-Entry Transfer Facility in accordance with that Book-Entry Transfer Facility's procedures for such transfer. Although delivery of interests in P&O Princess ADSs evidenced by P&O Princess ADRs may be effected through book-entry transfer into the U.S. Exchange Agent's account at a Book-Entry Transfer Facility, either: (i)the Letter of Transmittal, properly completed and duly executed, together with any required signature guarantees; or (ii)an Agent's Message, and, in either case, any other required documents, must in any case be transmitted to, and received by, the U.S. Exchange Agent at its address set out in the Letter of Transmittal before P&O Princess ADSs evidenced by P&O Princess ADRs will be either counted as a valid acceptance, or purchased. Delivery of documents to a Book-Entry Transfer Facility does not constitute delivery to the U.S. Exchange Agent. 108 (d)Method of delivery The method of delivery of P&O Princess ADRs, Letters of Transmittal and all other required documents is at the option and risk of the tendering holder of P&O Princess ADSs. P&O Princess ADSs will be deemed delivered only when the P&O Princess ADRs representing such P&O Princess ADSs are actually received by the U.S. Exchange Agent (including in the case of a book-entry transfer, by Book-Entry Confirmation). If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to ensure timely delivery. No alternative, conditional or contingent deliveries will be accepted and no fractional P&O Princess ADSs will be purchased. No acknowledgement of receipt of documents will be given by, or on behalf of, Carnival. (e)Signature guarantees No signature guarantee is required on the Letter of Transmittal if: (i)the Letter of Transmittal is signed by the registered holder of the P&O Princess ADSs tendered therewith and such registered holder has not completed either the box entitled "Special Delivery Instructions" or the box entitled "Special Issuance Instructions" in the Letter of Transmittal; or (ii)such P&O Princess ADSs are tendered for the account of an Eligible Institution. In all other cases, all signatures on Letters of Transmittal must be guaranteed by an Eligible

Institution. See Instructions 1 and 5 to the Letter of Transmittal. (f)P&O Princess ADSs and ADRs If the P&O Princess ADSs are registered in the name of a person other than the person who signs the Letter of Transmittal, then the tendered P&O Princess ADRs must be endorsed or accompanied by appropriate stock powers, signed exactly as the name or names of the registered owner or owners appear on the P&O Princess ADRs, with the signatures on the P&O Princess ADRs or stock powers guaranteed as aforesaid. See Instruction 5 to the Letter of Transmittal. (g)Partial acceptances (not applicable to book-entry holders of P&O Princess ADSs) If a number other than 20 per cent. of the P&O Princess ADSs evidenced by any P&O Princess ADRs delivered to the U.S. Exchange Agent are to be tendered, the holder thereof should so indicate in the Letter of Transmittal by filling in the number of P&O Princess ADSs which are tendered in the Box entitled "Number of P&O Princess ADSs Tendered". A new P&O Princess ADR for the remainder (if any) of the P&O Princess ADSs represented by the former P&O Princess ADR will be sent to the person(s) signing such Letter of Transmittal (or as such person properly indicates thereon) as promptly as practicable following the date the tendered P&O Princess ADSs are taken up by Carnival in the Partial Share Offer. If no number of shares is specified in the Letter of Transmittal, 20 per cent. of the P&O Princess ADSs delivered to the U.S. Exchange Agent will be deemed to have been tendered. See Instruction 4 to the Letter of Transmittal. In the case of partial tenders, P&O Princess ADSs not tendered will not be reissued to a person other than the registered holder. (h)Other requirements By executing the Letter of Transmittal as set out above, the tendering holder of P&O Princess ADSs evidenced by P&O Princess ADRs will agree that, effective from and after the time and date all conditions to the Partial Share Offer are satisfied, fulfilled or, where permitted, waived (unless the tendering holder shall have validly withdrawn his tender prior to that time): (i)subject to any restrictions in the P&O Princess articles, Carnival or its agents shall be entitled to direct the exercise of any votes and any or all other rights or privileges (including the right to requisition the convening of a general meeting or separate class meeting of P&O Princess) attaching to P&O Princess shares represented by any P&O Princess ADSs in respect of which the Partial Share Offer has been accepted or is deemed to have been accepted and not validly withdrawn (the "Accepted ADSs"); 109 (ii)the execution of the Letter of Transmittal (together with any signature guarantees) and its delivery to the U.S. Exchange Agent or the completion of the book-entry transfer procedures shall constitute: (A)an authority to P&O Princess or its agents from the tendering holder of Accepted ADSs to send any notice, circular, warrant, document or other communication that may be required to be sent to him as a holder of P&O Princess ADSs, to Carnival at its registered office or as Carnival or its agents may direct; (B)an authority to Carnival or its agent to sign any consent to short notice of a general meeting or separate class meeting on behalf of the tendering holder of Accepted ADSs and/or to execute a form of proxy in respect of such Accepted ADSs appointing any person nominated by Carnival to attend general meetings and separate class meetings of P&O Princess and any adjournment thereof and to exercise the votes attaching to the P&O Princess shares represented by such Accepted ADSs on his behalf; (C)the agreement of such tendering holder of Accepted ADSs not to exercise any of such rights without the consent of Carnival and the irrevocable undertaking of such tendering holder of Accepted ADSs not to appoint a proxy for or to attend any such general meetings or separate class meetings; (D)a representation and warranty that such holder of P&O Princess ADSs: (i) has not received or sent copies or originals of this document or any Letter of Transmittal or any related documents in, into or from, the Excluded Territories; (ii) has not used in connection with the Partial Share Offer or the execution or delivery of the Letter of Transmittal, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, e-mail, facsimile transmission, telex and telephone) of interstate or foreign commerce of, or any facility of a national securities exchange of the Excluded Territories; (iii) is accepting the Partial Share Offer from outside the Excluded Territories; and (iv) is not an agent or fiduciary acting on a non-discretionary basis for a principal, unless such agent or fiduciary is an authorised employee of such principal or such principal has given any instructions with respect to the Partial Share Offer from outside the Excluded Territories; (E)a representation and warranty that such holder of P&O Princess ADSs understands that delivery of P&O Princess ADSs to the U.S. Exchange Agent pursuant to the Letter of Transmittal will constitute such holder's acceptance of the terms and conditions to the Partial Share Offer, including the representation and warranty that: (1)such P&O Princess ADS holder has a net long position in P&O Princess ADSs or equivalent securities at least equal to the P&O Princess ADSs delivered within the meaning of Rule 14e-4 under the Exchange Act; and (2)the delivery of P&O Princess ADSs complies with Rule 14e-4 under the Exchange Act. (F)confirmation that such holder of P&O Princess ADSs is entitled to sell and transfer the beneficial ownership of the Accepted ADSs and that such Accepted ADSs are sold fully paid and free from all liens, equitable interests, charges, and encumbrances and together with all rights attaching thereto including voting rights and the right



to all dividends and other distributions declared, paid or made on or after 24 October 2002 including, without limitation, the right to receive and retain all dividends and other distributions declared, made or payable after that date; and (G) the execution of the Letter of Transmittal (together with any signature guarantees) and its delivery to the U.S. Exchange Agent (or the completion of the book-entry transfer procedures) shall constitute an authority to any director of Carnival and to Carnival and/or its agents in accordance with the terms of paragraph 5 of Part B of this Appendix. References in this Part D to a holder of P&O Princess ADSs shall include references to the person or persons executing a Letter of Transmittal and in the event of more than one person executing a Letter of Transmittal the provisions of this Part D shall apply to them jointly and to each of them.

### 110 APPENDIX II DETAILS OF THE DLC TRANSACTION Part A. Background to the DLC transaction and Partial Share Offer

In the past, both P&O Princess and Carnival have sought to identify, explore and, where appropriate, implement strategies to develop and broaden their cruise product offerings. The senior management of each company has regularly reviewed with its board of directors the strategic objectives of its company and the possible means of achieving those objectives. Both management teams have regularly updated their boards on the changing structure and dynamics of the cruise industry and the overall vacation market. In the summer of 2001, Mr. Peter Ratcliffe, Chief Executive Officer of P&O Princess, met with Mr. Richard Fain, Chairman and Chief Executive Officer of Royal Caribbean. During these meetings, the possibility of a business combination between P&O Princess and Royal Caribbean was discussed. In subsequent meetings, senior executives of the two companies discussed the changes and developments in their respective companies, and in the cruise industry generally, particularly in light of the events of September 11, 2001 and their effect on the global vacation market, and continued to explore a business combination of the two companies. On 24 September 2001, during the early stages of the discussions between P&O Princess and Royal Caribbean, Mr. Howard Frank, Vice Chairman and Chief Operating Officer of Carnival, made a telephone call to Mr. Ratcliffe in which he inquired whether P&O Princess would be interested in pursuing discussions towards a business combination with Carnival. Given that P&O Princess' share price was at or near its all time low at the time of the call, P&O Princess did not follow up on this call. On 20 November 2001, P&O Princess and Royal Caribbean announced that they had entered into agreements to implement a dual listed company transaction. Those agreements, which were not publicly available at that time, included non-solicitation provisions restricting P&O Princess and Royal Caribbean from entering into discussions with third parties except in specified circumstances involving a third party's offer determined by the relevant board to be a Superior Proposal as explained below. The dual listed company transaction provided for a combination of equals in which P&O Princess shareholders would have held approximately 50.7 per cent. of the equity in a dual listed company structure that was substantially similar to the DLC transaction. On 13 December 2001, following the announcement of the Royal Caribbean transaction, Carnival submitted a detailed private proposal to the P&O Princess board regarding an offer to acquire P&O Princess. The offer was for 200 pence in cash and 0.1361 Carnival shares per P&O Princess share. Based on the prior business day's closing price for Carnival shares of \$26.55 per share and an exchange rate of \$1.00 = (Pounds)0.692, the Carnival shares were valued at 250 pence, valuing the offer at 450 pence per P&O Princess share. In preparation for its decision to launch a counterbid for P&O Princess, Carnival had performed financial analyses to identify the maximum amount it would be willing to pay to acquire P&O Princess. These analyses were based on public information and Carnival's own internal estimates, and included discounted cash flow analyses and assessments of the financial effects of the transaction. However, this offer and each of Carnival's subsequent offers were ultimately based on an assessment of what price would be acceptable to the P&O Princess board and the P&O Princess shareholders. Carnival also proposed as part of the proposal the possibility of effecting a combination via alternative structures, including a dual listed company structure. The P&O Princess board carefully considered Carnival's proposal with Sullivan & Cromwell LLP and Freshfields Bruckhaus Deringer, its legal advisors, and Schroder Salomon Smith Barney, its financial adviser, and, at its meeting on 15 December 2001, the P&O Princess board determined that Carnival's proposal was not more favourable from a financial point of view to P&O Princess' shareholders than the transaction with Royal Caribbean and was not reasonably likely to be consummated (that is, it was not a "Superior Proposal" as defined under P&O Princess' agreement with Royal Caribbean). In particular, the P&O Princess board believed that Carnival's proposal would result in P&O Princess shareholders receiving shares that would not be included in the FTSE indices, and consequently a significant portion of P&O Princess shareholders, particularly UK institutional shareholders, would be unable or unwilling to hold such shares. As a result of this, the board believed that the proposed Carnival transaction would deprive such P&O Princess shareholders of the ability to retain an investment in the cruise industry and to share

in the potential benefits of combining with Carnival, making it less financially favorable than the Royal Caribbean transaction in which all P&O 111 Princess shareholders were expected to be able to share in the upside potential expected to be generated by that transaction. Further, the board believed that Carnival's proposal did not represent an irrevocable commitment to make and maintain an offer because it was subject to a number of pre-conditions, including financing and regulatory approvals. The board also believed that Carnival's proposal faced greater regulatory risk in the U.S. and Europe. On 16 December 2001, P&O Princess announced that its board had concluded that the Royal Caribbean transaction was the more attractive alternative for P&O Princess shareholders, because it believed that Carnival's pre-conditional cash and share proposal was less favourable financially to P&O Princess shareholders and would face greater execution risk than the Royal Caribbean transaction. In response to P&O Princess' rejection of its proposal, Carnival publicly announced a pre-conditional offer for all of the issued share capital of P&O Princess on the same terms as its 13 December proposal. On 19 December 2001, P&O Princess announced that, in light of Carnival's offer and in order to give its shareholders time to consider fully their alternatives, it would hold an extraordinary general meeting to vote on the Royal Caribbean transaction on 14 February 2002. Carnival announced on 24 December 2001 that it had made the necessary U.S. antitrust filings in relation to its offer for P&O Princess. On 27 December 2001, P&O Princess posted its circular to its shareholders with respect to the Royal Caribbean transaction and made its implementation agreement and Joint Venture Agreement with Royal Caribbean publicly available, including the non-solicitation provisions described above. On 6 January 2002, Carnival sent a letter to the P&O Princess board requesting a meeting with P&O Princess to discuss Carnival's offer and seeking clarity on a number of issues in connection with the Royal Caribbean transaction, including further details regarding termination of the Joint Venture Agreement. P&O Princess responded by letter on 8 January 2002. In its response, P&O Princess referred Carnival to the publicly available agreements between P&O Princess and Royal Caribbean and informed Carnival that those agreements prevented P&O Princess from discussing any acquisition proposal with Carnival that was not a Superior Proposal and that its board continued to believe that Carnival's proposal was neither financially superior to the Royal Caribbean transaction nor deliverable. Consequently, P&O Princess declined Carnival's request for a meeting. Mr. Ratcliffe publicly clarified on 10 January 2002 that P&O Princess could unilaterally terminate the Joint Venture Agreement with Royal Caribbean in January 2003 at no cost as long as no change of control of P&O Princess had been completed prior to the termination date. On 10 January 2002, Carnival sent another letter to the P&O Princess board asking it for further clarification of this statement. On 17 January 2002, Carnival indicated in a letter to P&O Princess that Carnival would, subject to certain conditions, be willing to increase its pre-conditional offer to 250 pence in cash and 0.1380 Carnival shares for each P&O Princess share. Based on the prior business day's closing price for Carnival shares of \$26.06 per share and an exchange rate of \$1.00 = (Pounds)0.695, the Carnival shares were valued at 250 pence, valuing the offer at 500 pence per P&O Princess share. After reviewing Carnival's new proposal in detail with its advisers, the P&O Princess board reaffirmed its view that Carnival's revised proposal was not a Superior Proposal and that, accordingly, P&O Princess continued to be unable to meet with Carnival to discuss its proposal without breaching its contractual obligations to Royal Caribbean. On 30 January 2002, Carnival announced a revised pre-conditional offer of 0.2684 Carnival shares for each P&O Princess share, valuing each P&O Princess share at 515 pence (based on the prior business day's closing price for Carnival shares of \$27.05 per share and an exchange rate of \$1.00 = (Pounds)0.709). The revised offer included a partial cash alternative of 250 pence for each P&O Princess share, pre-conditional on financing being arranged on terms satisfactory to Carnival by no later than the date of posting of the offer document. On 31 January 2002, Carnival wrote to P&O Princess shareholders urging them to vote to adjourn the extraordinary general meeting scheduled for 14 February 2002. Carnival suggested this adjournment in order to postpone the vote on the Royal Caribbean transaction until the various antitrust authorities could rule on both transactions. The P&O Princess board carefully reviewed Carnival's revised offer with its legal and financial advisers and, at its meeting on 3 February 2002, determined that Carnival's revised offer, as revised, was not a Superior Proposal on both value and deliverability grounds. P&O Princess publicly announced its board's conclusions on 4 February 2002 and, under its contractual obligations to Royal Caribbean, remained unable to meet with Carnival. Carnival responded by restating its commitment to proceed with its revised offer and to obtain the necessary regulatory approvals in the U.S. and Europe. On 7 February 2002, Carnival announced the terms of a further increased offer of 0.3004 Carnival shares for each P&O Princess share, valuing each P&O Princess share at 550 pence (based on the prior business day's closing price for Carnival shares of \$25.86 per share and an exchange rate of \$1.00 = (Pounds)0.708), and again raised the

possibility of alternative structures, including a dual listed company structure. Carnival's increased offer was pre-conditional only on the receipt of regulatory approval. The increased offer included a partial cash alternative of 250 pence for each P&O Princess share, pre-conditional on the availability of financing on terms satisfactory to Carnival. The P&O Princess board carefully reviewed the increased offer with its legal and financial advisers and, at its meeting on 8 February 2002, the P&O Princess board determined that it was not a Superior Proposal. On 8 February 2002, P&O Princess announced that it continued to recommend that its shareholders approve the dual listed company transaction with Royal Caribbean. While the P&O Princess board acknowledged the improvement of Carnival's increased offer in terms of value, it noted that it remained concerned about the structure and deliverability of the Carnival transaction. P&O Princess convened its extraordinary general meeting with respect to the Royal Caribbean transaction on 14 February 2002. Before resolutions to approve the Royal Caribbean transaction were voted upon, P&O Princess shareholders proposed and passed a resolution to adjourn the meeting. The Chairman of P&O Princess then announced that the meeting would be adjourned for an indefinite period. On 27 February 2002, Carnival announced that it had formally notified its proposed combination with P&O Princess to the European Commission for review under the EC Merger Regulation. The European Commission cleared the proposed combination on 24 July 2002. On 24 September 2002, prior to the U.S. Federal Trade Commission closing its investigation into both transactions, the P&O Princess board met to consider the relative merits of the Royal Caribbean transaction and Carnival's proposal in light of currently available information. At that meeting, representatives of Schroder Salomon Smith Barney, P&O Princess' financial advisor, advised the board that it believed that, based on the valuation and share price analyses discussed with the board at that meeting, Carnival's prior proposal to enter into a dual listed company transaction with P&O Princess on the same financial terms as Carnival's latest share exchange proposal was more favourable to P&O Princess' shareholders from a financial point of view than the transaction with Royal Caribbean. On 4 October 2002, the U.S. Federal Trade Commission voted not to oppose Carnival's acquisition of P&O Princess or the Royal Caribbean transaction. As a result, the only pre-condition to Carnival's increased offer was satisfied. Following the U.S. Federal Trade Commission announcement, P&O Princess re-examined Carnival's increased offer, including Carnival's prior proposal to enter into a dual listed company transaction with P&O Princess as an alternative to the share exchange offer. After consulting with its financial and legal advisers and considering the analyses discussed with its financial advisor on 24 September 2002, at a meeting on 4 October 2002 the P&O Princess board determined that Carnival's dual listed company proposal was more favourable from a financial point of view to P&O Princess' shareholders than the transaction with Royal Caribbean and was reasonably likely to be consummated given that all regulatory clearances had been obtained. On 4 October 2002, P&O Princess announced that its board had determined Carnival's dual listed company proposal to be a Superior Proposal and that it was willing and able under its agreement with Royal Caribbean to enter into talks with Carnival to discuss this proposal. On 11 October 2002, executives of Carnival and P&O Princess met together with their respective advisers to discuss a combination of their companies through a dual listed company structure. Discussions also focused on a partial share offer to be launched in conjunction with seeking shareholder approval for the dual listed company structure that would permit P&O Princess shareholders who wished to exchange some of their P&O Princess shares for Carnival shares to do so. On the same date, Carnival and P&O Princess entered into a confidentiality agreement that contemplated the exchange of confidential information between them. 113 Executives of Carnival and P&O Princess and their respective advisers continued to meet throughout the weeks of 14 October and 21 October 2002. During this time, the boards of directors of Carnival and P&O Princess each held meetings, at which their respective management teams and advisers provided updates on the discussions to date and on the strategic implications and possible benefits and risks of the dual listed company transaction involving the two companies. On 24 October 2002, Carnival issued a press release announcing its pre-conditional offer to enter into the DLC transaction based on the form of agreements and instruments that it had negotiated with P&O Princess. In order for P&O Princess to be able to accept this offer, its board had to withdraw its recommendation of the Royal Caribbean transaction within 48 hours of Carnival's announcement and not subsequently reinstate such recommendation, the Royal Caribbean transaction had to be voted down by P&O Princess shareholders or otherwise abandoned, the Joint Venture Agreement had to terminate at no cost (other than the break fee under its implementation agreement with Royal Caribbean), the P&O Princess board of directors had to approve and recommend the DLC transaction by 10 January 2003, and P&O Princess had to enter into the negotiated form of the offer and implementation agreement by 10 January 2003. The DLC proposal included the Partial Share Offer for up to, in aggregate, a maximum of 20 per cent. of the issued share capital of P&O Princess. The making of the Partial

