

CARNIVAL CORP  
Form 10-Q  
October 03, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended August 31, 2013

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-9610

Carnival Corporation

(Exact name of registrant as

specified in its charter)

Republic of Panama

Commission file number: 001-15136

Carnival plc

(Exact name of registrant as

specified in its charter)

England and Wales

## Edgar Filing: CARNIVAL CORP - Form 10-Q

(State or other jurisdiction of incorporation or organization) 59-1562976  (I.R.S. Employer Identification No.) 3655 N.W. 87th Avenue  Miami, Florida 33178-2428  (Address of principal executive offices)  (Zip Code) (305) 599-2600  (Registrant's telephone number, including area code) None  (Former name, former address and former fiscal year, if changed since last report)	(State or other jurisdiction of incorporation or organization) 98-0357772  (I.R.S. Employer Identification No.) Carnival House, 5 Gainsford Street,  London SE1 2NE, United Kingdom  (Address of principal executive offices)  (Zip Code) 011 44 20 7940 5381  (Registrant's telephone number, including area code) None  (Former name, former address and former fiscal year, if changed since last report)
---	---

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web sites, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes  No

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or smaller reporting companies. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filers <input checked="" type="checkbox"/>	Accelerated filers <input type="checkbox"/>
Non-accelerated filers <input type="checkbox"/>	Smaller reporting companies <input type="checkbox"/>

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At September 23, 2013, Carnival Corporation had outstanding 591,922,738 shares of Common Stock, \$0.01 par value.

At September 23, 2013, Carnival plc had outstanding 215,693,909 Ordinary Shares \$1.66 par value, one Special Voting Share, GBP 1.00 par value and 591,922,738 Trust Shares of beneficial interest in the P&O Princess Special Voting Trust.

**Table of Contents**

**CARNIVAL CORPORATION & PLC**

**TABLE OF CONTENTS**

	Page
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements.</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	34
Item 4. <u>Controls and Procedures.</u>	34
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings.</u>	35
Item 1A. <u>Risk Factors.</u>	35
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	36
Item 6. <u>Exhibits.</u>	37
<b><u>SIGNATURES</u></b>	39

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****CARNIVAL CORPORATION & PLC****CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED)**

(in millions, except per share data)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2013	2012	2013	2012
<b>Revenues</b>				
Cruise				
Passenger tickets	\$ 3,598	\$ 3,561	\$ 8,951	\$ 9,000
Onboard and other	987	965	2,670	2,618
Tour and other	141	158	177	186
	4,726	4,684	11,798	11,804
<b>Operating Costs and Expenses</b>				
Cruise				
Commissions, transportation and other	654	613	1,777	1,793
Onboard and other	144	150	385	404
Fuel	544	541	1,659	1,778
Payroll and related	464	422	1,378	1,299
Food	259	246	740	722
Other ship operating	769	534	1,951	1,647
Tour and other	83	91	113	126
	2,917	2,597	8,003	7,769
Selling and administrative	439	409	1,347	1,261
Depreciation and amortization	406	383	1,186	1,135
Ibero goodwill and trademark impairment charges	13	-	13	173
	3,775	3,389	10,549	10,338
<b>Operating Income</b>	<b>951</b>	<b>1,295</b>	<b>1,249</b>	<b>1,466</b>
<b>Nonoperating (Expense) Income</b>				
Interest income	2	2	7	8
Interest expense, net of capitalized interest	(76)	(84)	(237)	(259)
Unrealized gains on fuel derivatives, net	64	136	5	12
Realized losses on fuel derivatives	-	(12)	-	(12)
Other expense, net	(6)	(1)	(9)	(6)
	(16)	41	(234)	(257)

Edgar Filing: CARNIVAL CORP - Form 10-Q

<b>Income Before Income Taxes</b>	935	1,336	1,015	1,209
<b>Income Tax Expense, Net</b>	(1)	(6)	(3)	(4)
<b>Net Income</b>	\$ 934	\$ 1,330	\$ 1,012	\$ 1,205
<b>Earnings Per Share</b>				
Basic	\$ 1.20	\$ 1.71	\$ 1.31	\$ 1.55
Diluted	\$ 1.20	\$ 1.71	\$ 1.30	\$ 1.55
<b>Dividends Declared Per Share</b>	\$ 0.25	\$ 0.25	\$ 0.75	\$ 0.75

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

**CARNIVAL CORPORATION & PLC**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(UNAUDITED)**

(in millions)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2013	2012	2013	2012
<b>Net Income</b>	\$ 934	\$ 1,330	\$ 1,012	\$ 1,205
<b>Items Included in Other Comprehensive Income (Loss)</b>				
Change in foreign currency translation adjustment	211	85	(69)	(218)
Other	11	2	25	(7)
<b>Other Comprehensive Income (Loss)</b>	222	87	(44)	(225)
<b>Total Comprehensive Income</b>	\$ 1,156	\$ 1,417	\$ 968	\$ 980