Share Offer, including the establishment of the 20 per cent. limit, was the subject of negotiation between the parties, and was designed to allow those P&O Princess shareholders who would prefer to participate in the Combined Group through holding Carnival shares an opportunity to do so, while at the same time maintaining the liquidity and market value of the P&O Princess shares. On 25 October 2002, the P&O Princess board held a meeting to consider the announcement of the DLC proposal and decided to withdraw its recommendation of the Royal Caribbean dual listed company transaction. Subsequent to that meeting, P&O Princess announced that its board welcomed Carnival's announcement of its dual listed company proposal and had determined that the DLC proposal would be financially superior for P&O Princess shareholders compared with the Royal Caribbean dual listed company transaction. It also announced that its board had withdrawn its recommendation of the Royal Caribbean dual listed company transaction. P&O Princess also entered into an agreement with Royal Caribbean on 25 October 2002 which terminated the implementation agreement with Royal Caribbean immediately, terminated the Joint Venture Agreement on 1 January 2003 as long as no change of control of P&O Princess occurred prior to this date, and provided mutual releases from liabilities arising under the two agreements. Pursuant to the agreement, P&O Princess paid Royal Caribbean \$62.5 million as a break fee under its implementation agreement with Royal Caribbean. The P&O Princess board announced that it would formally consider satisfaction of the remaining pre-conditions to the DLC proposal, including entry into an offer and implementation agreement with Carnival, in early January 2003. On 29 October 2002, Lord Sterling of Plaistow, Chairman of P&O Princess, sent a letter to P&O Princess shareholders informing them of the announcement of the DLC proposal, the withdrawal of the P&O Princess board's recommendation of the Royal Caribbean transaction and the subsequent arrangements with Royal Caribbean for, among other things, the termination of existing agreements between them. Lord Sterling also informed P&O Princess shareholders that he no longer intended to reconvene the adjourned extraordinary general meeting convened on 14 February 2002 to approve the dual listed company combination with Royal Caribbean. On 2 January 2003, P&O Princess announced that the Joint Venture Agreement had been terminated, and Carnival issued a press release acknowledging and welcoming the termination of the Joint Venture Agreement. On 7 January 2003, the P&O Princess board approved the DLC transaction and agreed to recommend to the P&O Princess shareholders that they vote in favour of the resolution to implement the DLC structure. Later that day, the senior executive management teams of P&O Princess and Carnival and their respective advisers finalised the agreements and documentation to implement the DLC structure. In the early morning of 8 January 2003, Carnival and P&O Princess signed the Implementation Agreement. P&O Princess then issued a press release announcing that its board had agreed and recommended the DLC transaction and that P&O Princess had signed the Implementation Agreement. Carnival issued a press release announcing the execution of the Implementation Agreement, acknowledging P&O Princess' announcement of its board's recommendation and setting forth its offer to enter into the DLC transaction based on the Implementation Agreement and related agreements and instruments and the terms of the Partial Share Offer. 114 Part B. Advice of P&O Princess' Financial Adviser The P&O Princess board retained Schroder Salomon Smith Barney to act as its financial adviser with respect to the DLC transaction and the proposed Royal Caribbean DLC combination. In connection with this engagement, P&O Princess requested that Schroder Salomon Smith Barney be named in connection with the P&O Princess board's recommendation of the DLC transaction on 8 January 2003 in the following terms: "The P&O Princess board, which has been so advised by Schroder Salomon Smith Barney, considers the terms of the proposed DLC transaction to be fair and reasonable. In providing advice to the P&O Princess board, Schroder Salomon Smith Barney has taken account of the P&O Princess board's commercial assessments of the proposed DLC transaction." In providing this advice to the P&O Princess board, Schroder Salomon Smith Barney: .. reviewed the Implementation Agreement dated 8 January 2003, including the agreed forms of the Equalisation and Governance Agreement and SVE Special Voting Deed; .. held discussions with certain senior officers, directors and other representatives and advisers of P&O Princess and certain senior officers, directors and other representatives and advisers of Carnival concerning the business operations and prospects of P&O Princess and Carnival; .. examined publicly available business and financial information relating to P&O Princess and Carnival; .. reviewed certain internal financial statements and other financial and operating data concerning P&O Princess and Carnival respectively; .. reviewed the pro forma impact of the DLC transaction on P&O Princess' financial results; .. reviewed the financial terms of the DLC transaction in relation to, among other things, current and historical market prices of P&O Princess, the financial condition and historical and projected earnings and other operating data of P&O Princess and the market capitalisation of P&O Princess; .. analysed certain financial, stock market, and other publicly available information relating to the businesses of other

companies whose operations Schroder Salomon Smith Barney considered relevant in evaluating those of P&O Princess and Carnival; .. considered, to the extent publicly available, the financial terms of certain other similar transactions recently effected which Schroder Salomon Smith Barney considered relevant in evaluating the DLC transaction; .. conducted other analyses and examinations and considered other information and financial, economic and market criteria as Schroder Salomon Smith Barney deemed appropriate in providing its advice; and .. considered the P&O Princess board's commercial assessments of the DLC transaction, including, among other things, the creation of a Combined Group which will have the largest and one of the most modern and most efficient fleets in the cruise industry and the ability to deploy that fleet strategically; a wide portfolio of complementary brands, both by geography and product offering and that will include some of the best known cruise brands globally; operating expertise reflecting the combined management of two of the leading global cruise operations; and the potential to generate costs savings of at least \$100 million on an annualized basis, in the first full year following completion of the transaction. Previously, in September 2002, the P&O Princess board sought advice from Schroder Salomon Smith Barney in connection with the board's examination of whether Carnival's dual listed company proposal, which Schroder Salomon Smith Barney refers to as Carnival's DLC Proposal, was more favourable from a financial point of view than the proposed Royal Caribbean DLC combination. In providing this advice to the P&O Princess board, Schroder Salomon Smith Barney: .. reviewed the Implementation Agreement including the equalization and governance agreement and special voting deed entered into by P&O Princess and Royal Caribbean on 19 November 2001 115 .. reviewed the terms of Carnival's dual listed company proposal dated 7 February 2002 .. held discussions with certain senior officers, directors and other representatives and advisers of P&O Princess; .. examined publicly available business and financial information relating to P&O Princess, Royal Caribbean and Carnival; .. reviewed certain internal financial statements and other financial and operating data concerning P&O Princess; .. reviewed the financial terms of Carnival's DLC Proposal and the proposed Royal Caribbean DLC combination in relation to, among other things, current and historical market prices of P&O Princess, the financial condition and historical and projected earnings and other operating data of P&O Princess and the market capitalisation of P&O Princess; .. analysed certain financial, stock market, and other publicly available information relating to the businesses of other companies whose operations Schroder Salomon Smith Barney considered relevant in evaluating those of P&O Princess, Royal Caribbean and Carnival; .. considered, to the extent publicly available, the financial terms of certain other similar transactions recently effected which Schroder Salomon Smith Barney considered relevant in evaluating the proposed Royal Caribbean DLC combination and Carnival's DLC Proposal; and .. conducted other analyses and examinations and considered other information and financial, economic and market criteria as Schroder Salomon Smith Barney deemed appropriate in providing its advice. In rendering its advice, Schroder Salomon Smith Barney assumed and relied, without independent verification, on the accuracy and completeness of all financial and other information and data that it reviewed or considered. With respect to financial forecasts and other information and data provided to or otherwise reviewed by or discussed with Schroder Salomon Smith Barney, the management of P&O Princess advised Schroder Salomon Smith Barney that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of P&O Princess as to the future financial performance of P&O Princess. Schroder Salomon Smith Barney did not make and was not provided with an independent evaluation or appraisal of the assets or liabilities, contingent or otherwise, of P&O Princess, Royal Caribbean or Carnival, and did not make any physical inspection of the properties or assets of P&O Princess, Royal Caribbean or Carnival. Schroder Salomon Smith Barney was advised by representatives of P&O Princess, and Schroder Salomon Smith Barney assumed, that the final terms of the draft Equalisation and Governance Agreement and the SVE Special Voting Deed will not vary materially from those set forth in the drafts reviewed by Schroder Salomon Smith Barney. Schroder Salomon Smith Barney's advice was necessarily based on information available to it, and financial, stock market and other conditions and circumstances existing and disclosed to Schroder Salomon Smith Barney as of the dates that it provided its advice. Although Schroder Salomon Smith Barney evaluated the DLC transaction, the proposed Royal Caribbean DLC combination and Carnival's DLC Proposal from a financial point of view, Schroder Salomon Smith Barney was not asked to and did not recommend the specific financial terms of the DLC transaction, which were determined through negotiation between P&O Princess and Carnival, and was not asked to and did not recommend the specific financial terms of the proposed Royal Caribbean DLC combination, which were determined through negotiation between P&O Princess and Royal Caribbean. In addition, Schroder Salomon Smith Barney was not asked to and did not advise the board of P&O Princess as to whether P&O Princess shareholders should accept the Partial Share Offer. With respect

to its advice to the P&O Princess board at a meeting of the P&O Princess board held on 7 January 2003 in connection with the P&O Princess board's recommendation of the DLC transaction, Schroder Salomon Smith Barney's advice does not address the relative merits of the DLC transaction as compared to any alternative business strategies that might exist for P&O Princess or the effect of any other transaction in which P&O Princess might engage. With respect to its advice to the P&O Princess board at a meeting of the P&O Princess board held on 24 September 2002, Schroder Salomon Smith Barney only considered the relative merits from a financial point of view of Carnival's DLC Proposal and the proposed Royal Caribbean DLC combination and did not consider the merits of any other transaction or any alternative business strategies that might exist for P&O Princess or the effect of any other transaction in which P&O Princess might engage. No other instructions or limitations were imposed by P&O Princess on Schroder Salomon Smith Barney with respect to the investigations made or procedures followed by Schroder Salomon Smith Barney in rendering its advice. 116 In preparing its advice, Schroder Salomon Smith Barney performed a variety of financial and comparative analyses, including those described below. The following discussion of these analyses is a summary description of the material financial analyses underlying Schroder Salomon Smith Barney's advice. The preparation of financial advice is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not readily susceptible to summary description. Accordingly, Schroder Salomon Smith Barney believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors, without considering all analyses and factors, could create a misleading or incomplete view of the processes underlying its analyses and advice. In its analyses, Schroder Salomon Smith Barney considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its advice, many of which are beyond the control of P&O Princess, Royal Caribbean and Carnival. No company, transaction or business used in those analyses as a comparison is identical to P&O Princess, Royal Caribbean, Carnival, the DLC transaction, the proposed Royal Caribbean DLC combination or Carnival's DLC Proposal and an evaluation of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analysed. The estimates contained in Schroder Salomon Smith Barney's analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favourable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, Schroder Salomon Smith Barney's analyses and estimates are subject to inherent uncertainty. Advice of 7 January 2003 Schroder Salomon Smith Barney's advice and analyses were only one of various factors considered by the P&O Princess board in its evaluation of the DLC transaction and should not be viewed as determinative of the views of the P&O Princess board or management with respect to the DLC transaction. In particular, the P&O Princess board's reasons for recommending the DLC transaction are detailed in Part C of this Appendix II. The following is a summary of the material financial analyses performed by Schroder Salomon Smith Barney with respect to its advice to the P&O Princess board at a meeting of the P&O Princess board held on 7 January 2003 in connection with the P&O Princess board's recommendation of the DLC transaction. Schroder Salomon Smith Barney: .. analysed the implied value of a P&O Princess share under the terms of the DLC transaction. Based on the Carnival share price of \$25.63 and an exchange rate of (Pounds)1.00:U.S.\$1.5938 as at 2 January 2003, this analysis resulted in an implied per share value of 483 pence; .. considered the median one week premia paid in 149 UK public recommended and 14 UK public hostile offers between 1 January 2000 and 30 September 2002 and compared these premia to the premia resulting from comparing the implied P&O Princess per share value of 483 pence under the terms of the DLC transaction to the P&O Princess share price over a range of periods prior to 20 November 2001. This analysis resulted in median premia in UK recommended and hostile offers of 36 per cent. and 56 per cent. respectively relative to the one week prior price compared with implied premia of 52 per cent. for the 1 day prior price and 55 per cent. for the 12 month prior price under the terms of the DLC transaction, as set out in the table below; P&O Princess share price prior to 20 November - ----- 1 day prior 1 month average 3 month average 12 month average - ----- P&O Princess pre-transaction share price 317.0p 295. p 271.3p 312.1p Value of Carnival proposal 483.0p 483.0p 483.0p 483.0p Premium of Carnival proposal to P&O Princess pre-transaction share price 52.4% 63.7% 78.0% 54.8% 117 .. using publicly available information, reviewed the value

of P&O Princess implied by the revenue and EBITDA multiples of comparable leisure sector companies, plus a representative control premium. The comparable leisure sector companies chosen were Harrah's Entertainment Inc., MGM Mirage, Royal Caribbean Cruises Ltd., Six Flags Inc., The Walt Disney Company and Vail Resorts Inc. Although none of these companies is directly comparable to P&O Princess, the companies included were chosen because they are publicly traded companies with operations that, for purposes of analysis, may be considered similar to P&O Princess. This analysis indicated an implied per share reference range for P&O Princess of approximately 374 to 511 pence including a 35 per cent. control premium; .. using publicly available information, reviewed the transaction values implied by the multiples paid in selected merger and acquisition transactions in the leisure sector from July 1997 to December 2002 in relation to the target companies' EBITDA and number of berths. The comparable transactions chosen were: - Carnival Corporation's acquisition of Costa Crociere SpA in August 2000 - P&O Princess Cruises plc's acquisition of Seetours in April 2000 - MGM Grand's acquisition of Mirage Resorts Inc. in May 2000 - Star Cruises Ltd.'s acquisition of NCL Holdings ASA in March 2000 - Park Place Entertainment Corp's acquisition of Caesars World in December 1999 - P&O Princess Cruises plc's acquisition of AIDA Cruises in November 1999 - Royal Caribbean Cruises Ltd.'s acquisition of Celebrity Cruises in July 1997 Although none of the target companies are directly comparable to P&O Princess, these transactions were chosen because they include target companies with operations that, for the purposes of analysis, may be considered similar to P&O Princess. This analysis indicated an implied per share reference range for P&O Princess of approximately 309 to 415 pence; .. using publicly available information, reviewed the value of P&O Princess and the value of P&O Princess' proposed maximum of 26 per cent. share of the equity of the Combined Group using a five year discounted cash flow analysis. In performing these analyses, Schroder Salomon Smith Barney used a weighted average cost of capital, sometimes referred to as WACC, range of 9.5 -10.5 per cent. For the valuation of P&O Princess, Schroder Salomon Smith Barney used a terminal EBITDA multiple range of 8.0x - 10.0x, while for the valuation of 26 per cent. of the equity of a P&O Princess dual listed company combination with Carnival, Schroder Salomon Smith Barney used a terminal EBITDA multiple range of 9.0 - 11.0x. The WACC and EBITDA multiple ranges were chosen based on Schroder Salomon Smith Barney's knowledge of the cruise and leisure sector (including current trading ranges for companies in the cruise and leisure sector), experience and professional judgement. This analysis indicated an implied per share reference range of approximately 331 to 465 pence for P&O Princess on a standalone basis and 467 to 597 pence for P&O Princess' maximum of 26 per cent. share of the equity of the Combined Group; .. considered the performance of P&O Princess' stock price over the period from 19 November 2001 to 2 January 2003 compared to the stock price performance of Royal Caribbean and Carnival and the performance of the FTSE 100 and S&P 500 indexes. This analysis showed that P&O Princess' share price outperformed the share prices of Royal Caribbean and Carnival by 8 per cent. and 19 per cent. respectively over this period and outperformed the FTSE 100 index and the S&P 500 index by 42 per cent. and 38 per cent. respectively over this period; .. reviewed and considered other factors, including the historical trading valuations of P&O Princess, Royal Caribbean and Carnival, and the revenue, EBITDA and net income contribution of P&O Princess in the context of the Combined Group; .. considered P&O Princess' historical implied ownership of the Combined Group given the relative public market trading performance of P&O Princess and Carnival. This analysis resulted in a P&O Princess average implied ownership of the Combined Group of 16.0 per cent. for the period 1 October 2000 to 19 November 2001 (the day before the announcement of a DLC combination with Royal Caribbean), 21.5 per cent. for the post-announcement period 20 November 2001 to 2 January 2003 and 18.8 per cent. for the period 1 October 2000 to 2 January 2003, compared to approximately 26 per cent. in the DLC transaction; and .. analysed for various levels of acceptance of the Partial Share Offer by P&O Princess shareholders, the percentage of the Combined Group's equity share capital and free float and the likely equity market capitalisation of the P&O Princess side of the DLC structure assuming completion of the DLC transaction. 118 % of Combined Group free Take up of Partial % of Combined Group equity float Market capitalisation of P&O -----  
----- Princess side of the DLC Share Offer P&O Princess Carnival P&O Princess Carnival ((Pounds) in Millions) ----- 15.0% 22.3% 77.7% 33.6% 66.4%  
2,566.7 17.5% 21.6% 78.4% 32.6% 67.4% 2,491.2 20.0% 20.9% 79.1% 31.6% 68.4% 2,415.8 As set out in the table above, assuming the maximum 20 per cent. acceptance of the Partial Share Offer by P&O Princess shareholders, this analysis resulted in a P&O Princess percentage of the Combined Group's equity share capital and freefloat of 20.9 per cent. and 31.6 per cent. respectively and an implied equity market capitalisation of the P&O Princess side of the DLC of (Pounds)2.416 billion as at 2 January 2003. This equity market capitalisation would have ranked the P&O Princess

side of the DLC at 71st out of the companies contained in the FTSE 100 index as at 2 January 2003. Schroder Salomon Smith Barney provided its advice at the meeting of the P&O Princess board held on 7 January 2003 for the information of the Board of P&O Princess in its evaluation of the DLC transaction, and the advice is not intended to be and does not constitute a recommendation to any shareholder as to how such shareholder should vote on any matters relating to the proposed DLC transaction or whether any shareholder should accept the Partial Share Offer. Advice of 24 September 2002 Schroder Salomon Smith Barney's advice and analyses were only one of various factors considered by the P&O Princess board in its comparison of the proposed Royal Caribbean DLC transaction and Carnival's DLC Proposal and should not be viewed as determinative of the views of the P&O Princess board or management with respect to the P&O Princess board's determination that Carnival's DLC Proposal was more favourable from a financial point of view to P&O Princess' shareholders than the proposed Royal Caribbean DLC combination and was reasonably likely to be consummated in the event that all outstanding regulatory clearances were to be obtained. The following is a summary of the material financial analyses performed by Schroder Salomon Smith Barney in connection with its discussions with the P&O Princess board at a meeting of the P&O Princess board held on 24 September 2002. Schroder Salomon Smith Barney: .. analysed the implied value of a P&O Princess share under the terms of Carnival's DLC Proposal compared with the implied value of a P&O Princess share under the terms of the Royal Caribbean DLC combination. Based on the Carnival share price of \$25.18, the Royal Caribbean share price of \$15.15 and an exchange rate of (Pounds)1.00:U.S.\$1.5541 each as at 20 September 2002, this analysis resulted in an implied per share value of 487 pence for Carnival's DLC Proposal and an implied per share value of 281 pence for the proposed Royal Caribbean DLC combination; .. using publicly available information, reviewed the value of P&O Princess implied by the revenue and EBITDA multiples of comparable leisure sector companies, plus a representative control premium. The comparable leisure sector companies chosen were Royal Caribbean Cruises Ltd. and Carnival Corporation. This analysis indicated an implied per share reference range for P&O Princess of approximately 493 to 638 pence including a 35 per cent. control premium; .. using publicly available information, reviewed the transaction values implied by the multiples paid in selected merger and acquisition transactions in the leisure sector from July 1997 to September 2002 in relation to the target companies' EBITDA and number of berths. The comparable transactions chosen were: - Carnival Corporation's acquisition of Costa Crociere SpA in August 2000 - P&O Princess Cruises plc's acquisition of Seetours in April 2000 - MGM Grand's acquisition of Mirage Resorts Inc. in May 2000 - Star Cruises Ltd.'s acquisition of NCL Holdings ASA in March 2000 - Park Place Entertainment Corp's acquisition of Caesars World in December 1999 - P&O Princess Cruises plc's acquisition of AIDA Cruises in November 1999 - Royal Caribbean Cruises Ltd.'s acquisition of Celebrity Cruises in July 1997 119 Although none of the target companies are directly comparable to P&O Princess, these transactions were chosen because they include target companies with operations that, for the purposes of analysis, may be considered similar to P&O Princess. This analysis indicated an implied per share reference range for P&O Princess of approximately 408 to 515 pence; .. reviewed the value of P&O Princess, the value of 26 per cent. of the equity of a P&O Princess dual listed company combination with Carnival and the value of P&O Princess' proposed 51 per cent. share of the equity of the proposed Royal Caribbean DLC combination using a five year discounted cash flow analysis. In performing these analyses, Schroder Salomon Smith Barney used a WACC, range of 9.5-10.5%. For the valuation of P&O Princess, Schroder Salomon Smith Barney used a terminal EBITDA multiple range of 8.0x - 10.0x, while for the valuation of 26 per cent. of the equity of a P&O Princess dual listed company combination with Carnival and the value of P&O Princess' proposed 51 per cent. share of the equity of the proposed Royal Caribbean DLC combination, Schroder Salomon Smith Barney used a terminal EBITDA multiple range of 9.0 - 11.0x. The WACC and EBITDA multiple ranges were chosen based on Schroder Salomon Smith Barney's knowledge of the cruise and leisure sector (including ranges for companies in the cruise and leisure sector), experience and professional judgement. This analysis indicated an implied per share reference range of approximately 408 to 553 pence for P&O Princess on a standalone basis, 519 to 658 pence for 26 per cent. of the equity of a P&O Princess dual listed company combination with Carnival and 439 to 612 pence for P&O Princess' 51 per cent. share of the equity of the proposed Royal Caribbean DLC combination; .. considered the performance of P&O Princess' stock price over the period from 19 November 2001 to 20 September 2002 compared to the stock price performance of Royal Caribbean and Carnival and the performance of the FTSE 100 and S&P 500 indexes. This analysis showed that P&O Princess' share price outperformed the share prices of Royal Caribbean and Carnival by 25 per cent. and 22 per cent. respectively over this period and outperformed the FTSE 100 index and the S&P 500 index by 47 per cent. and 46 per cent. respectively over this period; and .. reviewed and



considered other factors, including the historical trading valuations of P&O Princess, Royal Caribbean and Carnival. Schroder Salomon Smith Barney concluded that, on the basis of the analysis it had performed, it believed Carnival's DLC Proposal was more favourable from a financial point of view to P&O Princess shareholders than the proposed Royal Caribbean DLC combination. Schroder Salomon Smith Barney provided its advice at the meeting of the P&O Princess Board held on 24 September 2002 for the information of the Board of P&O Princess in its evaluation of whether Carnival's DLC Proposal was more favourable from a financial point of view than the proposed Royal Caribbean DLC combination. This advice does not form part of any fairness opinion rendered by Schroder Salomon Smith Barney, and the advice is not intended to be and does not constitute a recommendation to any shareholder as to how such shareholder should vote on any matters relating to the DLC transaction or whether any shareholder should accept the Partial Share Offer. In the ordinary course of business, Schroder Salomon Smith Barney and its affiliates may actively trade or hold the securities of P&O Princess and Carnival for their own account or for the account of customers and, accordingly, may at any time hold a long or short position in such securities. Schroder Salomon Smith Barney in the past has provided services to P&O Princess and Carnival unrelated to the DLC transaction, for which services Schroder Salomon Smith Barney has received compensation. In addition, Schroder Salomon Smith Barney and its affiliates, including Citigroup Inc. and its affiliates, may maintain relationships with P&O Princess, Carnival and their respective affiliates. Schroder Salomon Smith Barney is an internationally recognised investment banking firm and was selected by P&O Princess based on its experience, expertise and familiarity with P&O Princess and its business. Schroder Salomon Smith Barney regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. Pursuant to the terms of an engagement letter, dated 18 November 2001, as supplemented by a letter dated 30 July 2002, between Schroder Salomon Smith Barney and P&O Princess, P&O Princess has agreed to pay Schroder Salomon Smith Barney a transaction fee of \$20 million payable upon completion of the DLC transaction or a fee of \$10 million if the DLC transaction is abandoned or terminated payable upon announcement of such abandonment or termination. In addition, P&O Princess may, at its discretion, pay to Schroder Salomon Smith Barney an additional amount up to \$5 million to reflect the performance by Schroder Salomon Smith Barney in carrying out the execution of the DLC transaction. In addition, P&O Princess has agreed to reimburse Schroder Salomon Smith Barney for reasonable travel and other expenses, including reasonable fees and expenses of its legal counsel, and to indemnify Schroder Salomon Smith Barney and related parties against certain liabilities arising out of Schroder Salomon Smith Barney's engagement.

121 Part C. Considerations in respect of the DLC transaction

1. Reasons for the DLC transaction

Carnival and P&O Princess have agreed to enter into the DLC transaction in order to create the Combined Group. Carnival and P&O Princess believe the principal benefits of the creation of the Combined Group by means of the DLC structure are as set forth below and that the DLC structure is the optimal structure to seek to achieve all of these benefits:

Complementary well-known brands operating globally The Combined Group will be the largest cruise vacation group in the world, based on revenues, passengers carried and available capacity. It will have a wide portfolio of complementary brands, both by geography and product offering, and will include some of the best known cruise brands globally. The combination will allow the Combined Group to offer a wider range of vacation choices for its passengers. In addition, the combination is expected to enhance the Combined Group's ability to attract more passengers from land-based vacations, based on its ability to provide vacations in most of the largest vacation markets in the world, and its strategy of entering new and developing markets by building on its brand strength, global presence and ability to strategically deploy its brands and diversified fleet. The Combined Group's brands will include Carnival Cruise Lines, Princess Cruises, Holland America Line, P&O Cruises, Costa Cruises, Cunard Line, Seabourn Cruise Line, Windstar Cruises, AIDA, A'ROSA, Swan Hellenic, Ocean Village and P&O Cruises (Australia). The Combined Group will serve all of the key cruising destinations outside the Far East, including the Caribbean, Alaska, Australia, Europe, New England, Canada, Bahamas, Bermuda, the Hawaiian islands, the Mediterranean, the Mexican Riviera, the Panama Canal, South America and other exotic destinations worldwide. Benefits of sharing best practices and generating cost savings The Combined Group will be managed as if the two companies were a single economic enterprise by a single senior executive management team and identical boards of directors. Carnival and P&O Princess expect that the combination will generate significant cost savings, estimated to be at least \$100 million on an annualised basis, commencing in the first full financial year following completion of the DLC transaction. Carnival and P&O Princess expect that these cost savings will be generated principally through the dissemination of best

practices between the companies, economies of scale and the rationalisation of certain shoreside operations. One-time cash costs of achieving these cost savings are expected to be approximately \$30 million. Financial flexibility and access to capital markets The Combined Group will have substantial financial flexibility, with strong operating cash flow, low leverage and a strong balance sheet, and expects to maintain a strong investment grade credit rating. The Combined Group is also expected to have greater access to capital markets. Carnival's shares will remain listed on the NYSE and are expected to continue to be included in the S&P 500. P&O Princess' shares will remain listed on the LSE and are expected to remain eligible for inclusion in the FTSE series of indices and are expected to continue to be included with full weighting in the FTSE 100. High quality combined fleet to enhance growth within the cruise industry As of January 31, 2003, Carnival and P&O Princess together had a fleet of 65 cruise ships with an aggregate capacity of 99,982 lower berths. At that date, Carnival and P&O Princess together had an additional 18 new cruise ships on order, with an aggregate capacity of 42,260 lower berths, scheduled for delivery in the next three and a half years. Carnival and P&O Princess also expect that the Combined Group will have one of the youngest and most modern fleets in the cruise industry, with an average vessel age (weighted by lower berths) of 7.5 years as at January 31, 2003. The Combined Group expects to deploy its diversified fleet strategically in order to increase its global reach and enter new and developing markets. This strategic deployment is expected to allow the Combined Group to appeal to the largest target audience by providing brands, products and itineraries with the widest appeal in a particular geographic region. 122 The DLC structure allows continued participation in the global cruise industry for P&O Princess shareholders who wish to continue to hold shares in a UK-listed company Following the implementation of the DLC structure, P&O Princess is expected to remain included in the FSTE 100. This will allow P&O Princess shareholders who are required, or wish, to hold shares in a UK-listed company included in the FTSE indices to continue to do so, and, as a result, to continue to participate as a shareholder in the global cruise industry through P&O Princess. A share acquisition or exchange offer or other more common means of combining the businesses of Carnival and P&O Princess in which all P&O Princess shareholders would receive Carnival shares, which are not eligible for inclusion in the FTSE series of indices, and/or a partial cash alternative would not have afforded all P&O Princess shareholders this opportunity. Additionally, the Partial Share Offer for up to 20 per cent. of P&O Princess' outstanding shares allows those P&O Princess shareholders who would prefer to participate in the Combined Group by holding shares in a U.S.-listed company the opportunity to do so. 2. Other Considerations of Carnival and P&O Princess with respect to the DLC transaction In addition to the factors described above that supported Carnival's and P&O Princess' decisions to approve the Implementation Agreement and to recommend that shareholders vote to approve the DLC transaction, the Carnival board and the P&O Princess board each also considered potential factors that weighed against proceeding with the transaction, in general, and against using a DLC structure, in particular. These included: .. the risk that the benefits and synergies anticipated from the DLC transaction might not be achieved to the extent or within the time period expected; .. risks associated with the structure of the DLC transaction that are not associated with the more common ways of combining operations of two companies; .. the risk that the London-listed shares of P&O Princess may trade at a discount to the New York-listed shares of Carnival; .. the possibility that each company's shareholders might achieve more value over the long-term from continued operation of such company as an independent company or by combining with a different company; .. risks concerning the uncertainty of the DLC structure under the Internal Revenue Code; and .. the fact that a small group of shareholders would collectively own approximately 35 per cent. of the total combined voting power of the Combined Group and may be able to effectively control the outcome of shareholder voting. A number of these factors are described in more detail in Part II "Risk Factors - Risks relating to the DLC transaction". The Carnival board and the P&O Princess board did not assign particular weight or ranking to any of the factors that they considered. Also, in making their determination, individual directors may have assigned a different level of importance to each factor. 3. Recommendation of the Boards of Directors of Carnival and P&O Princess Carnival's board and P&O Princess' board each weighed both the potential advantages of the DLC transaction and the potential factors against the DLC transaction and determined that the potential advantages of the DLC transaction outweighed the potential factors against the DLC transaction. Consequently, it was the judgment of the Carnival board and the P&O Princess board that the DLC transaction is in the best interests of Carnival and its shareholders and P&O Princess and its shareholders, respectively. Both the Carnival board and the P&O Princess board have recommended that their respective shareholders vote in favour of the DLC transaction. 123 APPENDIX III MATERIAL DIFFERENCES AMONG THE EXISTING RIGHTS OF HOLDERS OF P&O PRINCESS SHARES, THE RIGHTS OF HOLDERS

OF CARNIVAL SHARES FOLLOWING IMPLEMENTATION OF THE DLC STRUCTURE AND THE RIGHTS OF HOLDERS OF P&O PRINCESS SHARES FOLLOWING IMPLEMENTATION OF THE DLC STRUCTURE If you accept the Partial Share Offer and the DLC structure is implemented, you will receive Carnival shares in exchange for your P&O Princess shares that are taken up and paid for by Carnival and you will become a shareholder of Carnival. As a shareholder of Carnival after implementation of the DLC structure, you will have the rights that other Carnival shareholders have, which are different from those you previously had as a shareholder of P&O Princess. If you do not accept the Partial Share Offer, you will continue to hold your P&O Princess shares following the implementation of the DLC structure. However, your rights will change in a number of respects to reflect the implementation of the DLC structure. The rights of holders of Carnival shares will be defined and governed by the Carnival articles, the Carnival by-laws and Panamanian corporate law. The rights of holders of P&O Princess shares will be defined and governed by the P&O Princess memorandum and articles and English corporate law. This Appendix describes the capital stock of Carnival and P&O Princess after giving effect to the DLC transaction (assuming all of the resolutions being presented to Carnival shareholders at the Carnival special meeting are approved) and summarises the material differences between your existing rights as a P&O Princess shareholder and the rights you will have following the implementation of the DLC structure, either as a P&O Princess shareholder or as a Carnival shareholder. This summary is not complete and you are encouraged to refer to the relevant parts of the Carnival articles, the Carnival by-laws, the relevant provisions of Panamanian law, the P&O Princess memorandum and articles, and the relevant provisions of English law. A more detailed description of the DLC transaction and its component elements is described in the shareholder circular for the P&O Princess EGM, certain portions of which are incorporated by reference in this document. Carnival's authorised capital stock consists of 960,000,000 shares of common stock and 40,000,000 shares of preferred stock. On 9 January 2003, there were 586,773,138 shares of common stock and no shares of preferred stock outstanding. Carnival's transfer agent and registrar is SunTrust Bank. In connection with the DLC transaction, Carnival is increasing its authorised capital stock to 2,000,000,000 shares, of which 1,959,999,998 are shares of common stock, and 40,000,000 are shares of preferred stock. Carnival will also issue one share of special voting stock, which is referred to in this document as a special voting share, and one share of special stock, which is referred to in this document as the "equalisation share." P&O Princess' authorised share capital is \$375 million divided into 750,000,000 ordinary shares of \$0.50 each, and two subscriber shares and 49,998 preference shares, all of (Pounds)1 nominal value. As of 9 January 2003, there were 693,596,865 ordinary shares allotted and issued. P&O Princess' registrar is Computershare Investor Services PLC. In the U.S., P&O Princess shares trade on the NYSE in the form of P&O Princess ADSs. Each P&O Princess ADS currently represents four P&O Princess shares. Simultaneously with the reorganisation of P&O Princess shares, the ratio of P&O Princess shares to P&O Princess ADSs will also be adjusted to 1:1 in order to have a 1:1 ratio with Carnival shares. The rights of P&O Princess ADS holders are derivative of the rights of holders of P&O Princess shares because P&O Princess ADSs represent underlying P&O Princess shares. As described in the prospectus issued at the time the P&O Princess ADSs were offered to the public in the U.S., the rights of P&O Princess ADS holders are not, however, identical to the rights of holders of ordinary shares. For example, the rights of P&O Princess ADS holders are based on the deposit agreement with the ADS depository bank, as P&O Princess ADS holders are not in the P&O Princess share register and voting is effected through the ADS depository bank and not directly by P&O Princess ADS holders. These differences are not impacted by the DLC transaction or the reorganisation of P&O Princess shares. P&O Princess ADS holders will be impacted to the same extent as holders of P&O Princess shares by the implementation of the DLC structure.

1. Voting Rights (a) Existing rights as a P&O Princess shareholder Under English law, the voting rights of shareholders are usually regulated by the company's articles of association. Except as provided below, all resolutions put forth at a shareholders' meeting are decided 124 on a show of hands and each shareholder entitled to vote at the meeting is entitled to one vote regardless of the number of shares he or she holds. Each shareholder would be entitled to one vote for each share held on a particular resolution if a poll is properly demanded. A poll may be demanded by: .. the Chairman of the meeting; .. any group of five shareholders having the right to vote at the meeting; .. any shareholder, or group of shareholders, representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting; or .. any shareholder, or group of shareholders, holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. Ordinary resolutions must be approved, on a show of hands, by a majority of the shareholders present in person or by proxy and voting at the meeting. If a poll

is demanded, the resolution conducted on a poll must be approved by holders of a majority of the votes cast at the meeting. Both special and extraordinary resolutions require the affirmative vote of at least 75 per cent. of the votes cast at the meeting (either in person or by proxy). The existing articles of association of P&O Princess currently provide that in the case of an equality of votes, whether on a show of hands or on a poll, the Chairman is entitled to cast the decisive vote. (b) Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, unless the articles of incorporation provide otherwise, each shareholder is entitled to one vote for each share of capital stock held by the shareholder, and the articles of incorporation may provide that in elections of directors and other specified circumstances, shareholders are entitled to cumulative voting. At any meeting of shareholders, all matters, except as otherwise provided by Panamanian law, will be decided by a majority of the votes cast by shareholders present in person or by proxy. Following completion of the DLC transaction, all matters, except as otherwise expressly provided by Panamanian law, the articles or by-laws, will be decided by a majority of the votes cast by all shareholders entitled to vote (including, where applicable, the Carnival Special Voting Entity) who are present in person or by proxy at such meeting; provided that votes recorded as abstentions will not be counted as having been "cast." In connection with the DLC transaction, special voting arrangements will be implemented so that the shareholders of Carnival and P&O Princess will vote together as a single decision making body on all actions submitted to a shareholder vote, other than matters designated as class rights actions or resolutions on procedural or technical matters. These are called joint electorate actions and will include: .. the appointment, removal or re-election of any director of Carnival or P&O Princess, or both of them; .. if required by law, the receipt or adoption of the financial statements of Carnival or P&O Princess, or accounts prepared on a combined basis of both companies; .. the appointment or removal of the auditors of either company, or both of them; .. a change of name by P&O Princess or Carnival, or both of them; or .. the implementation of a mandatory exchange based on a change in tax laws, rules or regulations. The following table illustrates how these voting arrangements would affect joint electorate actions needing to be passed by a majority vote, assuming 100% of each company's shareholders vote and the Partial Share Offer is taken up in full: Carnival P&O Princess Outcome ----- 64% or more approve 100% disapprove Action taken 63% or less disapprove 100% approve Action taken 51% or less approve 55% or more disapprove Action not taken 51% or less disapprove 54% or more approve Action taken 125 A change in the equalisation ratio resulting from a share reorganisation or otherwise would only affect voting rights on a per share basis. In the aggregate, such a change would not affect the relative weighting between the current shareholders of Carnival and P&O Princess. Assuming the Partial Share Offer is taken up in full, approximately 79 per cent. of the equity (and hence of the vote in a joint electorate action) would remain with the holders of Carnival shares, while approximately 21 per cent. of the equity and the vote in a joint electorate action would remain with the holders of P&O Princess shares. The relative voting rights of the P&O Princess shares and Carnival shares will be determined by the equalisation ratio. Based on an equalisation ratio of 1:1, each Carnival share will have the same voting rights as one P&O Princess share on joint electorate actions. In the case of class rights actions, the company wishing to carry out the class rights action would require the prior approval of shareholders of both companies, each voting separately as a class. If shareholders of either company do not approve the action, it will generally fail. Class rights actions will include: .. the voluntary liquidation, dissolution or winding up (or equivalent) of either company for which shareholder approval is required, (other than as part of the voluntary liquidation, dissolution or winding up (or equivalent) of both companies at or about the same time with the purpose or effect of no longer continuing the operation of the business of the companies as a combined going concern and not as part of a scheme, plan, transaction or series of related transactions the primary purpose or effect of which is to reconstitute all or a substantial part of such businesses in one or more successor entities); .. an adjustment to the equalisation ratio, other than in accordance with the Equalisation and Governance Agreement; .. the sale, lease, exchange or other disposition of all or substantially all of the assets of either company other than in a bona fide commercial transaction undertaken for a valid business purpose in which such company receives consideration with a fair market value reasonably equivalent to the assets disposed of and not as part of a scheme, plan, transaction or series of related transactions, the primary purpose of which is to collapse or unify the DLC structure; .. any amendment, removal or alteration of the effect of any provisions of the P&O Princess articles and the Carnival articles and by-laws which entrench specified core provisions of the DLC structure; .. any amendment or termination of the DLC Agreements (except where otherwise specifically provided in the relevant DLC Agreement); .. any amendment to, removal or alteration of the effect of certain tax-related provisions of Carnival articles that would cause, or at the time of implementation would be likely to cause,

a mandatory exchange; and .. anything which the boards of both companies agree (either in a particular case or generally) should be approved as a class rights action. The following table illustrates how these voting arrangements would affect class right actions: Carnival P&O Princess shareholders shareholders Outcome -----

	Approve	Disapprove	Action not taken	Disapprove	Disapprove	Action not taken	Disapprove
Approve/(1)/	Approve	Approve	Approve	Approve	Approve	Approve	Approve
Approve/(2)/	Action not taken	Approve	Approve	Approve	Action taken	-----	(1)Assumes that holders of at least approximately 2 per cent. or more of the outstanding Carnival shares do not cast votes on the action. In contrast, if all Carnival shareholders voted in favour of the action, it would be taken. (2)Assumes that holders of at least approximately 2 per cent. or more of the outstanding P&O Princess shares do not cast votes on the action, or in the case of a special resolution that at least one vote is cast against the action. In contrast, if all P&O Princess shareholders voted in favour of the action, it would be taken.