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

**CARNIVAL CORPORATION & PLC**  
**CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

(in millions, except par values)

	August 31, 2013	November 30, 2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 981	\$ 465
Trade and other receivables, net	444	270
Insurance recoverables	450	460
Inventories	388	390
Prepaid expenses and other	371	236
Total current assets	2,634	1,821
<b>Property and Equipment, Net</b>	32,498	32,137
<b>Goodwill</b>	3,160	3,174
<b>Other Intangibles</b>	1,278	1,314
<b>Other Assets</b>	823	715
	\$ 40,393	\$ 39,161
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Short-term borrowings	\$ 196	\$ 56
Current portion of long-term debt	2,030	1,678
Accounts payable	601	549
Dividends payable	194	583
Claims reserve	558	553
Accrued liabilities and other	929	845
Customer deposits	2,980	3,076
Total current liabilities	7,488	7,340
<b>Long-Term Debt</b>	7,792	7,168
<b>Other Long-Term Liabilities</b>	853	724
<b>Contingencies</b>		
<b>Shareholders Equity</b>		
Common stock of Carnival Corporation, \$0.01 par value; 1,960 shares authorized; 651 shares at 2013 and 649 shares at 2012 issued	7	6
Ordinary shares of Carnival plc, \$1.66 par value; 216 shares at 2013 and 215 shares at 2012 issued	358	357
Additional paid-in capital	8,312	8,252
Retained earnings	18,911	18,479
Accumulated other comprehensive loss	(251)	(207)
Treasury stock, 59 shares at 2013 and 55 shares at 2012 of Carnival Corporation and 32 shares at 2013 and 33 shares at 2012 of Carnival plc, at cost	(3,077)	(2,958)

Edgar Filing: CARNIVAL CORP - Form 10-Q

Total shareholders' equity	24,260	23,929
	\$ 40,393	\$ 39,161

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****CARNIVAL CORPORATION & PLC****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

(in millions)

	<b>Nine Months Ended August 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,012	\$ 1,205
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,186	1,135
Losses on ship sales including impairments, net	163	36
Goodwill, trademark and other impairment charges	27	173
Unrealized gains on fuel derivatives, net	(5)	(12)
Realized losses on fuel derivatives	-	12
Share-based compensation	32	30
Other, net	26	2
Changes in operating assets and liabilities		
Receivables	(172)	(54)
Inventories	1	7
Insurance recoverables, prepaid expenses and other	277	34
Accounts payable	50	(4)
Claims reserves and accrued and other liabilities	(132)	(103)
Customer deposits	(106)	15
Net cash provided by operating activities	2,359	2,476
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(1,812)	(2,164)
Insurance proceeds for the ship	-	508
Proceeds from sale of ships	70	46
Other, net	(65)	10
Net cash used in investing activities	(1,807)	(1,600)
<b>FINANCING ACTIVITIES</b>		
Proceeds from (repayments of) short-term borrowings, net	142	(270)
Principal repayments of long-term debt	(942)	(753)
Proceeds from issuance of long-term debt	1,837	946
Dividends paid	(970)	(584)
Purchases of treasury stock	(138)	(69)
Sales of treasury stock	35	-
Other, net	7	(7)
Net cash used in financing activities	(29)	(737)
Effect of exchange rate changes on cash and cash equivalents	(7)	(21)
Net increase in cash and cash equivalents	516	118

Edgar Filing: CARNIVAL CORP - Form 10-Q

Cash and cash equivalents at beginning of period		465		450	
Cash and cash equivalents at end of period		\$	981	\$	568

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

**CARNIVAL CORPORATION & PLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**NOTE 1 General**

The consolidated financial statements include the accounts of Carnival Corporation and Carnival plc and their respective subsidiaries. Together with their consolidated subsidiaries, they are referred to collectively in these consolidated financial statements and elsewhere in this joint Quarterly Report on Form 10-Q as Carnival Corporation & plc, our, us and we.

The Consolidated Balance Sheet at August 31, 2013, the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2013 and 2012 and the Consolidated Statements of Cash Flows for the nine months ended August 31, 2013 and 2012 are unaudited and, in the opinion of our management, contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation. Our interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in the Carnival Corporation & plc 2012 joint Annual Report on Form 10-K ( Form 10-K ). Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire year.

Cruise passenger ticket revenues include fees and taxes levied by governmental authorities and collected by us from our guests. The portion of these fees and taxes included in passenger ticket revenues and commissions, transportation and other costs were \$140 million and \$126 million and \$395 million and \$364 million for the three and nine months ended August 31, 2013 and 2012, respectively.

During the three and nine months ended August 31, 2013 and 2012, repairs and maintenance expenses, including minor improvement costs and dry-dock expenses, were \$216 million and \$170 million and \$680 million and \$602 million, respectively, and are substantially all included in other ship operating expenses.

**NOTE 2 Unsecured Debt**

At August 31, 2013, our short-term borrowings consisted of commercial paper of \$104 million and euro bank loans of \$92 million, with an aggregate weighted-average interest rate of 1.0%.