126 When a quorum for the transaction of business is present at any meeting, a resolution duly approved at a meeting of Carnival's shareholders by the affirmative vote of a majority of all the votes cast on such resolution by all shareholders of Carnival entitled to vote on it (including, where applicable, the Carnival Special Voting Entity as holder of the Carnival special voting share described below) who are present in person or by proxy at the meeting will decide such question brought before such meeting, unless the question is one upon which, by express provision of applicable law or regulation, the articles of incorporation or the by-laws, a greater vote is required, in which case such express provision will govern. Every resolution put to a vote at any meeting of Carnival shareholders is conducted on a poll. No resolution to approve a class rights action or a joint electorate action will be approved unless a parallel P&O Princess shareholders' meeting is held to vote on an equivalent resolution.

(c)Rights of P&O Princess shareholders following the implementation of the DLC structure The provisions described in paragraph 1(b) above under the heading "Rights of Carnival shareholders following the implementation of the DLC structure" would equally apply in relation to P&O Princess shares following implementation of the DLC structure insofar as the shareholders of Carnival and P&O Princess will vote together as a single decision-making body on all joint electorate actions and the prior approval of the shareholders of each company voting separately as a class will be required prior to carrying out a class rights action. No resolution to approve a class rights action or a joint electorate action at a P&O Princess shareholders' meeting may be approved unless a parallel Carnival shareholders' meeting is held to vote on an equivalent resolution. Every resolution put to the vote of a general meeting on which the holder of the P&O Princess special voting share is or may be entitled to vote (that is, to approve a joint electorate action or class rights action) will be decided on a poll. The poll shall be kept open for such time as to allow the parallel Carnival shareholders' meeting to be held and for the votes attaching to the P&O Princess special voting share to be calculated and cast on such polls. Every P&O Princess shareholder will continue to have one vote for each fully paid P&O Princess share for each resolution decided on a poll and one vote on a show of hands (regardless of the number of P&O Princess shares he or she holds) for those limited resolutions that may be decided on a show of hands. The holder of the P&O Princess special voting share will have the rights described below in order to implement the voting arrangements of the DLC structure. The Chairman will no longer have the casting vote in the case of an equality of votes.

2. Special voting share (a)Existing rights as a P&O Princess shareholder P&O Princess does not currently have a special voting share in issue and accordingly its articles of association have no provisions relating to special voting share rights. (b)Rights of Carnival shareholders following the implementation of the DLC structure In connection with the DLC transaction, Carnival's articles of incorporation will be amended to authorise one special voting share. Upon completion of the DLC transaction, Carnival will issue the Carnival special voting share to the Carnival Special Voting Entity. In order for any joint electorate action or class rights action to be voted upon at a meeting of Carnival shareholders, the holder of the Carnival special voting share must be present and at least one-third of the total votes entitled to be cast by the Carnival shareholders and the holder of the Carnival special voting share (assuming all holders of P&O Princess shares voted at the parallel P&O Princess shareholders' meeting) must be cast. For joint electorate actions, the Carnival special voting share will represent the number of votes cast at the parallel P&O Princess shareholders' meeting (as adjusted by the equalisation ratio and rounded up to the nearest whole number) and will represent "yes" votes, "no" votes and abstentions, in accordance with the votes cast at the P&O Princess meeting.

127 For class rights actions, the Carnival Special Voting Entity, as holder of the Carnival special voting share, will only vote if the proposed action has not been approved at the parallel P&O Princess meeting. In that event, the Carnival special voting share will represent that number of votes equal to the largest whole percentage that is less than the percentage of the number of votes necessary to defeat the resolution at the Carnival meeting if the total votes capable of being cast by all outstanding Carnival shares able to vote were cast in favour of the resolution at the

Carnival meeting. In most cases, this will be 49 per cent. (for a majority vote, 49 per cent. is the largest whole percentage that is less than the 50 per cent. needed to defeat the resolution). As a result, in the case of a majority vote, the Carnival special voting share will represent the number of votes equal to 98 per cent. of the votes capable of being cast by all Carnival shares (excluding the votes represented by the Carnival special voting share). Therefore, assuming holders of approximately 2 per cent. or more of the Carnival shares do not cast votes on such class rights action, it will fail. If the P&O Princess shareholders approve the proposed action, the Carnival special voting share will not represent any votes. The Carnival special voting share will not represent any votes on any resolution of a procedural or technical nature, which will be known as "procedural resolutions". Procedural resolutions are those resolutions that do not adversely affect the shareholders of P&O Princess in any material respect and are put to the Carnival shareholders at a meeting. The Chairman of the Carnival board will, in his absolute discretion, determine whether a resolution is a procedural resolution. To the extent that such matters require the approval of Carnival shareholders, any of the following will be procedural resolutions: .. that certain people be allowed to attend or be excluded from attending the meeting; .. that discussion be closed and the question put to the vote (provided no amendments have been raised); .. that the question under discussion not be put to the vote (where a shareholder feels the original motion should not be put to the meeting at all, if such original motion was brought during the course of that meeting); .. to proceed with matters in an order other than that set out in the notice of the meeting; .. to adjourn the debate (for example, to a subsequent meeting); and .. to adjourn the meeting. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure P&O Princess' articles will be amended to authorise one special voting share. Upon completion of the DLC transaction, the P&O Princess special voting share will be transferred to the trustee of the P&O Princess Special Voting Trust. Trust shares of beneficial interest in the P&O Princess Special Voting Trust will be transferred to Carnival. Immediately following this transfer, Carnival will distribute the trust shares of beneficial interest in the P&O Princess Special Voting Trust by way of dividend to Carnival shareholders of record at the close of business on 17 April 2003. In order for any joint electorate action or a class rights action to be voted upon at the meeting of P&O Princess shareholders, the holder of the P&O Princess special voting share must be present and at least one-third of the total votes entitled to be cast by the P&O Princess shareholders and the holder of the P&O Princess special voting share (assuming all holders of Carnival shares voted at the parallel Carnival shareholders' meeting voted) must be cast. .. For joint electorate actions, the P&O Princess special voting share will represent the number of votes cast at the parallel Carnival shareholders meeting multiplied by the equalisation ratio expressed as a fraction rounded up to the nearest whole number (which will initially equal 1.0) and will represent "yes" votes, "no" votes and abstentions, in accordance with the votes cast at the Carnival meeting. .. For class rights actions, if the Carnival shareholders do not approve the proposed action as a separate class, the P&O Princess special voting share will represent that number of votes equal to the largest whole percentage that is less than the percentage of the number of votes as would be necessary to defeat the resolution at the P&O Princess meeting, if the total votes capable of being cast by the P&O Princess shares in issue were cast in favour of the resolution at the P&O Princess meeting. In most cases, this will be 49 per cent. (for a majority vote, 49 per cent. is the largest whole percentage that is less than the 50 per cent. needed to defeat the resolution). As a result, in the case of a majority vote, the P&O Princess special voting share will represent the number of votes equal to 98 per cent. of the votes capable of being cast by all P&O Princess shares (excluding the votes represented by the P&O Princess special voting share). Therefore, assuming holders of approximately 2 per cent. or more of the P&O Princess shares do not cast votes on such class rights action, it will fail. If the Carnival shareholders approve the proposed action, the P&O Princess Special Share will not represent any votes. The P&O Princess special voting share will not represent any votes with respect to Procedural Resolutions which are of the same nature described in paragraph 2(b) above. The chairman of the P&O Princess board will, in his absolute discretion, determine whether a resolution is a Procedural Resolution. To the extent that such matters require the approval of P&O Princess shareholders, any of the following will be Procedural Resolutions: .. that certain people be allowed to attend or be excluded from attending the meeting; .. that discussion be closed and the question put to the vote (provided no amendments have been raised); .. that the question under discussion not be put to the vote (where a shareholder feels the original motion should not be put to the meeting at all, if such original motion was brought during the course of that meeting); .. to proceed with matters in an order other than that set out in the notice of the meeting; .. to proceed to the next item of business; .. to adjourn the debate (for example, to a subsequent meeting); and .. to adjourn the meeting. 3. Quorum Requirements (a)Existing rights as a P&O Princess shareholder The existing articles of association of P&O Princess currently specify a quorum of two shareholders, present in person

or by proxy and entitled to vote on the business to be transacted which is the minimum requirement under English law. (b)Rights of Carnival shareholders following the implementation of the DLC structure Following completion of the DLC transaction, the presence in person or by proxy at any meeting of Carnival shareholders holding at least one-third of the total votes entitled to be cast will constitute a quorum for the transaction of business at such meeting, except as otherwise required by applicable law or regulation, the articles of incorporation or the by-laws. For purposes of determining whether a quorum exists at any meeting of Carnival shareholders where a joint electorate action or a class rights action is to be considered: .. if the meeting of Carnival shareholders convenes before the parallel shareholder meeting of P&O Princess, the Carnival special voting share will, at the commencement of the meeting, have no votes and therefore will not be counted for purposes of determining the total number of shares entitled to vote at such meeting or whether a quorum exists at such meeting, although the Carnival special voting share itself must be present, either in person (through a representative of the Carnival Special Voting Entity) or by proxy; .. if the meeting of the Carnival shareholders convenes at substantially the same time as or after the parallel shareholder meeting of P&O Princess with respect to one or more joint electorate actions, the Carnival special voting share will have the maximum number of votes attached to it as were cast on such joint electorate actions, either for, against or abstained, at the parallel shareholder meeting of P&O Princess, and such maximum number of votes (including abstentions) will constitute shares entitled to vote and present for purposes of determining whether a quorum exists at such meeting; and .. if the meeting of Carnival shareholders convenes at substantially the same time as or after the parallel shareholder meeting of P&O Princess with respect to a class rights action, the Carnival special voting share will, at the commencement of the meeting, have no votes and therefore will not be counted for purposes of determining the total number of shares entitled to vote at such meeting or whether a quorum exists at such meeting, although the Carnival special voting share itself must be present, either in person (through a representative of the Carnival Special Voting Entity) or by proxy. 129 In addition, in order for a quorum to be validly constituted with respect to meetings of Carnival shareholders convened to consider a joint electorate action or class rights action, the Carnival Special Voting Entity must be present at such meeting. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure In order for a quorum to be validly constituted at any P&O Princess general meeting, at least three shareholders must be present in person or by proxy. If a joint electorate action or a class rights action is to be considered at the general meeting, one of those shareholders must be the holder of the P&O Princess special voting share. Despite the presence of a quorum for purposes of convening a meeting, no resolution will be approved as a joint electorate action unless one-third of the total votes capable of being cast by (i) the holders of P&O Princess shares and (ii) the holder of the P&O Princess special voting share (assuming all holders of outstanding Carnival shares vote at the parallel shareholder meeting of Carnival), are cast on the resolution proposing such joint electorate action. Formal abstentions will be counted as votes cast for the purposes of determining the presence of a quorum. 4. Shareholder Action by Written Consent (a)Existing rights as a P&O Princess shareholder Under English law, the unanimous consent of all shareholders is required in order to approve, without a meeting, a matter requiring shareholder approval. The existing articles of association of P&O Princess currently provide that a resolution in writing executed by or on behalf of each shareholder who would have been entitled to vote on it if it had been proposed at a general meeting at which he was present, shall be as effective as if it had been passed at a general meeting properly convened and held. (b)Rights of Carnival shareholders following the implementation of the DLC structure Panamanian law provides that shareholders may act by written consent and Carnival's current by-laws allow action to be taken by written consent. Following completion of the DLC transaction, the Carnival by-laws will provide that Carnival shareholders will not have the ability to act by written consent. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Similarly, following completion of the DLC transaction, the P&O Princess articles will not provide P&O Princess shareholders with the ability to pass a resolution in writing without a meeting of shareholders. 5. Shareholder Proposals (a)Existing Rights as a P&O Princess shareholder Under English law, shareholders may propose a resolution to be voted on at a general meeting if the proposition is made: .. by shareholders holding not less than one-twentieth of the total voting rights of all the shareholders having at such time a right to vote at the meeting to which the proposal relates; or .. by not less than 100 shareholders holding shares on which there has been paid up an average sum per shareholder of not less than (Pounds)100. In order to be valid, a signed copy of the proposal must be deposited at the company's registered office not less than six weeks before the general meeting to which it relates. Notwithstanding the rights described above, under English law shareholders may not propose a single resolution to appoint more than one director without a separate resolution, which must be unanimously approved as to whether the

matter may be voted upon. The existing articles of association of P&O Princess currently provide that the appointment of any person proposed as a director shall be effected by a separate resolution. (b)Rights of Carnival shareholders following the implementation of the DLC structure Panamanian law does not specifically address the issue of shareholder proposals and Carnival's by-laws do not expressly permit shareholder proposals to be considered at the annual meeting of shareholders. Under the rules under the Exchange Act, shareholders may submit proposals, including director nominations, for consideration at shareholder meetings. Such proposals will need to comply with SEC regulations regarding the inclusion of shareholder proposals in company sponsored proxy materials. In order for shareholder proposals to be considered for inclusion in Carnival's proxy statement for an 130 annual meeting, the written proposals must be received by Carnival not less than 120 calendar days before the first anniversary of the date of mailing of the proxy statement from the previous year's annual meeting. Carnival's by-laws provide that at any special meeting of shareholders only such business may be transacted as is related to the purpose or purposes of such meeting set forth in the notice of the special meeting. Carnival's by-laws provide that special meetings of shareholders may only be called by the Carnival board or the President or the Secretary of Carnival. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure No changes with respect to shareholder proposals will be made to P&O Princess' articles in connection with the implementation of the DLC structure. Accordingly, P&O Princess shareholders will have the same rights under the P&O Princess articles as described above at paragraph 5(a) under the heading "Existing rights as a P&O Princess shareholder".

6. Standard of Conduct for Directors and Directors' Duties (a)Existing rights as a P&O Princess shareholder Under English law, a director has a fiduciary duty to act in good faith in the best interests of the company as a whole, which includes the following obligations: .. not to allow personal interests to conflict with those of the company; .. not to profit from his position; .. to maintain independence of judgment and not fetter his discretion; .. to act fairly between members; and .. to exercise his/her powers only in accordance with the memorandum and articles of association of the company. In addition, a director must exercise reasonable care and skill. The precise scope of this duty is unclear, but in broad terms the level of skill and care required is based on that of a reasonably diligent person considering both (a) the general knowledge, skill and experience that may be expected of a person carrying out the same functions as are carried out by that director in relation to the company and (b) the general knowledge, skill and experience of that particular director. The first criterion is an objective test that all directors must meet. The second criterion is a subjective factor that acknowledges a particular director's experience and skills. The Companies Act also imposes certain other requirements, including: .. an obligation on directors to disclose any interests they may have in proposed company dealings or transactions; .. a requirement for shareholder approval before a director, or person connected with a director, can acquire non-cash assets from the company (or vice versa) if the value of the assets exceeds (Pounds)100,000 or 10 per cent. of net value of the company (and is not less than (Pounds)2,000); and .. restrictions on a company's power to make loans to and confer other benefits on directors and persons connected with them. (b)Rights of Carnival shareholders following the implementation of the DLC structure Panamanian law imposes a general fiduciary duty on directors to act prudently and in the best interests of the company. Among other things, directors are responsible for the authenticity of the payments which appear to have been made on behalf of the company, for the validity of dividends to be paid, general book-keeping and effecting the operation of the company in accordance with applicable laws, its articles of incorporation, its by-laws, and resolutions of the General Assembly of shareholders. Following completion of the DLC transaction, the Carnival board will be authorised to operate and carry into effect the Equalisation and Governance Agreement, including the DLC principles, the SVE Special Voting Deed and the Carnival Deed of Guarantee and, subject to applicable laws and regulations, nothing done by any director in good faith pursuant to such authority and obligations will constitute a breach of the fiduciary duties of such director to Carnival or its shareholders. In particular, the directors will, in addition to their normal fiduciary duties to Carnival, be entitled to have regard to interests of both companies and their shareholders. Following completion of the DLC transaction, the boards of directors of Carnivals and P&O Princess will be comprised of the same members. 131 (c)Rights of P&O Princess shareholders following the implementation of the DLC structure In addition to its obligations under English law described under paragraph 6(a) above, under the P&O Princess articles, the P&O Princess board will be authorised to carry into effect the provisions of the Equalisation and Governance Agreement, including the DLC principles, the SVE Special Voting Deed and the P&O Princess Deed of Guarantee and any further agreement or arrangement that P&O Princess is party to which are mentioned in or contemplated by such agreements. Subject to the provisions of the Companies Act, nothing done in good faith by any P&O Princess director pursuant to such authority



and obligations shall constitute a breach of the fiduciary duties of such director to P&O Princess or its shareholders. In addition, the P&O Princess directors shall, in addition to their duties to P&O Princess, be entitled to have regard to the interests of the shareholders of both P&O Princess and Carnival as if P&O Princess and Carnival were a single legal entity. Following completion of the DLC transaction, the boards of directors of Carnival and P&O Princess will be comprised of the same members. Further to their obligation to effect the DLC structure, P&O Princess directors are authorised to provide Carnival and any officer employee or agent of Carnival any information relating to P&O Princess. Under the new P&O Princess articles, directors are allowed to vote on certain contracts of P&O Princess and Carnival in which they are interested. These are basically contracts from which P&O Princess or Carnival may benefit or contracts which the director is entitled to participate in as a shareholder.

**7. Meetings of the Board of Directors**

(a) Existing rights as a P&O Princess shareholder Under English law directors may hold their meetings wherever they wish, including overseas, subject to the company's articles of association providing otherwise. A company's articles of association specify the responsibilities of directors at such meetings. The existing articles of association of P&O Princess currently provide that the business of P&O Princess shall be managed by the P&O Princess board which may exercise all the powers of the company at a meeting of the board at which a quorum is present. The P&O Princess articles of association do not limit the location of such meetings. The P&O Princess articles of association provide that the quorum for a meeting of the P&O Princess board shall be two persons unless the board fixes any other number and that questions arising at a meeting shall be decided by a majority of votes, with the chairman having a second or deciding vote, in the case of an equality of votes. The articles of association also provide that a person entitled to be present at a meeting of the board shall be deemed to be present if he is able to speak and be heard by all those present by telephone (or other form of communication). The existing P&O Princess articles of association also provide that a resolution in writing signed by all the directors entitled to receive notice and vote at a meeting of the board shall be as valid and effectual as if it had been passed at a meeting of the P&O Princess board. That is, the P&O Princess board may act by unanimous written consent. The articles of association further provide that any director may appoint any other director, or any other person approved by resolution of the board, and willing to act to be an alternate director and an alternate is entitled to notice of all meetings of the board and to attend and vote at any such meeting at which his appointor is not present.

(b) Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, the business of every corporation is to be managed and directed by a board of directors whom, subject to the provisions of Panamanian law and the articles of incorporation, will have absolute control and full direction over the corporation's affairs. The Carnival articles provide that meetings of the board of directors may be held in the Republic of Panama or in any other country and any director can be represented and vote by proxy. The board of directors may act by written consent of a majority of the directors or their proxies in lieu of a meeting. At all meetings of each board, the presence in person or by proxy, of at least one-third of the total number of directors will constitute a quorum for the transaction of business except as may be otherwise specifically provided by applicable law, the articles of incorporation or by-laws. The act of a simple majority of the directors present in person or by proxy at any meeting at which there is a quorum will constitute a valid act of the board, except as may be otherwise specifically provided by applicable law or regulation, the articles of incorporation or by-laws. The Carnival board will continue to be permitted to act by written consent.

132 (c) Rights of P&O Princess shareholders following the implementation of the DLC structure Following completion of the DLC transaction, meetings of the P&O Princess board will be conducted in substantially the same manner and under the same guidelines as described in paragraph 7(a) above. However, the quorum for the transaction of business will be one-third of the directors of P&O Princess and the person who holds office as an alternate director shall, if his appointer is not present, be counted in the quorum in his capacity as an alternate director (on behalf of his appointer) in addition to in his capacity as a director of the company. Decisions at board meetings will still be decided by a majority of directors present at any board meeting, but the chairman will no longer have a second or deciding vote in the case of an equality of votes. Upon implementation of the DLC structure, meetings may only be convened by the chairman or any two (or more) directors rather than any single director.

**8. General Meetings of Shareholders**

(a) Existing rights as a P&O Princess shareholder The existing articles of association of P&O Princess currently provide that all general meetings of the company other than annual general meetings shall be called extraordinary general meetings and that annual general meetings shall be held in accordance with the provisions of the Companies Act. The relevant provision of the Companies Act requires an annual general meeting to be held in each year and that later than 15 months after the date of the previous annual general meeting.

(b) Rights of Carnival shareholders following the implementation of the DLC structure The by-laws

of Carnival provide that the annual meeting of shareholders be held on a date and at a time fixed by the Carnival board. Under Panamanian law, the President, Vice-president, Secretary, or Assistant-Secretary may also determine the place of such meeting which may be within or without of the Republic of Panama. Written notice of all meetings of Carnival shareholders will have to state the purpose of the meetings, including whether joint electorate actions or class rights actions will be considered. In addition, if Carnival proposes to undertake a joint electorate action or class rights action, Carnival must immediately give notice to P&O Princess of the nature of the joint electorate action or the class rights action it proposes to take. Unless such action is proposed to be taken at the annual meeting of shareholders, the Carnival board must convene a special meeting for the purpose of considering a resolution to approve the joint electorate action or class rights action. Such meeting will be held as close in time as practicable with the parallel shareholder meeting convened by P&O Princess for purposes of considering such joint electorate action or class rights action. If Carnival receives notice from P&O Princess that P&O Princess proposes to undertake a joint electorate action or a class rights action, the Carnival board must convene a meeting of Carnival shareholders as close in time as practicable to the P&O Princess meeting and must propose an equivalent resolution as that proposed at the P&O Princess meeting. Carnival must co-operate fully with P&O Princess in preparing resolutions, explanatory memoranda or any other information or material required in connection with the proposed joint electorate action or class rights action.

(c) Rights of P&O Princess shareholders following the implementation of the DLC structure Following completion of the DLC transaction, meetings of P&O Princess shareholders will remain subject to the provisions of the Companies Act described in paragraph 8(a) above. In addition, if P&O Princess proposes to undertake a joint electorate action or class rights action, it must immediately give notice to Carnival of the nature of the joint electorate action or the class rights action it proposes to take. The P&O Princess board must convene a general meeting for the purpose of considering any joint electorate action or class rights action to be held as close in time as practicable with the parallel shareholder meeting convened by Carnival (for the purposes of considering an equivalent resolution in respect of the same joint electorate action or class rights action). If P&O Princess receives notice that Carnival proposes to undertake a joint electorate action or class rights action, the P&O Princess board must convene a general meeting as close in time as practicable with the Carnival shareholders' meeting and that is equivalent to the resolution being proposed at the Carnival shareholders' meeting to approve such joint electorate action or class rights action. P&O Princess must co-operate fully with Carnival in the preparation of any information or material required in connection with any general meeting to consider a proposed joint electorate action or class rights action.

133 9. Notice Periods; Special Meetings of Shareholders (a) Existing rights as a P&O Princess shareholder Under English law, an extraordinary general meeting of shareholders may be called by: .. the board of directors if the articles of association of the company so provide; .. the directors on the requisition, duly made in accordance with the provisions of the Companies Act, of shareholders holding not less than one-tenth of the paid-up capital of the company carrying the right of voting at general meetings; or .. two or more members holding not less than one-tenth of the issued share capital. Pursuant to the Companies Act, the minimum notice requirements, for the annual general meeting and for an extraordinary general meeting for the passing of an ordinary resolution, an extraordinary resolution, or a special resolution are as follows: .. annual general meeting - 21 days' notice .. extraordinary general meeting for the passing of an ordinary resolution - 14 days' notice; .. extraordinary general meeting for the passing of an extraordinary resolution - 14 days' notice; and .. extraordinary general meeting for the passing of a special resolution - 21 days' notice. Notwithstanding the minimum notice requirements of the Companies Act, a meeting may be called upon shorter notice: .. in the case of an annual general meeting, with the agreement of all the shareholders who are permitted to attend and vote; and .. in the case of an extraordinary general meeting, with the agreement of the requisite majority. The articles of association of P&O Princess currently require 21 clear days' notice for an annual general meeting and for an extraordinary general meeting called for the passing of a special resolution, and require 14 clear days' notice for all other extraordinary general meetings. "Clear days" refers to the period excluding the day on which a notice is sent and the day for which it is sent. "Extraordinary resolutions" are relatively unusual and are confined to matters out of the ordinary course of business, such as a proposal to wind up the affairs of P&O Princess. "Special resolutions" generally involve proposals to: .. change the name of P&O Princess; .. alter its capital structure; .. change or amend the rights of shareholders; .. permit P&O Princess to issue new shares for cash without applying the shareholders' pre-emptive rights, .. amend P&O Princess' objects, or purpose, clause in its memorandum of association; .. amend P&O Princess' articles of association; or .. carry out other matters for which P&O Princess' articles of association or the Companies Act prescribe that a "special resolution" is required. Other proposals relating to the ordinary course of

a company's business, such as the election of directors, and transactions such as mergers, acquisitions and dispositions are the subject of an "ordinary resolution". (b)Rights of Carnival shareholders following the implementation of the DLC structure Panamanian law provides that special meetings of shareholders may be called by: (1) the President, Vice-president, Secretary, or Assistant-Secretary of the corporation; or (2) any person or persons authorised by the corporation's articles of incorporation or by-laws. The by-laws of Carnival provide that special meetings of shareholders may be called at any time by the board of directors, the President or the Secretary. Shareholders may not call special meetings. Carnival's by-laws provide that written notice of each meeting of the shareholders, stating the date, hour, place and purpose or purposes thereof, will be given, personally or by mail, to each shareholder entitled to notice of or to vote at the meeting not less than ten nor more than 60 days before the date of the meeting. If mailed, such notice will be deposited in the U.S. mail, postage prepaid, directed to the shareholder at his/her address as it appears on the records of Carnival. 134 Following completion of the DLC transaction, written notice of all meetings of shareholders will state the purpose of any special meeting, including whether a joint electorate action or class rights action will be considered. In addition, if Carnival proposes to undertake a joint electorate action or class rights action, Carnival must immediately give notice to P&O Princess of the nature of the joint electorate action or the class rights action it proposes to take. Unless such action is proposed to be taken at the annual meeting of shareholders, the board of directors is to convene a special meeting for the purpose of considering a resolution to approve the joint electorate action or class rights action. Such meeting will be held as close in time as practicable with the parallel shareholder meeting convened by P&O Princess for purposes of considering such joint electorate action or class rights action. If Carnival receives notice from P&O Princess that P&O Princess proposes to undertake a joint electorate action or a class rights action the Carnival board of directors must convene a meeting of Carnival shareholders as close in time as practicable to the P&O Princess meeting and must propose an equivalent resolution as that proposed at the P&O Princess meeting. Carnival must cooperate fully with P&O Princess in preparing resolutions, explanatory memoranda or any other information or material required in connection with the proposed joint electorate action or class rights action. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure No changes with respect to notice periods and special meetings will be made to the P&O Princess articles in connection with the implementation of the DLC structure. Accordingly, P&O Princess shareholders will have the same rights described in paragraph 9(a) above under the heading "Existing rights as a P&O Princess shareholder". 10. Sources and Payment of Dividends (a)Existing rights as a P&O Princess shareholder Subject to the prior rights of holders of preference shares, under English law a company may pay dividends on its ordinary shares only out of its distributable profits. Generally speaking, distributable profits include accumulated, realised profits to the extent not previously utilised by distribution or capitalisation less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital. In addition, under English law, P&O Princess will not be permitted to make a distribution (including any dividend) if, at the time, the amount of its net assets is less than the aggregate of its called-up share capital and undistributable reserves, or the making of the distribution would reduce its net assets to less than the aggregate of its called-up share capital and undistributable reserves. Generally, "undistributable reserves" include the share premium account (the excess of the consideration for the issue of shares over the aggregate nominal amount of such shares), the capital redemption reserve and the amount by which the company's accumulated, unrealised profits include accumulated unrealised losses to the extent not previously utilised by capitalisation. (b)Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, a corporation may pay dividends to the extent of a corporation's net earnings or capital surplus. Following completion of the DLC transaction, Carnival expects to continue to pay quarterly dividends and that there will be no change in the entitlement of quarterly dividends for shareholders of either company. Carnival shareholders and P&O Princess shareholders will have rights to income and capital distributions from the combined entity based on the equalisation ratio. In order for the companies to pay a dividend or make a cash distribution, the ratio of dividends and cash distributions paid per Carnival share to dividends and cash distributions paid per P&O Princess share must be made in accordance with the equalisation ratio, taking account the applicable currency exchange rate. The Carnival board and the P&O Princess board will co-operate to agree the amount of any dividend or cash distribution and will both make payments as close together in time as is practicable. Dividends will be equalised according to the equalisation ratio, and any balancing transactions between the companies will be determined and made, before deduction of any amounts in respect of the tax required to be deducted or withheld and excluding the amounts of any tax credits or other tax benefits. If one company has insufficient profits or is otherwise unable to pay a dividend, Carnival and P&O Princess will, as far as

practicable, enter into such balancing transactions as are necessary to enable both companies to pay dividends in accordance with the equalisation ratio. This may take the form of a payment from one company to the other or a dividend payment on an equalisation share. Following completion of the DLC transaction, Carnival and P&O Princess expect that dividends received by P&O Princess shareholders will be consistent with Carnival's regular quarterly dividend. 135 (c)Rights of P&O Princess shareholders following the implementation of the DLC structure No changes with respect to the ability to pay lawful dividends under English law will be made to the P&O Princess articles in connection with the implementation of the DLC structure. Accordingly, the restrictions described in paragraph 10(a) above under the heading "Existing rights as a P&O Princess shareholder" will remain applicable. In addition, the standards and mechanics with respect to the equalisation of dividends and other cash distributions, including the timing of such payments, will be the same as those described in paragraph 10(b) above in relation to Carnival shareholders following the implementation of the DLC structure. 11. Rights of Purchase and Redemption (a)Existing rights as a P&O Princess shareholder Under English law, a company may issue redeemable shares if authorised by its memorandum and articles of association, subject to any conditions stated therein. A company may purchase its own shares, including any redeemable shares, if the purchase: .. is authorised by its memorandum and articles of association; and .. (i) in the case of an off-market purchase (defined as a purchase otherwise than on a recognised investment exchange, or a purchase on a recognised investment exchange which is not subject to a marketing arrangement on that investment exchange), the proposed contract must be authorised by a special resolution before the contract is entered into; or (ii) in all other cases, the purchase must first be authorised by an ordinary resolution. A company may redeem or purchase shares only if the shares are fully paid and, in the case of public companies (such as P&O Princess), only out of either distributable profits or the proceeds of a new issue of shares undertaken for the purpose of the repurchase or redemption. Any premium payable on redemption must be paid out of distributable profits of the company. Under English law, a company may not redeem or purchase shares if as a result there would no longer be any member of the company holding shares other than redeemable shares. The Listing Rules impose further requirements on a company which has issued shares that are listed on the Official List which, in certain circumstances, include the following: .. a company may not purchase or redeem its own shares at a time when a director of the company would be prohibited from dealing in the shares by the Model Code appended to the Listing Rules; .. purchases, or a series of purchases, by a company of 15 per cent. or more of any class of its equity shares must be made by way of either a tender or a partial offer to all shareholders of that class on the same terms, at a stated maximum or fixed price; .. purchases, or a series of purchases, by a company of less than 15 per cent. may be made through the market only if the price to be paid is not more than five per cent. above the average of the middle-market quotations for that security for the five business days before the purchase is made; and .. where there are in issue listed securities convertible into, exchangeable for, or carrying a right to subscribe for, equity shares of the class proposed to be purchased, a separate meeting of the holders of those securities must be held and the proposed purchase approved by an extraordinary resolution at that meeting. The existing articles of association of P&O Princess currently authorise the issue of redeemable shares, subject to the Companies Act, and the purchase of its own shares, subject to and in accordance with the Companies Act and to any relevant special rights attached to any class of shares. (b)Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, except as otherwise provided in the articles of incorporation, any corporation may purchase, redeem and dispose of its own shares. If the acquisition of shares is made with funds or property other than the excess of assets over the liabilities or the net earnings of the corporation, the acquired shares of stock will be cancelled by the reduction of the issued stock, but such shares may be sold again if the authorised capital stock is not decreased by the cancellation of such shares. Shares of its own stock acquired by any corporation using funds derived from the excess of its assets over its liabilities or net earnings, may be retained by the corporation as treasury stock and sold by it or may be cancelled or reissued by resolution passed by the board of directors. 136 The Carnival articles do not prohibit the corporation from purchasing, redeeming and disposing of its own shares. The NYSE requires that prompt publicity be given and prompt notice be sent to the NYSE of action which will result in, or which looks toward, either the partial or full call for redemption of a listed security. NYSE rules provide that when a listed security is fully redeemed, trading is suspended as soon as the redemption funds become available to the holders of the security. When only a part of the listed securities are redeemed, the amount authorised to be listed is reduced by the amount redeemed as soon as the redemption funds become available to holders of the redeemed securities. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Following implementation of the DLC structure, the restrictions under English

law described in paragraph 11(a) above under the heading "Existing rights as a P&O Princess shareholder" will continue to apply to P&O Princess. In addition, (under the Equalisation and Governance Agreement) neither Carnival nor P&O Princess may acquire any P&O Princess shares in addition to those acquired by Carnival in the Partial Share Offer until the second anniversary of the date of the Equalisation and Governance Agreement. Thereafter, until the fifth anniversary of the date of the Equalisation and Governance Agreement, Carnival or P&O Princess may only acquire a maximum of 5 per cent. of the issued P&O Princess shares in any 12-month period. Further, any P&O Princess shares acquired by Carnival, including those acquired in the Partial Share Offer, will carry no rights to vote or any rights in a liquidation unless Carnival holds 90 per cent. or more of all P&O Princess shares in issue. 12.

**Appraisal Rights (a)Existing Rights as a P&O Princess shareholder** Under English law, shareholders do not generally have appraisal rights, as the concept is understood under U.S. law, and the existing articles of association of P&O Princess do not contain any appraisal rights. Certain limited rights exist where an offeror, pursuant to a takeover offer for all the shares of an English company, has acquired or contracted to acquire not less than nine-tenths in value of the shares to which the offer relates, within four months of the date of the offer, in which case the offeror has a right to buy and a minority shareholder has the right to require the offeror to buy, the outstanding minority shareholdings and, in accordance with the compulsory acquisition provisions under the Companies Act. Similarly, in the context of a special resolution to implement a scheme of reconstruction under Section 110 of the UK Insolvency Act 1986, a dissenting shareholder can require the liquidator to abstain from carrying the resolution into effect, or to purchase his/her interest at a price agreed or determined by arbitration. Additionally, any shareholder who complains that the affairs of the company are being conducted, or that the directors' powers are being exercised, in a manner unfairly prejudicial to him/her or some part of the shareholders (including himself/herself), or in disregard of his/her proper interests as a shareholder, may in certain circumstances, apply to the High Court in England for relief. If the High Court finds the complaint to be justified, it may exercise its discretion and order the purchase of the shares on such terms, including as to price, as the High Court may determine. (b)Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, shareholders of a corporation do not have appraisal rights. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Following completion of the DLC transaction, P&O Princess shareholders will not have appraisal rights, but will continue to have the other rights described in paragraph 12(a) above under the heading "Existing rights as a P&O Princess shareholder". 13. Pre-Emptive Rights (a)Existing rights as a P&O Princess shareholder Under English law, the issue or grant for cash of (i) equity securities, or (ii) rights to subscribe for, or convert into, equity securities must be offered first to the existing equity shareholders on the same or more favourable terms in proportion to the respective nominal value of their holdings unless a special resolution to the contrary has been passed by shareholders in a general meeting, or the articles of association provide otherwise. It is customary for many English companies listed on the Official List (such as P&O Princess) to pass a resolution on an annual basis to authorise the board of directors to dis-apply pre-emption rights in respect of a specified amount of share capital, generally 5 per cent. of issued share capital. 137 (b)Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, a shareholder is entitled to pre-emptive rights to subscribe for additional issuances of common stock or any security convertible into stock in proportion to the shares that are owned unless there is a provision to the contrary in the articles of incorporation. Carnival's articles provide that Carnival shareholders are not entitled to pre-emptive rights. In addition, pursuant to Equalisation and Governance Agreement, neither Carnival nor P&O Princess may issue any shares carrying voting rights to the other or its subsidiaries (except on a pre-emptive basis) during the first two years following the date of the Equalisation and Governance Agreement. After expiration of the initial two-year period, for each of the subsequent three years neither Carnival nor P&O Princess may issue shares to the other company, or any of that company's subsidiaries, except on a pre-emptive basis to all shareholders, in excess of 5 per cent. per year of the issued or outstanding shares (calculated as at the first day in such annual period). Thereafter, there will be no restriction on the issuance of shares to the other company or any of that company's subsidiaries. These restrictions may be varied by a class rights action. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Following completion of the DLC transaction, P&O Princess shareholders will continue to have the pre-emptive rights described in paragraph 13(a) above under the heading "Existing rights as a P&O Princess shareholder". In addition, pursuant to Equalisation and Governance Agreement, neither Carnival nor P&O Princess may issue any shares carrying voting rights to the other or its subsidiaries (except on a pre-emptive basis) during the first two years following the date of the Equalisation and Governance Agreement. Thereafter until

the fifth anniversary issue of more than 5 per cent. of its shares to the other or its subsidiaries (unless such issuance is made on a pre-emptive basis) in any 12 month period. 14. Amendment of Governing Instruments (a)Existing Rights as a P&O Princess shareholder Under English law, shareholders have the power to amend by special resolution: .. the objects, or purpose, clause in a company's memorandum of association; and .. any provisions of the company's articles of association. In the case of amendments to the objects clause of the memorandum of association, dissenting shareholders holding not less than in aggregate 15 per cent. in nominal value of the issued share capital or any class of it have the right to apply to the court within 21 days of the passing of the resolution for the amendments to be cancelled. Under English law, the board of directors is not authorised to change the memorandum or articles of association. The Companies Act provides that amendments varying or abrogating the rights of the holders of any class of shares also require the consent in writing of three-quarters in nominal value of that class or the passing of an extraordinary resolution of the classes affected in separate class meetings. The existing articles of association of P&O Princess follow the requirements of the relevant provisions of the Companies Act. (b)Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, unless the articles of incorporation require a greater vote, an amendment to the articles of incorporation may be made: (i) by the holders or their proxies of all the issued and outstanding stock of the corporation entitled to vote; (ii) by means of a resolution passed by holders or their proxies of the majority of the outstanding stock of the corporation entitled to vote; and (3) in case the amendment to the articles consists in any change in the preference of shares of any class, by means of a resolution passed by holders or their proxies of majority of the outstanding stock of the corporation entitled to vote of each class. Following completion of the DLC transaction, any amendment to the provisions of the Carnival articles which entrench the DLC structure will require approval of the shareholders of Carnival and P&O Princess as a class rights action. The entrenched provisions of the Carnival articles include matters relating to: .. the special voting share; .. takeover restrictions; 138 .. dividends and distributions; .. amendments to the Carnival articles and by-laws; and .. liquidation. All other provisions of the Carnival articles (except as provided below) may be amended by the shareholders of Carnival and P&O Princess voting together in a joint electorate action. Amendments to the Carnival articles require approval, whether in a class rights action or joint electorate action, by a majority of all votes entitled to be cast with respect thereto (including votes entitled to be cast by the Carnival special voting share) at a meeting of Carnival shareholders. Notwithstanding the foregoing, any amendment of the Carnival articles (1) to specify or change the location of the office or registered agent of Carnival, or (2) to make, revoke or change the designation of a registered agent, or to specify or change the registered agent, may be approved and effected by the Carnival board without the approval of Carnival shareholders or P&O Princess shareholders. Following completion of the DLC transaction, any amendment to or repeal of the provisions of Carnival's by-laws which entrench the DLC structure will also require the approval of Carnival shareholders and P&O Princess shareholders as a class rights action. The entrenched provisions of the Carnival by-laws include matters relating to: .. the transferability of the Carnival special voting share; .. the scope of, and voting rights and procedures in relation to joint electorate actions, class rights actions and Procedural Resolutions; .. election, qualification and disqualification of directors. Any amendment to or repeal of any by-law of Carnival other than any of the Carnival entrenched by-laws may be approved and effected by the Carnival board without the approval of Carnival shareholders or P&O Princess shareholders. Upon completion of a mandatory exchange, Carnival's articles and by-laws will be automatically amended without any further action of Carnival or Carnival shareholders to conform to the articles of incorporation and by-laws of Carnival prior to the implementation of the DLC structure. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Following completion of the DLC transaction, except as described below, the P&O Princess articles and memorandum will be subject to the same restrictions described in paragraph 14(a) above. However, any amendment to the entrenched provisions of P&O Princess' articles which entrench the DLC structure will require the approval of P&O Princess and Carnival shareholders as a class rights action. The entrenched provisions of the amended articles include matters relating to: .. the scope of, and voting rights and procedures in relation to, joint electorate actions; .. the scope of, and voting rights and procedures in relation to, class rights actions; .. the rights attaching to the P&O Princess special voting share; .. the mechanisms for equalisation on liquidation; .. the appointment and vacation of office of directors; .. cash dividends and other cash distributions; and .. takeover restrictions. Any other amendment to the provisions of the P&O Princess articles (which are not amendments to entrenched provisions) may be amended by approval of the shareholders of P&O Princess and Carnival voting together in a joint electorate action. No amendment to the P&O Princess articles, by class rights action or by joint electorate action, may be effected unless at least