In December 2012, we issued \$500 million of publicly-traded notes, which bear interest at 1.9% and are due in December 2017. We used the net proceeds of these notes for general corporate purposes.

In February 2013, we issued \$500 million of publicly-traded notes, which bear interest at 1.2% and are due in February 2016. The proceeds were used to repay a like amount of floating rate export credit facilities prior to their maturity dates through 2022.

In March 2013, we borrowed \$311 million under a euro-denominated export credit facility, the proceeds of which were used to pay for a portion of *AIDAstella*'s purchase price. This floating rate facility is due in semi-annual installments through March 2025.

In May 2013, we borrowed \$526 million under an export credit facility, the proceeds of which were used to pay for a portion of *Royal Princess* purchase price. This floating rate facility is due in semi-annual installments through May 2025.

In July 2013, we entered into a five-year \$150 million floating rate bank loan, which is due in November 2018. We plan to borrow under this loan in November 2013 and to use the proceeds for general corporate purposes.

In August 2013, we entered into a \$265 million euro-denominated floating rate revolving bank loan facility. This facility has a perpetual term, although we can terminate it at any time and the bank can terminate the facility at any time upon nine months notice. The facility can be drawn beginning in May 2014.

In September 2013, we entered into a seven-year \$300 million floating rate revolver, which expires in September 2020 and provides us with additional liquidity.

**NOTE 3 Contingencies**

**Litigation**

As a result of the January 2012 *Costa Concordia* incident ( 2012 Ship Incident ), litigation claims, enforcement actions, regulatory actions and investigations, including, but not limited to, those arising from personal injury, loss of life, loss of or damage to personal property, business interruption losses or environmental damage to any affected coastal waters and the surrounding areas, have been and may be asserted or brought against various parties, including us. The existing assertions are in their early stages and there are significant jurisdictional uncertainties. The ultimate outcome of these matters cannot be determined at this time. However, we do not expect these matters to have a significant impact on our results of operations because we have insurance coverage for these types of third-party claims.

---

## **Table of Contents**

Additionally, in the normal course of our business, various claims and lawsuits have been filed or are pending against us. Most of these claims and lawsuits are covered by insurance and, accordingly, the maximum amount of our liability, net of any insurance recoverables, is typically limited to our self-insurance retention levels. Management believes the ultimate outcome of these claims and lawsuits will not have a material adverse impact on our consolidated financial statements.

### **Contingent Obligations Lease Out and Lease Back Type ( LILO ) Transactions**

At August 31, 2013, Carnival Corporation had estimated contingent obligations totaling \$413 million, excluding termination payments as discussed below, to participants in LILLO transactions for two of its ships. At the inception of these leases, the aggregate of the net present value of these obligations was paid by Carnival Corporation to a group of major financial institutions, who agreed to act as payment undertakers and directly pay these obligations. As a result, these contingent obligations are considered extinguished and neither the funds nor the contingent obligations have been included in our Consolidated Balance Sheets.

In the event that Carnival Corporation were to default on its contingent obligations and assuming performance by all other participants, we estimate that we would, as of August 31, 2013, be responsible for a termination payment of \$33 million. In 2017, we have the right to exercise options that would terminate these LILLO transactions at no cost to us.

In certain cases, if the credit ratings of the financial institutions who are directly paying the contingent obligations fall below AA-, then Carnival Corporation will be required to replace these financial institutions with other financial institutions whose credit ratings are at least AA or meet other specified credit requirements. In such circumstances, we would incur additional costs, although we estimate that they would not be material to our consolidated financial statements. For the two financial institution payment undertakers subject to this AA- credit rating threshold, one has a credit rating of AA and the other has a credit rating of AA-. If Carnival Corporation's credit rating, which is BBB+, falls below BBB, it will be required to provide a standby letter of credit for \$39 million, or, alternatively, provide mortgages for this aggregate amount on these two ships.

### **Contingent Obligations Indemnifications**

Some of the debt contracts that we enter into include indemnification provisions that obligate us to make payments to the counterparty if certain events occur. These contingencies generally relate to changes in taxes and changes in laws that increase lender capital costs and other similar costs. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business. There are no stated or notional amounts included in the indemnification clauses, and we are not able to estimate the maximum potential amount of future payments, if any, under these indemnification clauses. We have not been required to make any material payments under such indemnification clauses in the past and, under current circumstances, we do not believe a request for material future indemnification payments is probable.

## **NOTE 4 Fair Value Measurements, Derivative Instruments and Hedging Activities**

### **Fair Value Measurements**

U.S. accounting standards establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 measurements are based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation of these items does not entail a significant amount of judgment.

Level 2 measurements are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or market data other than quoted prices that are observable for the assets or liabilities.

Level 3 measurements are based on unobservable data that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable market participants at the measurement date. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that we believe market participants would use in pricing the asset or liability at the measurement date.



**Table of Contents**

The fair value measurement of a financial asset or financial liability must reflect the nonperformance risk of the counterparty and us. Therefore, the impact of our counterparty's creditworthiness was considered when in an asset position, and our creditworthiness was considered when in a liability position in the fair value measurement of our financial instruments. Creditworthiness did not have a significant impact on the fair values of our financial instruments at August 31, 2013 and November 30, 2012. Both the counterparties and we are expected to continue to perform under the contractual terms of the instruments. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, certain estimates of fair values presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

**Financial Instruments that are not Measured at Fair Value on a Recurring Basis**

The estimated carrying and fair values and basis of valuation of our financial instrument assets and liabilities that are not measured at fair value on a recurring basis were as follows (in millions):

	Carrying Value	August 31, 2013		Level 2	Carrying Value	November 30, 2012		
		Level 1	Fair Value			Level 1	Fair Value	
<b>Assets</b>								
Cash and cash equivalents (a)	\$ 442	\$ 442	\$ -	\$ -	\$ 269	\$ 269	\$ -	\$ -
Short-term investments (b)	66	66	-	-	-	-	-	-
Long-term other assets (c)	66	1	62	62	39	1	36	36
<b>Total</b>	<b>\$ 574</b>	<b>\$ 509</b>	<b>\$ 62</b>	<b>\$ 62</b>	<b>\$ 308</b>	<b>\$ 270</b>	<b>\$ 36</b>	<b>\$ 36</b>
<b>Liabilities</b>								
Fixed rate debt (d)	\$ 5,968	\$ -	\$ 6,308	\$ 6,308	\$ 5,195	\$ -	\$ 5,825	\$ 5,825
Floating rate debt (d)	4,050	-	4,034	4,034	3,707	-	3,706	3,706
<b>Total</b>	<b>\$ 10,018</b>	<b>\$ -</b>	<b>\$ 10,342</b>	<b>\$ 10,342</b>	<b>\$ 8,902</b>	<b>\$ -</b>	<b>\$ 9,531</b>	<b>\$ 9,531</b>

- (a) Cash and cash equivalents are comprised of cash on hand and time deposits and, due to their short maturities, the carrying values approximate their fair values.
- (b) Short-term investments are comprised of time deposits and, due to their short maturities, the carrying values approximate their fair values.
- (c) At August 31, 2013 and November 30, 2012, substantially all of our long-term other assets were comprised of notes and other receivables. The fair values of notes and other receivables were based on estimated future cash flows discounted at appropriate market interest rates.
- (d) The net difference between the fair value of our fixed rate debt and its carrying value was due to the market interest rates in existence at August 31, 2013 and November 30, 2012 being lower than the fixed interest rates on these debt obligations, including the impact of changes in our credit ratings, if any. At August 31, 2013, the net difference between the fair value of our floating rate debt and its carrying value was due to the market interest rates in existence at August 31, 2013 being slightly higher than the floating interest rates on these debt obligations, including the impact of changes in our credit ratings, if any. The fair values of our publicly-traded notes were based on their unadjusted quoted market prices in markets that are not sufficiently active to be Level 1. The fair values of our other debt were estimated based on appropriate market interest rates being applied to this debt.

**Table of Contents****Financial Instruments that are Measured at Fair Value on a Recurring Basis**

The estimated fair value and basis of valuation of our financial instrument assets and liabilities that are measured at fair value on a recurring basis were as follows (in millions):

	August 31, 2013		November 30, 2012	
	Level 1	Level 2	Level 1	Level 2
<b>Assets</b>				
Cash equivalents (a)	\$ 539	\$ -	\$ 196	\$ -
Restricted cash (b)	30	-	28	-
Marketable securities held in rabbi trusts (c)	107	10	104	16
Derivative financial instruments (d)	-	51	-	48
<b>Total</b>	<b>\$ 676</b>	<b>\$ 61</b>	<b>\$ 328</b>	<b>\$ 64</b>
<b>Liabilities</b>				
Derivative financial instruments (d)	\$ -	\$ 33	\$ -	\$ 43
<b>Total</b>	<b>\$ -</b>	<b>\$ 33</b>	<b>\$ -</b>	<b>\$ 43</b>

(a) Cash equivalents are comprised of money market funds.

(b) Restricted cash is substantially all comprised of money market funds.

(c) Level 1 and 2 marketable securities are held in rabbi trusts and are principally comprised of frequently-priced mutual funds invested in common stocks and other investments, respectively. Their use is restricted to funding certain deferred compensation and non-qualified U.S. pension plans.

(d) See Derivative Instruments and Hedging Activities section below for detailed information regarding our derivative financial instruments. We measure our derivatives using valuations that are calibrated to the initial trade prices. Subsequent valuations are based on observable inputs and other variables included in the valuation models such as interest rate, yield and commodity price curves, forward currency exchange rates, credit spreads, maturity dates, volatilities and netting arrangements. We use the income approach to value derivatives for foreign currency options and forwards, interest rate swaps and fuel derivatives using observable market data for all significant inputs and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated, but not compelled to transact. We also corroborate our fair value estimates using valuations provided by our counterparties.