three-quarters of the votes of those shareholders voting in person or by proxy (including votes to be cast by the P&O Princess special voting share) have been voted in favour of such amendment at a meeting of the P&O Princess shareholders. 139 15. Stock Class Rights (a)Existing rights as a P&O Princess shareholder The Companies Act and the articles of association of P&O Princess currently provide that amendments varying or abrogating the rights of the holders of any class of shares require the consent of the holders of three-quarters in nominal value of the issued shares of that class or the passing of an extraordinary resolution of the classes affected in separate class meetings. There are currently 49,998 redeemable preference shares of (Pounds)1 each in P&O Princess which were allotted (but not issued) to Nicholas Luff (Chief Financial Officer of P&O Princess) on 22 September 2000 against an undertaking by Mr Luff to pay just over a quarter of the aggregate par value of those shares plus interest on or before 22 September 2005. These shares were allotted in connection with the formation of P&O Princess to enable it to obtain a certificate to commence business under Section 117 of the Companies Act. These shares are not listed on any stock exchange. The existing articles of association of P&O Princess currently provide that holders of the redeemable preference shares (once issued) shall be entitled, in priority to the holders of any other class of shares, to receive a fixed cumulative preferential dividend. That dividend shall accrue on a daily basis at the rate of 8 per cent. per annum on the amount paid up on each redeemable preference share, and is payable annually in arrears on 31 December. P&O Princess has the power, under the current articles of association, to redeem any redeemable preference shares at any time, on giving the registered holder written notice in accordance with the terms of the articles of association and on payment of an amount equal to the amount paid up on the redeemable preference share(s). The existing articles of association of P&O Princess also provide that on a distribution of assets of P&O Princess among shareholders on a winding up or other return of capital (other than a redemption or purchase by the company of its own shares), the redeemable preference shareholders shall rank behind other shareholders in relation to capital paid up or credited as paid up on the redeemable preference shares. The existing articles of association of P&O Princess also provide that the holders of the redeemable preference shares have no voting rights. (b)Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, any change to the rights of holders of Carnival shares or any series of preferred stock requires an amendment to the Carnival articles. Panamanian law provides that the holders of shares of a class or series will be entitled to vote as a class upon a proposed amendment if the amendment consists in any change in the preference of the outstanding shares of any class, or would authorise the issuance of shares with preferences which are in any respect superior to those of outstanding shares of any class. Under its articles of incorporation, Carnival has the right to issue shares of common stock and shares of preferred stock for such consideration and for such corporate purposes as the board of directors may from time to time determine. The shares of authorised common stock shall be identical in all respects and have equal rights and privileges. The shares of preferred stock may be issued from time to time in one or more series of any number of shares, provided that the aggregate number of shares issued and not cancelled of any and all such series shall not exceed the total number of shares of preferred stock authorised, and with distinctive serial designations, all as shall be stated and expressed in the resolution or resolutions providing for the issue of such shares of preferred stock. Each series of shares of preferred stock: .. may have such voting powers, full or limited, or may be without voting powers; .. may be subject to redemption at such time or times and at such prices; .. may be entitled to receive dividends (which may be cumulative or non-cumulative) at such rate or rates, in such consideration (including, without limitation, shares of capital stock), on such conditions and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or series of stock; .. may have such rights upon the dissolution of, or upon any distribution of the assets of Carnival; 140 .. may be made convertible into or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of shares of Carnival or any other person at such price or prices or at such rates of exchange and with such adjustments; .. may be entitled to the benefit of a sinking fund to be applied to the purchase or redemption of shares of such series in such amount or amounts; .. may be entitled to the benefit of conditions and restrictions upon the creation of indebtedness of Carnival or any subsidiary, upon the issue of any additional shares (including additional shares of such series or of any other series) and upon the payment of dividends or the making of other distributions on, and the purchase, redemption or other acquisition by Carnival or any subsidiary of, any outstanding shares of Carnival; and .. may have such other relative, participating, optional or other special rights, qualifications, limitations or restrictions, all as shall be stated in the resolution or resolutions providing for the issue of such shares of preferred stock. Following the implementation of the DLC structure, Carnival's articles will provide that the holders of Carnival shares be entitled, in accordance with the Equalisation and

Governance Agreement and to the exclusion of the holders of shares of preferred stock, to receive such dividends as from time to time may be declared by the Carnival board, except as otherwise provided by the resolution or resolutions providing for the issue of any series of shares of preferred stock. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Following implementation of the DLC structure, and except as described below, P&O Princess will continue to be subject to the restrictions and provisions described in paragraph 15(a) above under the heading "Existing rights as a P&O Princess shareholder". Following the implementation of the DLC structure, the P&O Princess articles will provide that no preferential dividend will accrue in respect of any redeemable preference shares not in issue, and that the holder of the redeemable preference shares will not have any rights to vote. In addition, the holder of the redeemable preference shares will be able to require P&O Princess to redeem them within three months' notice. The P&O Princess articles will also provide for the creation and issue of two new classes of share - a P&O Princess special voting share and an equalisation share in addition to the creation of an extra 50,000 redeemable preference shares (described above). The nominal value of the P&O Princess special voting share will be (Pounds)1.00. The P&O Princess special voting share will carry no rights to a dividend and will have a right to payment of the amount paid up or credited as being paid up on such share on the winding up of P&O Princess, ranking behind the P&O Princess shares and P&O Princess redeemable preference shares, but ahead of the equalisation share. The P&O Princess board may not register any transfer of the P&O Princess special voting share unless the transfer has been approved in accordance with, and the transferee complies with, a trust deed governing the trust which will hold that share. The rights attaching to the equalisation share will be prescribed under the new P&O Princess articles as follows: .. the equalisation share will carry such dividends as are expressly declared or paid on the equalisation share for the purposes of assisting or enabling the making of any payment to Carnival, if Carnival is unable to make a cash dividend or other cash distribution to its shareholders which is equivalent (in accordance with the equalisation ratio and, if relevant, having regard to the appropriate exchange rate agreed by the boards of the Combined Group) to that being made by P&O Princess (the "Equivalent Distribution") and P&O Princess is required to make a payment, which after payment of any tax liability associated with such payment by both parties, enables Carnival to make or pay an Equivalent Distribution; .. the nominal value of the equalisation share will be (Pounds)1. It will have a right only to payment of the amount paid up or credited as being paid up on such share on the winding up of P&O Princess ranking behind the holders of all other classes of shares; .. the equalisation share will not entitle its holder to receive notice of, attend or vote at, any general meeting; and .. the board of P&O Princess shall refuse to register the transfer of the equalisation share unless the transfer is to a member of the Carnival group or a trustee for the benefit of one or more members of the Carnival group. 141 16. Rights of Inspection (a)Existing rights as a P&O Princess shareholder Under English law, except when closed under the provisions of the Companies Act, the register of members and index of names must be open to inspection by: .. any shareholder in the company, without charge; or .. any other person, on payment of a fee. In both cases, the documents may be copied for a fee. The existing articles of association of P&O Princess currently permit the holding of shares in uncertificated form and the electronic transfer of title to shares by means of a relevant system, which is currently operated by CRESTCo Limited in the UK. The effect of this, under English law, is that the register of members is kept and maintained by CRESTCo Limited and P&O Princess maintains a copy of that register, which is required to be regularly reconciled with the register of members maintained by CRESTCo Limited. The rights of inspecting the register of members described above only apply to P&O Princess's copy. Any shareholders of an English company may also inspect, without charge: .. minutes of proceedings of any general meetings of the company and obtain copies of the minutes, for a fee; and .. service contracts of the company's directors, provided that the contracts do not have less than 12 months to run or cannot be terminated by the company within the next ensuing 12 months without payment of compensation. In addition, shareholders are entitled to receive copies of the audited, published annual accounts of a company in advance of the annual general meeting. (b)Rights of Carnival shareholders following the implementation of the DLC structure Panamanian law does not regulate the right to inspect the corporate books and records. Accordingly, any shareholder may inspect the corporation's stock ledger, a list of its shareholders and its other books and records and make copies or extracts of those materials during normal business hours, subject to applicable provisions, if any, in a corporation's articles of incorporation or by-laws. However, a shareholder holding at least 5 per cent. of the issued and outstanding capital stock of the corporation may request the General Assembly of Shareholders to appoint auditors for examination of the balance sheet, or the incorporation records of the corporation, or the management thereof, but if such proposal is rejected, a Judge may without further proceeding appoint such auditors. Following completion of the



DLC transaction, every Carnival shareholder will, upon written demand stating the purpose thereof, have a right to inspect, in person or by agent or attorney, during the usual hours of business, for a purpose reasonably related to his interests as a shareholder, the share register, books of account, and minutes of all proceedings, and make copies or extracts therefrom. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure No changes with respect to rights of inspection will be made to the P&O Princess articles in connection with the implementation of the DLC structure. Accordingly, the restrictions, described in paragraph 16(a) above under the heading "Existing rights as a P&O Princess shareholder" will remain in effect. 17. Classification of the Board of Directors (a)Existing rights as a P&O Princess shareholder There are no provisions under English law concerning classes of directors. However, the existing articles of association of P&O Princess provide that at every annual general meeting one-third of the directors must retire by rotation. These retiring directors may be re-appointed by ordinary resolution of the P&O Princess shareholders at that meeting. 142 (b)Rights of Carnival shareholders following the implementation of the DLC structure Panamanian law permits the articles of incorporation or the by-laws of a corporation to provide that directors be divided into one, two or three classes, with the term of office of one class of directors to expire each year. Carnival's current articles of incorporation do not provide for classification of its board of directors and each member of the Carnival board is elected annually to serve until the next annual meeting of shareholders. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Following the implementation of the DLC structure, the provisions in P&O Princess' articles regarding the term of office of directors will remain the same as described at paragraph 17(a) above under the heading "Existing rights as a P&O Princess shareholder". Accordingly, each member of the P&O Princess board will continue to be elected annually to serve until the next annual general meeting of shareholders. 18. Election of Directors (a)Existing rights as a P&O Princess shareholder Under English law, every public company must have at least two directors and matters relating to the appointment of directors are usually set out in the company's articles of association. The existing articles of association of P&O Princess currently provide that the number of directors must not be less than two and not more than twenty (or such lesser number as the directors may from time to time resolve) and a person who is willing to act to be a director may be appointed, either to fill a vacancy or as an additional director, by the P&O Princess board or by P&O Princess shareholders by ordinary resolution at a general meeting. A director appointed by the P&O Princess board may only hold office until the next following annual general meeting and he must vacate his office if he is not re-appointed at such meeting. The existing articles of association also provide that no person shall be appointed a director at any general meeting unless he is recommended by the board of directors or has been proposed by a P&O Princess shareholder qualified to vote at the meeting in accordance with the terms of the articles of association. The Companies Act and the articles of association of P&O Princess provide that each director must be appointed pursuant to a separate resolution. The existing articles of association also provide that a director need not be a shareholder of P&O Princess to serve as a director. (b)Rights of Carnival shareholders following the implementation of the DLC structure Panamanian law provides that the directors of a corporation will be elected in such manner, at such place and in such time as the articles of incorporation or the by-laws determine, and that vacancies existing in the board of directors will be filled in the manner prescribed by the articles of incorporation or the by-laws. If the directors are not elected on the day designated for that purpose, the directors in office will continue to serve as such until their respective successors are elected. Following completion of the DLC transaction, resolutions relating to the appointment, removal and re-election of Carnival's directors will be considered as a joint electorate action and voted upon by the shareholders of each company voting at separate meetings but acting together as a joint electorate. The number of directors will be a minimum of three and a maximum of 25. No person may be elected or appointed to serve on the Carnival board unless that person is also elected to be a member of the P&O Princess board. Any director of Carnival who resigns from the Carnival board must also resign from the P&O Princess board. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Following implementation of the DLC structure, the appointment, removal and re-election of the directors of P&O Princess will be considered as a joint electorate action and voted upon by the shareholders of each company voting at separate meetings but acting as a joint electorate. The number of directors will be a minimum of three and a maximum of 25. No person may be elected or appointed to serve on the P&O Princess board unless that person is also elected to be a member of the Carnival board. Any director of P&O Princess who resigns from the P&O Princess board must also resign from the Carnival board. 143 19. Removal of Directors (a)Existing rights as a P&O Princess shareholder Under the Companies Act, shareholders may remove a director without cause by ordinary resolution, irrespective of any provisions of the

company's articles of association or service contract the director has with the company, provided, special notice of the resolution is given to the company. The existing articles of association of P&O Princess provide that P&O Princess shareholders may remove any director from office by ordinary resolution without any special notice. The existing articles of association also provide that a director's office shall be vacated if: .. he ceases to be a director by virtue of the Companies Act or the articles of association of P&O Princess or he becomes prohibited by applicable law from being a director; .. he becomes bankrupt or makes an arrangement with his creditors generally or shall apply to the court for an interim order under the UK Insolvency Act 1986 (in connection with a voluntary arrangement under that Act); .. he is, or may be, suffering from a mental disorder and either (i) he is admitted to hospital in certain prescribed circumstances, or (ii) a court order is made (by a court having jurisdiction) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator bonis or other person with respect to his property or affairs; .. he resigns from office or his term expires and he is not re-elected; .. he has been absent for over six consecutive months without the P&O Princess board's permission; or .. not less than three-quarters of the other directors so request in writing. Any such removal is without prejudice to any claim the director may have for damages for such termination. (b)Rights of Carnival shareholders following the implementation of the DLC structure Panamanian law provides that a director may be removed with or without cause by the holders of a majority in voting power of the shares entitled to vote at an election of directors. Following completion of the DLC transaction, subject to the provisions of Panamanian law, directors of Carnival may be removed with or without cause only by a majority vote of a quorum of the Carnival shareholders. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Except as described below, shareholders of P&O Princess will continue to have the ability to remove directors under the circumstances described in paragraph 19(a) above under the heading "Existing rights as a P&O Princess shareholder" following the implementation of the DLC structure. Under the new P&O Princess articles, a director of P&O Princess will also be removed if: .. he ceases to be a director of Carnival; or .. such removal is duly approved as a joint electorate action.

20. Vacancies on the Board of Directors (a)Existing rights as a P&O Princess shareholder As set out above in relation to the election of directors, the existing articles of association of P&O Princess provide that the number of directors must not be less than two and not more than twenty (or such lesser number as the directors may from time to time resolve) and a person who is willing to act to be a director may be appointed, either to fill a vacancy or as an additional director, by the P&O Princess board or by the P&O Princess shareholders by ordinary resolution at a general meeting. A director appointed by the board may only hold office until the next following annual general meeting and he must vacate his office if he is not re-appointed at such meeting. (b)Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, vacancies existing in the board of directors will be filled in the manner prescribed by a company's articles of incorporation or the by-laws. 144 Following completion of the DLC transaction, vacancies on the Carnival board will be filled by a majority of the directors then in office, even though less than a quorum, provided that any such person is appointed to both the Carnival board and the P&O Princess board at the same time. If only one director remains in office, that director will have the power to fill all vacancies. If there are no directors, the Secretary of Carnival may call a meeting at the request of any two shareholders for the purpose of appointing one or more directors. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Following the implementation of the DLC structure, vacancies on the P&O Princess board may be filled by either the P&O Princess board, by action of a majority of directors then in office, or by the P&O Princess shareholders by ordinary resolution at a general meeting (as a joint electorate action) provided that any such person is appointed to both the P&O Princess board and Carnival board at the same time.

21. Indemnification of Directors and Officers (a)Existing rights as a P&O Princess shareholder A UK company is not permitted under the Companies Act to indemnify a director or officer of the company (or any person employed by the company as an auditor) against any liability in respect of any negligence, default, breach of duty or breach of trust of which he may be guilty in relation to the company. UK companies, however, may: .. purchase and maintain liability insurance for officers and directors; and .. indemnify officers and directors against any liability incurred by him either in defending any proceedings in which judgment is given in his favour or he is acquitted, or in connection with the court granting him relief from liability in the case of honest and reasonable conduct. The existing articles of association of P&O Princess grant directors and every officer of the company such an indemnity, in accordance with and subject to the provisions of the Companies Act. (b)Rights of Carnival shareholders following the implementation of the DLC structure Panamanian law does not specifically address the issue of indemnification of directors and officers. Carnival may indemnify any officer or director who is made a party to any

suit or proceeding on account of being a director, officer or employee of the corporation against expenses, including attorney's fees, judgments, fines and amounts paid in settlement reasonably incurred by him/her in connection with the action, through, among other things, a majority vote of a quorum consisting of directors who were not parties to the suit or proceeding if the officer or director: (1) acted in good faith and in a manner he/she reasonably believed to be in the best interests of the corporation; and (2) in a criminal proceeding, had no reasonable cause to believe his/her conduct was unlawful. Following completion of the DLC transaction, the indemnification provisions in Carnival's articles of incorporation will be amended to reflect the fact that Carnival's directors and officers will also serve as directors and/or officers of P&O Princess. Accordingly: Each person who was or is a party to or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, by reason of the fact that such person is or was a director or an officer of Carnival or P&O Princess or is or was serving at the request of Carnival or P&O Princess as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by Carnival against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding to the fullest extent and in the manner set forth in and permitted by Panamanian law, and any other applicable law, as from time to time in effect. Carnival will continue to have the power to purchase and maintain insurance in respect of its indemnification obligations. A member of the Carnival board, or a member of any committee designated by the Carnival board, will, in the performance of his duties, be fully protected in relying in good faith upon the records of Carnival or P&O Princess and upon such information, opinions, reports or statements presented to Carnival by any of Carnival's or P&O Princess' officers or employees, or committees of the board of directors, or by any other person as to matters the member reasonably believes are within such other person's 145 professional or expert competence and who has been selected with reasonable care by or on behalf of Carnival. In discharging their duties, directors and officers, when acting in good faith, may rely upon financial statements of Carnival or P&O Princess represented to them to be correct by the chief financial officer or the controller or other officer of Carnival or P&O Princess having charge of its books or accounts, or stated in a written report by an independent public or certified public account or firm of such accountants fairly to reflect the financial condition of Carnival or P&O Princess. (c)Rights of P&O Princess shareholders following the implementation of the DLC structure Following implementation of the DLC structure, P&O Princess will have the ability to purchase directors' indemnity insurance for its directors and officers and those of Carnival, to the fullest extent permitted by English law. The limitations described above in paragraph 21(a) will remain application to P&O Princess. 22. Takeover Restrictions (a)Existing rights as a P&O Princess shareholder Under the Takeover Code, after (i) a bona fide offer has been communicated to the board of directors, or (ii) the board of directors has reason to believe that a bona fide offer might be imminent, the board of directors is prohibited from taking any action without the approval of the shareholders in general meeting that could effectively result in the offer being frustrated or in the shareholders being denied an opportunity to decide on its merits. The Takeover Code provides a number of protections for shareholders, particularly in relation to mandatory offers where a person or group of persons acting in concert acquires in excess of 30 per cent. of the voting rights of a company. (b)Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, directors are responsible for the good management and in general for the execution or faulty fulfilment of their obligations to administer the corporation's affairs. There is limited legislative or judicial guidance on takeover issues in Panama and it is difficult to anticipate how a Panamanian court will react or resolve a matter concerning application of a policy of judicial deference to board of directors decisions to adopt anti-takeover measures in the face of a potential takeover where the directors are able to show that (i) they had reasonable grounds for believing that there was a danger to corporate policy and effectiveness from an acquisition proposal, and (ii) the board action taken was reasonable in relation to the threat posed. Following completion of the DLC transaction, the Carnival articles will contain provisions which would apply to any person, or group of persons acting in concert, that acquires shares in the Combined Group which would trigger a mandatory offer obligation as if the Takeover Code applied to the Combined Group on a combined basis. Where: .. a person or group of persons acquired, or acquires voting rights over 30 per cent. or more of the combined votes which would be cast on a joint electorate action; or .. any person or group of persons that already holds not less than 30 per cent. but not more than 50 per cent. of the combined votes which would be cast on a joint electorate action, acquired, or acquires voting rights over, any shares which increase the percentage of votes which such person(s) could cast on a joint electorate action such shares acquired would be disenfranchised (that is, the owner of those shares could cease to have any economic or voting rights on those shares) unless an offer

for all the shares in the Combined Group at a price equivalent to that applicable to the acquisition has been made by the person or group. These takeover restrictions would not apply to: .. acquisitions of shares of the other company by either P&O Princess or Carnival or their respective subsidiaries; .. if the restrictions are prohibited by applicable law and regulations; .. any acquisition by the Arison family and trusts for their benefit within the thresholds described below; and .. any acquisition pursuant to a mandatory exchange. 146 There are certain exceptions to these provisions in the case of the Arison family and trusts for their benefit which together will hold approximately 35 per cent. of the total voting power of the Combined Group immediately following implementation of the DLC structure. The Arison family and trusts for their benefit may acquire shares in the Combined Group without triggering the mandatory offer provisions provided that, as a result, their aggregate holdings do not increase by more than one per cent. of the voting power of the Combined Group in any period of 12 consecutive months, subject to their combined holdings not exceeding 40 per cent. of the voting power of the Combined Group. However, these parties may acquire additional shares or voting power without being subject to these restrictions if they comply with the mandatory offer requirement described above. Carnival's articles also contain restrictions that prevent any person(s) (other than the Arison family and its permitted transferees) from acquiring more than 4.9 per cent. of the beneficial ownership of Carnival shares. While both the mandatory offer protection and Section 883 4.9 per cent. protection remain in place, no third party other than the Arison family and trusts for their benefit will be able to acquire control of the Combined Group.