**Nonfinancial Instruments that are Measured at Fair Value on a Nonrecurring Basis****Ship Impairments**

Due to the ongoing challenging economic environment in Europe and certain ship-specific facts and circumstances, such as their size, age, condition, viable alternative itineraries and historical operating cash flows, we performed undiscounted future cash flow analyses on all of our Ibero Cruises ( Ibero ) ships and two of our smaller Costa Cruises ( Costa ) ships as of July 31, 2013 to determine if these ships were impaired. The principal assumptions used in our undiscounted cash flow analyses consisted of forecasted future operating results, including net revenue yields and net cruise costs including fuel prices, estimated residual values and the expected November 2013 rebranding of Ibero's *Grand Mistral* into the Costa fleet, which are all considered Level 3 inputs. Based on these undiscounted cash flow analyses, we determined that the net carrying value of the two Costa ships exceeded their estimated undiscounted future cash flows. Accordingly, we then estimated the July 31, 2013 fair value of these ships based on their discounted future cash flows and compared this estimated fair value to their net carrying value. As a result, we recognized \$176 million of ship impairment charges in other ship operating expenses during the three months ended August 31, 2013.



**Table of Contents****Valuation of Goodwill and Other Intangibles**

The reconciliation of the changes in the carrying amounts of our goodwill, which goodwill has been allocated to our North America and Europe, Australia and Asia ( EAA ) cruise brands, was as follows (in millions):

	North America Cruise Brands	EAA Cruise Brands	Total
Balance at November 30, 2012	\$ 1,898	\$ 1,276	\$ 3,174
Foreign currency translation adjustment	-	(14)	(14)
Balance at August 31, 2013	\$ 1,898	\$ 1,262	\$ 3,160

At July 31, 2013, all of our cruise brands carried goodwill, except for Ibero and Seabourn. As of that date, we performed our annual goodwill impairment reviews, which included performing a qualitative assessment for all cruise brands that carried goodwill, except for Carnival Cruise Lines and Costa. Qualitative factors such as industry and market conditions, macroeconomic conditions, changes to the weighted-average cost of capital ( WACC ), overall financial performance, changes in fuel prices and capital expenditures were considered in the qualitative assessment to determine how changes in these factors would affect each of these cruise brands' estimated fair values. Based on our qualitative assessments, we determined it was more-likely-than-not that each of these cruise brands' estimated fair values exceeded their carrying values and, therefore, we did not proceed to the two-step quantitative goodwill impairment reviews.

As of July 31, 2013, we also performed our annual goodwill impairment reviews of Carnival Cruise Lines' and Costa's goodwill. We did not perform a qualitative assessment but instead proceeded directly to step one of the two-step goodwill impairment review and compared each of Carnival Cruise Lines' and Costa's estimated fair value to the carrying value of their allocated net assets. Both Carnival Cruise Lines' and Costa's estimated cruise brand fair value was based on a discounted future cash flow analysis. The principal assumptions used in our cash flow analyses consisted of forecasted future operating results, including net revenue yields and net cruise costs including fuel prices, capacity changes, including the expected deployment of vessels into, or out of, Carnival Cruise Lines and Costa, capital expenditures, WACC for comparable publicly-traded companies, adjusted for the risk attributable to the geographic regions in which Carnival Cruise Lines and Costa operate, and terminal values, which are all considered Level 3 inputs. The forecasted net revenue yields were assumed to recover over the next few years compared to current levels as we continue to rebuild both of these brands. Based on the discounted cash flow analyses, we determined that each of Carnival Cruise Lines' and Costa's estimated fair value significantly exceeded their carrying value and, therefore, we did not proceed to step two of the impairment reviews.

At August 31, 2013, accumulated goodwill impairment charges were \$153 million, which was for our 2012 Ibero goodwill impairment charge.

The reconciliation of the changes in the carrying amounts of our intangible assets not subject to amortization, which represent trademarks that have been allocated to our North America and EAA cruise brands, was as follows (in millions):

	North America Cruise Brands	EAA Cruise Brands	Total
Balance at November 30, 2012	\$ 927	\$ 372	\$ 1,299
Ibero trademarks impairment charge	-	(13)	(13)
Foreign currency translation adjustment	-	(13)	(13)
Balance at August 31, 2013	\$ 927	\$ 346	\$ 1,273

At July 31, 2013, our cruise brands that have significant trademarks recorded include AIDA Cruises ( AIDA ), P&O Cruises (Australia), P&O Cruises (UK) and Princess Cruises ( Princess ). We performed our annual trademark impairment reviews for these cruise brands as of July 31, 2013, which included performing a qualitative assessment. Qualitative factors such as industry and market conditions, macroeconomic conditions, changes to the WACC, changes in royalty rates and overall financial performance were considered in the qualitative assessment to

## Edgar Filing: CARNIVAL CORP - Form 10-Q

determine how changes in these factors would affect the estimated fair values for each of our cruise brands' recorded trademarks. Based on our qualitative assessments, we determined it was more likely-than-not that the estimated fair value for each of these cruise brands' recorded trademarks exceeded their carrying value, and therefore, none of these trademarks were impaired.

During the three months ended August 31, 2013, we also recognized \$27 million of additional impairment charges, which was comprised of \$13 million related to Ibero's remaining trademarks' carrying value and \$14 million related to an investment.

At August 31, 2013 and November 30, 2012, our intangible assets subject to amortization are not significant to our consolidated financial statements.

The determination of our cruise brand, cruise ship and trademark fair values includes numerous assumptions that are subject to various risks and uncertainties. We believe that we have made reasonable estimates and judgments in determining whether our goodwill, cruise ships and trademarks have been impaired. However, if there is a change in assumptions used or if there is a change in the conditions or circumstances influencing fair values in the future, then we may need to recognize an impairment charge.

## **Table of Contents**

### **Derivative Instruments and Hedging Activities**

We utilize derivative and nonderivative financial instruments, such as foreign currency forwards, options and swaps, foreign currency debt obligations and foreign currency cash balances, to manage our exposure to fluctuations in certain foreign currency exchange rates, and interest rate swaps to manage our interest rate exposure in order to achieve a desired proportion of fixed and floating rate debt. In addition, we utilize our fuel derivatives program to mitigate a portion of the risk to our future cash flows attributable to potential fuel price increases, which we define as our economic risk. Our policy is to not use any financial instruments for trading or other speculative purposes.

All derivatives are recorded at fair value. The changes in fair value are recognized currently in earnings if the derivatives do not qualify as effective hedges, or if we do not seek to qualify for hedge accounting treatment, such as for our fuel derivatives. If a derivative is designated as a fair value hedge, then changes in the fair value of the derivative are offset against the changes in the fair value of the underlying hedged item. If a derivative is designated as a cash flow hedge, then the effective portion of the changes in the fair value of the derivative is recognized as a component of accumulated other comprehensive income ( AOCI ) until the underlying hedged item is recognized in earnings or the forecasted transaction is no longer probable. If a derivative or a nonderivative financial instrument is designated as a hedge of our net investment in a foreign operation, then changes in the fair value of the financial instrument are recognized as a component of AOCI to offset a portion of the change in the translated value of the net investment being hedged, until the investment is sold or liquidated. We formally document hedging relationships for all derivative and nonderivative hedges and the underlying hedged items, as well as our risk management objectives and strategies for undertaking the hedge transactions.

We classify the fair values of all our derivative contracts as either current or long-term, depending on whether the maturity date of the derivative contract is within or beyond one year from the balance sheet date. The cash flows from derivatives treated as hedges are classified in our Consolidated Statements of Cash Flows in the same category as the item being hedged. Our cash flows related to fuel derivatives are classified within investing activities.

**Table of Contents**

The estimated fair values of our derivative financial instruments and their location on the Consolidated Balance Sheets were as follows (in millions):

	Balance Sheet Location	August 31, 2013	November 30, 2012
<b>Derivative assets</b>			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Prepaid expenses and other	\$ 1	\$ 1
	Other assets long-term	4	6
Foreign currency zero cost collars (b)	Prepaid expenses and other	-	11
	Other assets long-term	14	5
Interest rate swaps (c)	Prepaid expenses and other	1	-
	Other assets long-term	10	-
		30	23
Derivatives not designated as hedging instruments			
Fuel (d)	Prepaid expenses and other	13	-
	Other assets long-term	8	25
		21	25
Total derivative assets		\$ 51	\$ 48
<b>Derivative liabilities</b>			
Derivatives designated as hedging instruments			
Interest rate swaps (c)	Accrued liabilities and other	\$ 10	\$ 7
	Other long-term liabilities	13	17
		23	24
Derivatives not designated as hedging instruments			
Fuel (d)	Accrued liabilities and other	1	16
	Other long-term liabilities	9	3
		10	19
Total derivative liabilities		\$ 33	\$ 43

- (a) At August 31, 2013 and November 30, 2012, we had foreign currency forwards totaling \$115 million and \$235 million, respectively, that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At August 31, 2013, these outstanding foreign currency forwards mature through July 2017.
- (b) At August 31, 2013 and November 30, 2012, we had foreign currency derivatives consisting of foreign currency zero cost collars that are designated as foreign currency cash flow hedges for a portion of our euro-denominated shipbuilding payments. See [Newbuild Currency Risks](#) below for additional information regarding these derivatives.
- (c) We have euro interest rate swaps designated as cash flow hedges whereby we receive floating interest rate payments in exchange for making fixed interest rate payments. At August 31, 2013 and November 30, 2012, these interest rate swap agreements have or will effectively change \$885 million and \$269 million, respectively, of EURIBOR-based floating rate euro debt to fixed rate debt. These interest rate swaps settle through March 2025. In addition, at August 31, 2013 we had U.S. dollar interest rate swaps designated as fair value hedges whereby we receive fixed interest rate payments in exchange for making floating interest rate payments. These interest rate

## Edgar Filing: CARNIVAL CORP - Form 10-Q

swap agreements effectively changed \$500 million of fixed rate debt to U.S. dollar LIBOR-based floating rate debt. These interest rate swaps settle through February 2016.