(c)Rights of P&O Princess shareholders following the implementation of the DLC structure The Panel on Takeovers and Mergers in the UK has confirmed that, on the basis of information available to it, after completion of the DLC transaction neither P&O Princess nor Carnival will be a company to which the UK Takeover Code applies. Consequently, P&O Princess will no longer have a number of takeover protections afforded by the UK Takeover Code. Nevertheless, following completion of the DLC transaction, the P&O Princess articles will contain similar anti-takeover provisions to those described at paragraph 22(a) above under the heading "Carnival shareholders following the implementation of the DLC".

23. Liquidation (a)Existing rights as a P&O Princess shareholder The existing articles of association of P&O Princess provide that, on a winding up of P&O Princess, the liquidator may, with the sanction of an extraordinary resolution of P&O Princess shareholders, divide among the members the whole or any part of the assets of P&O Princess and may value assets for that purpose and determine how the division shall be carried out as between the shareholders of different classes of shares. The existing articles of association of P&O Princess also provide that on a distribution of assets of P&O Princess among shareholders on a winding up, the redeemable preference shareholders shall rank behind other shareholders in relation to capital paid up or credited as paid up on the redeemable preference shares.

(b)Rights of Carnival shareholders following the implementation of the DLC structure Under Panamanian law, if the board of directors deems it advisable that the corporation be dissolved, it is to propose by a majority of the votes of the members thereof an Agreement of Dissolution and within 10 days shall call or cause to be called, in accordance with law, a meeting of stockholders, to vote on the resolution passed by the board of directors proposing the dissolution. At the stockholders' meeting, the holders of a majority of shares with voting rights on the matter can adopt the resolution for the dissolution of the company. The dissolution of the company may also be adopted by written consent in lieu of meeting of the holders of all shares having voting power. Following completion of the DLC transaction, in the event of a voluntary or involuntary liquidation of Carnival, to the extent assets are available for distribution the holders of Carnival shares and P&O Princess shares will be entitled to a liquidation distribution equivalent on a per share basis in accordance with the equalisation ratio then in effect and disregarding any tax consequences. In giving effect to the principles regarding a liquidation of Carnival, Carnival may: .. make a payment (of cash or in specie) to P&O Princess in accordance with the provisions of the Equalisation and Governance Agreement; .. issue shares to P&O Princess or to holders of P&O Princess shares and make a distribution or return on such shares; or 147 .. take any other action that each of the Carnival board and P&O Princess board consider appropriate to give effect to such principles. Any action other than a payment of cash by one company to the other company will require the prior approval of the board of directors of each company.

(c)Rights of P&O Princess shareholders following the implementation of the DLC structure Similarly, following the implementation of the DLC structure, the holders of P&O Princess shares and Carnival shares will be entitled to a liquidation distribution equivalent on a per share basis in accordance with the equalisation ratio then in effect and disregarding any tax consequences. In giving effect to the principles regarding a liquidation of P&O Princess, P&O Princess may: .. make a payment (of cash or in specie) to Carnival in accordance with the provisions of the Equalisation and Governance Agreement; .. issue shares to Carnival or to holders of Carnival shares and make a distribution or return on such

shares; or .. take any other action that the boards of Carnival and P&O Princess consider appropriate to give effect to such principles. The new P&O Princess articles will also provide that on a distribution of assets of P&O Princess among shareholders on a winding up: .. the redeemable preference shares shall rank behind the ordinary shares but ahead of other classes of shares in relation to capital paid up or credited as paid up; .. the P&O Princess special voting share shall rank behind the shares and the redeemable preference shares but ahead of other classes of shares in relation to capital paid up or credited as paid up; and .. the equalisation share shall rank behind the shares, the redeemable preference shares and the P&O Princess special voting share in relation to capital paid up or credited as paid up. 148

**APPENDIX IV ADDITIONAL INFORMATION ON CARNIVAL AND P&O PRINCESS**

**1. Responsibility for purposes of the Takeover Code**

(a) For purposes of the Takeover Code, the directors of Carnival accept responsibility for the information contained in this document (other than information relating to the P&O Princess group, the directors of P&O Princess, and members of their immediate families, related trusts and persons connected with them). To the best of the knowledge and belief of the directors of Carnival (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

(b) For purposes of the Takeover Code, the directors of P&O Princess accept responsibility for the information contained in this document (other than information relating to Carnival, the directors of Carnival, and members of their immediate families, related trusts and persons connected with them). To the best of the knowledge and belief of the directors of P&O Princess (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

(c) The statements set out in paragraphs (a) and (b) above are made in accordance with the requirements of the Takeover Code and shall not be deemed to limit, establish or expand liability under applicable law, including liability under U.S. securities laws or under the laws of any state of the U.S.

**2. UK taxation**

The following paragraphs are intended as a general guide only and are based on current legislation and current Inland Revenue practice. They summarise the position of P&O Princess shareholders who (unless the position of non-UK resident P&O Princess shareholders is expressly referred to) are resident or ordinarily resident in the UK for tax purposes and who hold their P&O Princess shares as an investment. The tax implications of the Partial Share Offer on P&O Princess shareholders will depend on each particular shareholder's particular circumstances. Holders of the P&O Princess shares and P&O Princess ADSs should consult their independent professional advisers in the light of their particular circumstances as to the UK tax consequences of the DLC transaction, the P&O Princess share reorganisation and the Partial Share Offer, as well as to the effect of any state, local or applicable foreign tax law.

(a) **Tax consequences for UK P&O Princess shareholders as a result of the DLC transaction**

The DLC transaction will not give rise to a taxable disposal of shares for UK shareholders who do not accept the Partial Share Offer. UK P&O Princess Shareholders who do not accept the Partial Share Offer will continue to hold their P&O Princess shares and will be taxed on dividends payable in respect of their P&O Princess shares in the same way as they were taxed on such dividends before the implementation of the DLC transaction.

(b) **Taxation of the P&O Princess share reorganisation**

The P&O Princess share reorganisation will not give rise to a taxable disposal of P&O Princess shares for UK P&O Princess shareholders. Instead, for UK tax purposes, the existing P&O Princess shares and the reorganised P&O Princess shares will be treated as the same asset, acquired when the existing P&O Princess shares were acquired. Where a P&O Princess shareholder becomes entitled to a small cash payment in relation to fractional entitlements arising as a result of the P&O Princess share reorganisation, this will not be treated as a disposal or part disposal for UK taxation purposes. Instead, the amount of the small cash payment will be deducted from the base cost of the reorganised P&O Princess shares.

(c) **Taxation of the P&O Princess shareholders who accept the Partial Share Offer**

(i) **Taxation of chargeable gains**

The Partial Share Offer does not qualify for roll-over relief for the purposes of UK taxation of chargeable gains. 149

**Acceptance by P&O Princess shareholders of the Partial Share Offer and the transfer of P&O Princess shares in exchange for the issue of Carnival shares**

will constitute a disposal or part disposal of P&O Princess shares for the purposes of UK tax on chargeable gains. Such a disposal or part disposal may give rise to a liability to UK tax on chargeable gains depending on the shareholder's circumstances (including the availability of exemptions or allowable losses). The value of the consideration received will be determined for the purposes of UK tax on chargeable gains by aggregating the value for UK tax purposes of the Carnival shares received in exchange for P&O Princess shares and the amount of any cash received in respect of fractional entitlements. For corporate P&O Princess shareholders, indexation allowance on the acquisition cost of the P&O Princess shares should be available until the

date of disposal of the P&O Princess shares. Broadly, indexation allowance increases the acquisition cost of an asset for tax purposes in line with the rise in the retail prices index. Indexation allowance can not be used to create or increase a loss for tax purposes. Where an individual P&O Princess shareholder acquired his P&O Princess shares prior to 1 April 1998 indexation allowance on the acquisition cost of the shares in P&O Princess will be available up to and including April 1998. No indexation allowance will be available where an individual P&O Princess shareholder acquired his shares in P&O Princess after 31 March 1998. For periods after April 1998 the rate of capital gains tax paid by an individual is effectively reduced the longer he has owned the P&O Princess shares after 5 April 1998, up to a maximum of, generally, ten years. This is known as taper relief. P&O Princess shares held on 17 March 1998 will generally be treated as having been held for one extra year for the purposes of taper relief. Where an individual acquired his shares after 31 March 1998 taper relief runs from the date of acquisition. In general no taper relief is given until shares have been held for at least three years. (ii) Dividends payable in respect of the Carnival shares An individual holder of Carnival shares will, in general, be liable to UK income tax on dividends received from Carnival. For the purposes of computing his or her UK tax liability, the amount included as income is the gross amount of the dividend (including any withholding tax) and is taxed at the appropriate marginal rate (ten per cent. in the case of a basic or lower rate taxpayer and 32.5 per cent. in the case of a higher rate taxpayer). Credit is generally given against UK tax on the gross dividend for foreign tax withheld. UK resident P&O Princess shareholders who are individuals not domiciled in the UK will only be liable to income tax on a dividend from Carnival to the extent that it is remitted to the UK. The taxation of dividends so remitted to the UK is not considered in this summary and non-domiciled P&O Princess shareholders should refer to their professional advisers for an explanation. UK resident P&O Princess shareholders who are companies will, in general, be liable to UK corporation tax on dividends received from Carnival. For the purpose of computing the liability to UK corporation tax, the amount included as the income is the gross amount of the dividend (iii) P&O Princess Employee Share Incentive Plans Special tax provisions may apply to P&O Princess shareholders who have acquired or acquire their P&O Princess shares by exercising options under the P&O Princess Employee Share Incentive Plans, including provisions imposing a charge to income tax. (d) Stamp duty and stamp duty reserve tax (SDRT) No stamp duty or SDRT will be payable by P&O Princess shareholders in respect of (i) the completion of the DLC transaction, (ii) the P&O Princess share reorganisation (including any cash payments in respect of fractional entitlements) or (iii) the Partial Share Offer. (e) Non-residents The tax treatment of non-UK resident P&O Princess shareholders may differ from that described in paragraphs 2(a)-(d) above. Persons who are not resident in the UK should consult their own tax advisers concerning their tax liabilities (in the UK and any other jurisdiction).

3. U.S. federal income tax considerations The following is a discussion of the material U.S. federal income tax consequences which, in the opinion of KPMG LLP, are generally applicable to a U.S. holder of P&O Princess shares or P&O 150 Princess ADSs (collectively referred to as "U.S. P&O Princess shareholders") with respect to (a) the DLC transaction; (b) the P&O Princess share reorganisation; (c) the exchange of such holder's P&O Princess shares or P&O Princess ADSs pursuant to the Partial Share Offer; and (d) ownership of Carnival shares. This discussion is based upon existing U.S. federal income tax law, including the Internal Revenue Code, administrative pronouncements, judicial decisions and Treasury Regulations, as in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect. This discussion assumes that each of the P&O Princess shares and P&O Princess ADSs has been held as a capital asset as defined in Section 1221 of the Internal Revenue Code in the hands of the U.S. holder at all relevant times and that any Carnival shares to be received by such U.S. holder as a result of the Partial Share Offer will be held as a capital asset. This discussion assumes that neither Carnival nor P&O Princess is a "controlled foreign corporation," "foreign personal holding company" or "passive foreign investment company" ("PFIC") for U.S. federal income tax purposes. This discussion does not address state, local or foreign tax consequences to U.S. holders, nor does this discussion address all the tax consequences that may be relevant to a U.S. holder in light of such holder's particular circumstances or to U.S. holders subject to special rules, including certain financial institutions, regulated investment companies, insurance companies, dealers in securities, tax-exempt organisations, persons who hold P&O Princess shares or P&O Princess ADSs as part of a position in a "straddle" or "appreciated financial position" or as part of a "hedging" or "conversion" transaction, persons that own or have owned, actually or constructively, 10 per cent. or more of the P&O Princess shares and P&O Princess ADSs, persons who acquired their P&O Princess shares or P&O Princess ADSs through the exercise or cancellation of employee stock options or otherwise as compensation for services, and U.S. holders whose functional currency is not the U.S. dollar. This discussion assumes that no holder of P&O Princess shares or P&O Princess ADSs will hold (including existing

holdings, and after applying certain attribution rules) more than 5 per cent. of Carnival shares or P&O Princess shares or P&O Princess ADSs, by vote or value, after the Partial Share Offer. This discussion does not address U.S. tax considerations that may apply to P&O Princess shareholders that are not U.S. holders. Carnival and P&O Princess have not sought and will not seek a ruling from the Internal Revenue Service with respect to the U.S. federal income tax consequences described below and, as a result, there can be no assurance that the Internal Revenue Service will agree with, or that a court will uphold, any of the conclusions set forth herein. Holders of P&O Princess shares and P&O Princess ADSs should consult their independent professional advisers in the light of their particular circumstances as to the U.S. federal income tax consequences of the DLC transaction, the P&O Princess share reorganisation and the Partial Share Offer, as well as to the effect of any state, local or applicable foreign tax law.

(a)The DLC transaction Although there is no U.S. federal income tax authority addressing the tax consequences of a dual listed company transaction, the DLC transaction should not give rise to taxable income or gain for U.S. P&O Princess shareholders for U.S. federal income tax purposes. However, the Internal Revenue Service may assert that U.S. P&O Princess shareholders received taxable income as a result of the various voting and equalisation provisions necessary to implement the DLC structure. The P&O Princess directors believe that such voting and other rights, if any, received by shareholders are expected to have only nominal value and, therefore, the receipt of such rights by U.S. P&O Princess shareholders would only result in a nominal amount of income. It is possible, however, that the Internal Revenue Service may disagree with this conclusion. U.S. P&O Princess shareholders will be taxed on dividends received in respect of their P&O Princess shares or P&O Princess ADSs after completion of the DLC transaction on the same basis as they were prior to the DLC transaction. (b)The P&O Princess share reorganisation The P&O Princess share reorganisation should not give rise to taxable income or gain to U.S. P&O Princess shareholders for U.S. federal income tax purposes except with respect to the gain, if any, recognised by a U.S. P&O Princess shareholder on the disposition of fractional shares. A U.S. P&O Princess shareholder will recognise gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the cash received and the shareholder's adjusted tax basis in its P&O Princess shares or ADSs allocable to the fractional share, as applicable. Generally, such gain will be 151 capital in nature, and will be long-term capital gain or loss if, on the date of the consummation of the P&O Princess share reorganisation, the P&O Princess shares were held for more than one year. Gain or loss, if any, realised by a U.S. P&O Princess shareholder generally will be treated as U.S. source. For U.S. federal income tax purposes, a U.S. P&O Princess shareholder's adjusted tax basis in its P&O Princess shares or P&O Princess ADSs received as part of the P&O Princess share reorganisation will be equal to its adjusted basis in its former P&O Princess shares or P&O Princess ADSs, as the case maybe. (c)The exchange of P&O Princess shares or P&O Princess ADSs pursuant to the Partial Share Offer The receipt of Carnival shares (and any consideration received in lieu of fractional Carnival shares) by a P&O Princess shareholder in exchange for P&O Princess shares or P&O Princess ADSs pursuant to the Partial Share Offer will likely be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. holder will recognise gain or, subject to the possible application of the "wash sale" rule as described below, loss equal to the difference between (i) the amount realised (i.e., the fair market value of the Carnival shares and any consideration received in lieu of fractional Carnival shares), and (ii) such holder's adjusted tax basis in its P&O Princess shares and/or P&O Princess ADSs, as applicable. Generally, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if on the date of the consummation of the Partial Share Offer the P&O Princess shares and/or P&O Princess ADSs were held for more than one year. Gain or loss, if any, realised by a U.S. holder in connection with the Partial Share Offer generally will be treated as having a U.S. source. Subject to the possible application of the "wash sale" rule as described below, for U.S. federal income tax purposes, a U.S. holder's basis in the Carnival shares received pursuant to the Partial Share Offer will be equal to the fair market value of such shares on the date of the consummation of the Partial Share Offer and a U.S. holder's holding period with respect to such shares will begin on the next day. If the P&O Princess shares or P&O Princess ADSs are deemed to be "substantially identical", for the purposes of the wash sale rule of the Internal Revenue Code and applicable Treasury Regulations, to the Carnival shares received by a U.S. holder pursuant to the Partial Share Offer, such holder will not be able to recognise a loss on such exchange. Any loss that is disallowed through the application of the wash sale rule would not be eliminated but would rather be deferred and a U.S. holder's holding period and tax basis in their P&O Princess shares exchanged pursuant to the Partial Share Offer would carry over to the Carnival shares received pursuant to such exchange. (d)Ownership of Carnival shares A U.S holder that exchanges P&O Princess shares or P&O Princess ADSs for Carnival shares pursuant to the Partial Share Offer will generally be taxable, for U.S. federal