- (d) At August 31, 2013, we had fuel derivatives consisting of zero cost collars on Brent crude oil ( Brent ) to cover a portion of our estimated fuel consumption through 2017. See Fuel Price Risks below for additional information regarding these fuel derivatives. At November 30, 2012, we had fuel derivatives consisting of zero cost collars on Brent to cover a portion of our estimated fuel consumption through 2016.

**Table of Contents**

The effective portions of our derivatives qualifying and designated as hedging instruments recognized in other comprehensive income (loss) were as follows (in millions):

	Three Months Ended				Nine Months Ended			
	August 31,		2012		August 31,		2012	
	2013		2012		2013		2012	
Net investment hedges	\$	(2)	\$	(2)	\$	(4)	\$	53
Foreign currency zero cost collars cash flow hedges	\$	(1)	\$	3	\$	6	\$	3
Interest rate swaps cash flow hedges	\$	10	\$	(1)	\$	13	\$	(11)

There are no credit risk related contingent features in our derivative agreements, except for bilateral credit provisions within our fuel derivative counterparty agreements. These provisions require interest-bearing, non-restricted cash to be posted or received as collateral to the extent the fuel derivative fair value payable to or receivable from an individual counterparty, respectively, exceeds \$100 million. At August 31, 2013 and November 30, 2012, no collateral was required to be posted to or received from our fuel derivative counterparties.

The amount of estimated cash flow hedges unrealized gains and losses that are expected to be reclassified to earnings in the next twelve months is not significant. We have not provided additional disclosures of the impact that derivative instruments and hedging activities have on our consolidated financial statements as of August 31, 2013 and November 30, 2012 and for the three and nine months ended August 31, 2013 and 2012 where such impacts were not significant.

**Foreign Currency Exchange Rate Risks****Overall Strategy**

We manage our exposure to fluctuations in foreign currency exchange rates through our normal operating and financing activities, including netting certain exposures to take advantage of any natural offsets and, when considered appropriate, through the use of derivative and nonderivative financial instruments. Our primary focus is to manage the economic foreign currency exchange risks faced by our operations, which are the ultimate foreign currency exchange risks that would be realized by us if we exchanged one currency for another, and not accounting risks. Accordingly, we do not currently hedge foreign currency exchange accounting risks with derivative financial instruments. The financial impacts of the hedging instruments we do employ generally offset the changes in the underlying exposures being hedged.

**Operational and Investment Currency Risks**

Our European and Australian cruise brands subject us to foreign currency translation risk related to the euro, sterling and Australian dollar because these brands generate significant revenues and incur significant expenses in euro, sterling or the Australian dollar. Accordingly, exchange rate fluctuations of the euro, sterling and Australian dollar against the U.S. dollar will affect our reported financial results since the reporting currency for our consolidated financial statements is the U.S. dollar. Any strengthening of the U.S. dollar against these foreign currencies has the financial statement effect of decreasing the U.S. dollar values reported for cruise revenues and expenses. Any weakening of the U.S. dollar has the opposite effect.

Most of our brands also have non-functional currency risk related to their international sales operations, which has become an increasingly larger part of most of their businesses over time, and primarily includes the euro, sterling and Australian, Canadian and U.S. dollars. In addition, all of our brands have non-functional currency expenses for a portion of their operating expenses. Accordingly, these brands' revenues and expenses in non-functional currencies create some degree of natural offset for recognized transactional currency gains and losses due to currency exchange movements.

We consider our investments in foreign operations to be denominated in relatively stable currencies and of a long-term nature. We partially mitigate our net investment currency exposures by denominating a portion of our foreign currency intercompany payables in our foreign operations' functional currencies, principally sterling. At August 31, 2013 and November 30, 2012, we have designated \$1.9 billion and \$1.8 billion, respectively, of our foreign currency intercompany payables as nonderivative hedges of our net investments in foreign operations. Accordingly, we have included \$327 million and \$243 million of cumulative foreign currency transaction nonderivative gains in the cumulative translation adjustment component of AOCI at August 31, 2013 and November 30, 2012, respectively, which offsets a portion of the losses recorded in AOCI upon translating our foreign operations' net assets into U.S. dollars. During the three and nine months ended August 31, 2013 and 2012, we recognized foreign currency nonderivative transaction (losses) and gains of \$(22) million (\$2 million in 2012) and \$83

Edgar Filing: CARNIVAL CORP - Form 10-Q

million (\$69 million in 2012), respectively, in the cumulative translation adjustment component of AOCI.