income tax purposes, in the same manner with respect to dividends paid on any Carnival share received by such holder as such holder was with respect to dividends paid on its former P&O Princess shares or P&O Princess ADSs. 4. Related party transactions Transaction with Micky Arison. Mr. Arison is also the Chairman and Chief Executive Officer and the indirect sole shareholder of Florida Basketball Associates, Inc., the sole general partner of the Miami Heat Limited Partnership ("MHLP"), the majority owner of the Miami Heat, a professional basketball team. Pursuant to a sponsorship agreement between Carnival and MHLP, Carnival paid MHLP approximately \$543 thousand during fiscal 2002 in exchange for various sponsorship, marketing and advertising services and the use of floor level season tickets. Carnival also provided aircraft management services to MHLP. During fiscal 2002, Carnival received approximately \$1.5 million from MHLP as compensation for providing such services and reimbursement of costs. It is expected that Carnival will continue to provide such aircraft management services to MHLP in the future. Transaction with Funair Corporation. Carnival provided aircraft management services to Funair Corporation ("Funair"), a company beneficially owned by a trust established for the benefit of Shari Arison, a member of the Carnival board. During fiscal 2002, Carnival received approximately \$1.5 million from Funair as compensation for providing such services and reimbursement of costs. It is expected that Carnival will continue to provide such aircraft management services to Funair in the future. 152 Registration Rights. Pursuant to registration rights agreements, Carnival has granted standard registration rights to certain trusts established for the benefit of members of the Arison Family with respect to Carnival shares held for investment by such trusts, requiring it to register such shares under certain circumstances. Transactions with Cruise Specialists. Janet Olczak Lanterman, the wife of A. Kirk Lanterman, an executive officer and director of Carnival, is the owner of a travel agency located in Seattle, Washington, named Cruise Specialists. Under the laws of the state of Washington, Mrs. Lanterman's ownership interest in Cruise Specialists is her separate property and, accordingly, Mr. Lanterman does not have any ownership interest in the agency. Cruise Specialists sells cruises and other similar products for various travel providers, including Carnival, under arrangements that are common throughout the travel industry whereby Cruise Specialists receives a commission based on sales generated. In fiscal 2002, Cruise Specialists generated approximately \$16.6 million million of gross revenues (before commission) for Carnival. In connection with such revenues, Cruise Specialists received commissions of approximately \$2.6 million. Carnival believes that the commissions paid to Cruise Specialists are comparable to those paid to other travel agents for comparable services. Loan to Howard S. Frank. On 28 December 2001, Carnival loaned Howard S. Frank, Vice Chairman of the Carnival board and Chief Operations Officer of Carnival, the sum of \$110,000. Interest accrued on the loan at the rate of 2.48 per cent. per annum and was evidenced by a promissory note. Mr. Frank repaid the loan in full on 18 January 2002. Loan to Pamela C. Conover. On 22 July 2002, Carnival entered into a loan agreement with Pamela C. Conover, President and Chief Executive Officer of Cunard Line. The loan is set up as a line of credit for \$250,000. Repaid amounts may not be reborrowed. Interest on amounts borrowed accrues at 2.82 per cent. per annum and the loan is payable on demand by Carnival. Transaction with the Brother of Robert H. Dickinson. John Dickinson, the brother of Robert H. Dickinson, President and Chief Operating Officer of CCL and a director of Carnival, was retained by Waste Management, Inc., a company which provides waste disposal services, to act as a consultant in negotiating a two-year agreement with CCL. Waste Management compensated John Dickinson for his consulting services. Carnival does not know how much compensation John Dickinson earned for these services. During fiscal 2002, Carnival paid approximately \$780,000 to Waste Management. Transactions with Trustees. James M. Dubin is the sole shareholder of JMD Delaware, Inc., JMD Protector and Balluta Limited, which act either as trustee or protector of certain Arison family trusts. By virtue of being the sole shareholder of JMD Delaware, Inc., JMD Protector and Balluta Limited, Mr. Dubin may be deemed to own the aggregate of 142,111,562 Carnival shares beneficially owned by such entities, as to which he disclaims beneficial ownership. Mr. Dubin is a director of Carnival and a partner in the New York firm of Paul, Weiss, Rifkind, Wharton & Garrison LLP, which firm serves as counsel to Carnival, Micky Arison and Shari Arison. Redemption of Carnival's interest in CHH Mr. Weiser is currently a managing member of, and owns a membership interest in, Continental Hospitality Holdings, LLC ("CHH"). In June 2002, CHH redeemed Carnival's entire 55% interest in CHH for \$1.1 million paid in cash, a \$4.3 million interest-bearing secured promissory note and certain additional contingent consideration. The note is personally guaranteed by Mr. Weiser and certain other owners of CHH. Mr. Weiser is a director of Carnival. Transactions with Affiliated Entities. Carnival has adopted a policy of dealing with affiliated entities on an arm's-length basis and it may not engage in business transactions with any affiliate on terms and conditions less favourable to Carnival than terms and conditions available at the time for comparable transactions with



unaffiliated persons. Transaction by Horst Rahe On 18 December 2002, Deutsche Seereederei GmbH ("DS"), a company wholly-owned by Mr. 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 "Relevant Shares") which comprise 1.64 per cent. 153 of the total of, and the whole of Mr. Rahe's interest in, the issued share capital of P&O Princess. It will result in DS disposing of its interest in the Relevant Shares on 23 June 2003, or earlier if it so elects, but until then, through DS, Mr. Rahe retains full economic interest in the Relevant Shares. Under the Agreement, on 18 December 2002, DS transferred the Relevant Shares to Commerzbank for (Pounds)50,580,547 ((Pounds)4.45 per share). At the same time, DS entered into a total return swap agreement with Commerzbank under which the Relevant Shares will be valued on 23 June 2003 or earlier, if DS so elects (the "Valuation Date"). To the extent that the valuation of the Relevant Shares on the Valuation Date (the "Final Price") exceeds (Pounds)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 Relevant Shares prior to the Valuation Date will be for the benefit of DS. Under the total return swap agreement, the Valuation Date will not be earlier than the P&O Princess EGM. Furthermore, Commerzbank has irrevocably agreed with P&O Princess that at the P&O Princess EGM it will exercise the votes attaching to the Relevant Shares it then holds in accordance with the P&O Princess board's recommendation to shareholders. In a related transaction on 18 December 2002, DS assigned its right to receive deferred consideration from POPCIL, in respect of the purchase by POPCIL of Aida Cruises Limited pursuant to a sale and purchase agreement dated 25 September 2000, to Paradies Touristik AG ("PT"). PT is a Swiss company also wholly-owned by Mr. Rahe and his family.

5. Legal matters The validity of the Carnival shares offered hereby will be passed upon for Carnival by Tapia Linares y Alfaro and certain matters will be passed upon by Paul, Weiss, Rifkind, Wharton & Garrison LLP. See "Related party transactions" in paragraph 4 of this Appendix IV to this document for information relating to Carnival shares which may be deemed to be beneficially owned by James M. Dubin, a director of Carnival and a partner at Paul, Weiss, Rifkind, Wharton & Garrison LLP, but as to which he disclaims beneficial ownership. The validity of the P&O Princess special voting share will be passed upon by Freshfields Bruckhaus Deringer.

6. Experts The consolidated financial statements of Carnival incorporated in this prospectus by reference to Carnival's amended Annual Report on Form 10-K/A for the year ended 30 November 2002 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent certified public accountants, given on authority of said firm as experts in auditing and accounting. The consolidated financial statements of P&O Princess as of 31 December 2002 and 2001 and for each of the years in the three year period ended 31 December 2002 have been incorporated by reference herein in reliance upon the report of KPMG Audit Plc, chartered accountants and registered auditor incorporated by reference herein and upon the authority of said firm as experts in auditing and accounting. The audit report covering the 31 December 2002 financial statements refers to the adoption of FRS 19 Deferred Tax.

7. Consents 7.1 Each of Merrill Lynch and UBS Warburg has given and has not withdrawn its written consent to the issue of this document with the inclusion of and the references to its name in the form and context in which they appear. 7.2 Schroder Salomon Smith Barney has given and has not withdrawn its written consent to the issue of this document with the inclusion of and the references to its name in the form and context in which they appear.

8. Limitations on enforceability of civil liabilities under U.S. federal securities laws P&O Princess is a company organised under the laws of England and Wales with headquarters in London, England. Most of P&O Princess' directors and many of its officers and certain of the experts named in this document are residents of the UK and not the U.S. In addition, a number of the directors 154 of P&O Princess after completion of the DLC transaction will be residents of the UK and not the U.S. A large portion of the assets of P&O Princess and of such other persons are located outside of the U.S. As a result, U.S. investors may find it difficult in a lawsuit based on the civil liability provisions of the U.S. federal securities laws to: .. effect service within the U.S. upon P&O Princess, the directors and officers of P&O Princess and certain experts located outside the U.S.; .. enforce in U.S. courts or outside the U.S. judgments obtained against those persons in U.S. courts; .. enforce in U.S. courts judgments obtained against those persons in courts in jurisdictions outside the U.S.; and .. enforce against those persons in the UK, whether in original actions or in actions for the enforcement of judgments of U.S. courts, civil liabilities predicated solely upon the U.S. federal securities laws. Individual shareholders of an English company (including U.S. persons and depositary shareholders) have the right under English law to bring lawsuits on behalf of the company in which they are a shareholder, and on their own behalf against the company, in certain limited circumstances. Except in limited

circumstances, English law does not permit class action lawsuits by shareholders. 9. Incorporation of information for the purposes of the UK Takeover Code Your attention is drawn to the additional information on Carnival and P&O Princess contained in the shareholder circular for the P&O Princess EGM. In particular your attention is drawn to: .. information on Carnival contained in Section 2, other than the report on reconciliations to UK GAAP from PricewaterhouseCoopers LLP; .. information on P&O Princess, other than the financial information and report on reconciliations to Carnival's accounting policies from KPMG Audit Plc, contained in Section 3; .. details of the DLC structure contained in Part B of Section 5; .. summary of the agreements relating to the DLC structure in Section 6; and .. paragraphs 2, 3, 4, 7, 8, 9, 12, 13, 14, 15 and 16 of the additional information in Section 8, all of which are deemed to form part of this document. 155 DEFINITIONS The following definitions apply throughout this document unless the context requires otherwise: "Brokerage Account Election the form to elect to have Carnival shares Form" credited to an existing U.S. brokerage account rather than receiving a share certificate "Carnival" Carnival Corporation "Carnival articles" the articles of incorporation of Carnival as amended by the resolution set out in the Carnival proxy statement relating to the DLC transaction and to be proposed at the Carnival Special Meeting "Carnival by-laws" the by-laws of Carnival as amended by the resolution set out in the Carnival proxy statement relating to the DLC transaction and to be proposed at the Carnival Special Meeting "Carnival Corporation Deed" the deed to be executed by Carnival in favour of P&O Princess shareholders "Carnival Deed of Guarantee" the deed of guarantee to be executed by Carnival pursuant to the terms of the Implementation Agreement "Carnival equalisation share" a share which may be issued by Carnival to a member of the P&O Princess group "Carnival group" Carnival, its subsidiaries and its subsidiary undertakings "Carnival shares" shares of common stock of Carnival with a par value of \$0.01 per share "Carnival Special Meeting" the special meeting of Carnival shareholders to be held on 14 April 2003 "Carnival Special Voting the holder of the Carnival special voting share Entity" "Carnival special voting the special voting share with a par value of U.S. share" \$0.01 in the capital of Carnival "certificated" or "in a share or other security which is not in certificated form" uncertificated form (that is, not in CREST) "certificated" or "in a share or other security which is not in certificated form" uncertificated form (that is, not in CREST) "CLIA" Cruise Lines International Association "Combined Group" the P&O Princess group and the Carnival group after the DLC structure has been implemented "Companies Act" the UK Companies Act 1985, as amended "Computershare" Computershare Investor Services PLC, a company registered in England and Wales with registered number 3498808, amongst other things, acting as the UK Receiving Agent and Escrow Agent for Carnival "CRESTCo" CRESTCo Limited "CREST member" a person who has been admitted by CRESTCo as a system-member (as defined in the Regulations) 156 "CREST participant" a person who is, in relation to CREST, a system-participant (as defined in the Regulations) "CREST sponsor" a CREST participant admitted to CREST as a CREST sponsor "CREST sponsored member" a CREST member admitted to CREST as a sponsored member "DLC documents" the documents required to implement the DLC structure, which will include the Implementation Agreement, the Equalisation and Governance Agreement, Carnival Deed of Guarantee, the P&O Princess Deed of Guarantee, the SVE Special Voting Deed, the Carnival Corporation Deed, the amended memorandum and amended articles of association of P&O Princess, the third amended and restated articles of incorporation of Carnival and the amended and restated by-laws of Carnival "DLC principles" the principles agreed by Carnival and P&O Princess for the implementation, management and operation of the DLC structure "DLC proposal" Carnival's proposal to form a dual listed company structure with P&O Princess and to make the Partial Share Offer "DLC structure" the dual listed company structure created by the DLC documents "DLC transaction" the proposed combination of P&O Princess and Carnival under a dual listed company structure in the terms described in this document "EC" the European Commission "EC Merger Regulation" Council Regulation (EEC) No 4064/89 of 21 December 1989 on the control of concentrations between undertakings, as amended by Council Regulation (EC) No 1310/97 of 30 July 1997 "Electronic Acceptance" the inputting and settling of a TTE Instruction which constitutes or is deemed to constitute an acceptance of the Partial Share Offer on the terms set out in this document "equalisation ratio" the ratio of one P&O Princess share to that number of Carnival shares that has the same right to distributions of income and capital and voting rights as one P&O Princess share "equalisation share" the P&O Princess equalisation share or the Carnival equalisation share (as the context may require) "Exchange Act" the U.S. Securities Exchange Act of 1934, as amended "Excluded Territories" Australia, Belgium, Canada, France, Germany, Ireland, Japan, New Zealand, Singapore, South Africa, Spain and The Netherlands "Form of Acceptance" the form of acceptance relating to the Partial Share Offer for use by holders of P&O Princess shares "Implementation Agreement" the offer and implementation agreement entered into between P&O Princess and

Carnival on 8 January 2003 setting out the terms and conditions for the implementation of the DLC structure and the Partial Share Offer 157 "Internal Revenue Code" the U.S. Internal Revenue Code of 1986, as amended "joint electorate actions" actions in respect of which holders of P&O Princess shares and Carnival shares effectively vote as a unified constituency "Joint Venture Agreement" the agreement entered into by P&O Princess, Royal Caribbean and JOEX Limited on 19 November 2001 and terminated pursuant to the termination agreement among such parties, dated 25 October 2002 "Letter of Transmittal" the letter of transmittal relating to the Partial Share Offer for use only by holders of P&O Princess ADSs to accept the Partial Share Offer "Listing Rules" the Listing Rules issued by the UK Listing Authority "London Stock Exchange" London Stock Exchange plc "member account ID" the identification code or number attached to any member account in CREST "Merrill Lynch" Merrill Lynch International "Notice of Meeting" the notice of the P&O Princess EGM "NYSE" the New York Stock Exchange, Inc. "Official List" the list maintained by the UK Listing Authority pursuant to Part VI of the Financial Services and Markets Act 2000 "Panel" the Panel on Takeovers and Mergers "Partial Share Offer" the partial share offer by Carnival to acquire up to 20 per cent. of P&O Princess' share capital on the terms and conditions set out in this document "participant ID" the identification code or membership number used in CREST to identify a particular CREST member or a CREST participant "P&O Princess" P&O Princess Cruises plc "P&O Princess ADRs" American Depositary Receipts evidencing title to one or more P&O Princess ADSs "P&O Princess ADSs" American Depositary Shares, each such share representing four underlying P&O Princess shares "P&O Princess articles" the articles of association of P&O Princess as amended by the resolution set out in the notice of P&O Princess EGM relating to the DLC transaction and to be proposed at the P&O Princess EGM "P&O Princess Deed of the deed of guarantee to be executed by P&O Guarantee" Princess pursuant to the terms of the Implementation Agreement "P&O Princess EGM" the extraordinary general meeting of the P&O Princess shareholders to be held on 16 April 2003 "P&O Princess Employee Share the P&O Princess Deferred Bonus and Co-investment Incentive Plans" Matching Plan, and the P&O Princess Executive Share Option Plan 158 "P&O Princess equalisation a share which may be issued by P&O Princess to a share" member of the Carnival group "P&O Princess group" P&O Princess, its subsidiaries and its subsidiary undertakings "P&O Princess memorandum" the memorandum of association of P&O Princess as amended by the resolution set out in the Notice of Meeting relating to the DLC transaction and to be proposed at the P&O Princess EGM "P&O Princess memorandum the P&O Princess memorandum and the P&O Princess and articles" articles "P&O Princess share the proposed share reorganisation of P&O Princess reorganisation" shares to be voted upon by P&O Princess shareholders at the P&O Princess EGM, which will combine each 3.3289 existing P&O Princess shares of \$0.50 into one reorganised P&O Princess share of \$1.66 "P&O Princess shares" prior to the implementation of the DLC transaction, the existing unconditionally allotted or issued and fully paid ordinary shares of \$0.50 each in the capital of P&O Princess (including those represented by P&O Princess ADSs but not, for avoidance of doubt, such P&O Princess ADSs) and any further such shares which are unconditionally allotted or issued and fully paid before completion of the DLC transaction (or such earlier date(s) as Carnival may, subject to the Takeover Code, determine), including any such shares so unconditionally allotted or issued pursuant to the exercise of options granted under the P&O Princess employee share incentive plans and, after the implementation of the DLC transaction, the unconditionally allotted or issued and fully paid ordinary shares of U.S. \$1.66 each in the capital of P&O Princess "P&O Princess Special Voting a trust formed under the P&O Princess Special Trust" Voting Trust Agreement "P&O Princess Special Voting a voting trust agreement between Carnival and the Trust Agreement" trustee of the P&O Princess Special Voting Trust "P&O Princess special voting the special voting share of (Pounds)1.00 in the share" capital of P&O Princess "Regulations" the Uncertificated Securities Regulations 2001 (SI No. 2001/3755) "Regulatory Information the Company Announcements Office and/or RNS Service" and/or any other channel recognised, from time to time, as a channel for the dissemination of regulatory information by listed companies under the Listing Rules of the UK Listing Authority "Royal Caribbean" Royal Caribbean Cruises Ltd. "Schroder Salomon Smith Salomon Brothers International Limited trading as Barney" Schroder Salomon Smith Barney. Schroder is a trademark of Schroder Holdings plc and is used under licence by Salomon Brothers International Limited "Securities Act" the U.S. Securities Act of 1933, as amended "special voting share" the special voting shares to be issued by each of P&O Princess and Carnival to enable P&O Princess shareholders and Carnival shareholders to vote on a combined basis at meetings of both companies 159 "Special Voting Entity" P&O Princess Special Voting Trust or Carnival Special Voting Entity (as the context may require) "SVE Special Voting Deed" the SVE Special Voting Deed, among Carnival, the Carnival Special Voting Entity, Carnival SVE Limited, P&O Princess and the trustee of the P&O Princess Special Voting Trust "subsidiary",

"subsidiary shall be construed in accordance with the undertaking" Companies Act "Takeover Code" the UK City Code on Takeovers and Mergers "TFE Instruction" a Transfer from Escrow instruction (as defined by the CREST Manual issued by CRESTCo) "Treasury Regulations" the final, temporary or proposed regulations that have been issued by the U.S. Department of Treasury pursuant to its authority under the Internal Revenue Code, and any successor regulations "TTE Instruction" a Transfer to Escrow instruction (as described in the CREST manual issued by CRESTCo) in relation to P&O Princess shares in uncertificated form, meeting the requirements set out in paragraph 3(b)(1) of Section A of Part VI of this document "UBS Warburg" UBS AG, acting through its business group UBS Warburg or, where appropriate, its subsidiary, UBS Limited "UK GAAP" generally accepted accounting principles in the UK "UK Listing Authority" or the Financial Services Authority as the competent "UKLA" authority for listing in the United Kingdom under Part VI of the Financial Services and Markets Act 2000 "UK P&O Princess Shareholder" a holder of P&O Princess shares or P&O Princess ADSs who is resident or ordinarily resident in the UK for tax purposes "UK Receiving Agent" Computershare Investor Services PLC with offices at 7/th/ floor, Jupiter House, Triton Court, 14 Finsbury Square, London, EC2A 1BR "uncertificated" or "in a share or other security title to which is uncertificated form" recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST "U.S. holder" a holder of P&O Princess shares who or that is for U.S. federal income tax purposes (i) a citizen or individual resident of the U.S., (ii) a corporation or other entity taxable as a corporation organised under the laws of the U.S. or any political subdivision thereof (including the States and the District of Columbia), (iii) an estate or trust defined in Section 7701(a)(30) of the U.S. Internal Revenue Code of 1986, as amended, or (iv) any other person that is subject to U.S. federal income tax on its worldwide income "U.S. Exchange Agent" Computershare Trust Company of New York, the mailing address of which is 88 Pine Street, 19/th/ floor, New York, New York 10005 "U.S. GAAP" generally accepted accounting principles in the U.S. "U.S. Information Agent" Georgeson Shareholder Communications, Inc. with offices at 17 State Street, 10/th/ Floor, New York, New York 10004 "U.S. person" a U.S. person as defined in Regulation S under the Securities Act 160 Printed by RR Donnelley Financial, 75344