---

## **Table of Contents**

### **Newbuild Currency Risks**

Our shipbuilding contracts are typically denominated in euros. Our decisions regarding whether or not to hedge a non-functional currency ship commitment for our cruise brands are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, currency exchange rate correlation, economic trends, our overall expected net cash flows by currency and other offsetting risks. We use foreign currency derivative contracts and have used nonderivative financial instruments to manage foreign currency exchange rate risk for some of our ship construction payments.

In July 2012, we entered into foreign currency zero cost collars that are designated as cash flow hedges for a portion of P&O Cruises (UK) s *Britannia* s euro-denominated shipyard payments. These collars mature in February 2015 at a weighted-average ceiling rate of £0.83 to the euro, or \$284 million, and a weighted-average floor rate of £0.77 to the euro, or \$264 million. If the spot rate is between these two rates on the date of maturity, then we would not owe or receive any payments under these collars.

In May 2013, we settled our foreign currency zero cost collars that were designated as cash flow hedges for the final euro-denominated shipyard payments of *Royal Princess* prior to their maturity date, which resulted in an insignificant gain being recognized in other comprehensive income (loss) during the second quarter of 2013. Concurrently with the settlement of these foreign currency zero cost collars, we entered into foreign currency forwards for \$552 million that were also designated as cash flow hedges for the final euro-denominated shipyard payments of *Royal Princess* due in May 2013. These foreign currency forwards settled in May 2013, and we recognized a \$6 million gain in other comprehensive income (loss) during the second quarter of 2013.

At August 31, 2013, substantially all of our remaining newbuild currency exchange rate risk relates to euro-denominated newbuild construction payments for *Regal Princess* and a portion of *Britannia*, which represent a total commitment of \$1.0 billion.

The cost of shipbuilding orders that we may place in the future that is denominated in a different currency than our cruise brands or the shipyards functional currency is expected to be affected by foreign currency exchange rate fluctuations. These foreign currency exchange rate fluctuations may affect our desire to order new cruise ships.

### **Interest Rate Risks**

We manage our exposure to fluctuations in interest rates through our investment and debt portfolio management strategies. These strategies include purchasing high quality short-term investments with floating interest rates, and evaluating our debt portfolio as to whether to make periodic adjustments to the mix of fixed and floating rate debt through the use of interest rate swaps and the issuance of new debt or the early retirement of existing debt. At August 31, 2013, 57% and 43% (61% and 39% at November 30, 2012) of our debt bore fixed and floating interest rates, respectively, including the effect of interest rate swaps.

### **Fuel Price Risks**

Our exposure to market risk for changes in fuel prices substantially all relate to the consumption of fuel on our ships. We use our fuel derivatives program to mitigate a portion of our economic risk attributable to potential fuel price increases. We designed our fuel derivatives program to maximize operational flexibility by utilizing derivative markets with significant trading liquidity and our program currently consists of zero cost collars on Brent.

All of our derivatives are based on Brent prices whereas the actual fuel used on our ships is marine fuel. Changes in the Brent prices may not show a high degree of correlation with changes in our underlying marine fuel prices. We will not realize any economic gain or loss upon the monthly maturities of our zero cost collars unless the average monthly price of Brent is above the ceiling price or below the floor price. We believe that these derivatives will act as economic hedges, however hedge accounting is not applied. As part of our fuel derivatives program, we will continue to evaluate various derivative products and strategies. Accordingly, during the second quarter of 2013 we reduced the spread between the floor and ceiling prices for certain of our fuel derivatives that mature in 2014 and 2015.



**Table of Contents**

At August 31, 2013, our outstanding fuel derivatives consisted of zero cost collars on Brent to cover a portion of our estimated fuel consumption as follows:

<b>Maturities (a)</b>	<b>Transaction Dates</b>	<b>Barrels (in thousands)</b>	<b>Weighted-Average Floor Prices</b>	<b>Weighted-Average Ceiling Prices</b>	<b>Percent of Estimated Fuel Consumption Covered</b>
<b>Fiscal 2013 - Q4</b>					
	November 2011	528	\$ 74	\$ 132	
	February 2012	528	\$ 98	\$ 127	
	March 2012	1,056	\$ 100	\$ 130	
		2,112			42%
<b>Fiscal 2014</b>					
	November 2011	2,112	\$ 85	\$ 114	
	February 2012	2,112	\$ 88	\$ 125	
	June 2012	2,376	\$ 71	\$ 116	
	May 2013	1,728	\$ 85	\$ 108	
		8,328			42%
<b>Fiscal 2015</b>					
	November 2011	2,160	\$ 80	\$ 114	
	February 2012	2,160	\$ 80	\$ 125	
	June 2012	1,236	\$ 74	\$ 110	
	April 2013	1,044	\$ 80	\$ 111	
	May 2013	1,884	\$ 80	\$ 110	
		8,484			42%
<b>Fiscal 2016</b>					
	June 2012	3,564	\$ 75	\$ 108	
	February 2013	2,160	\$ 80	\$ 120	
	April 2013	3,000	\$ 75	\$ 115	
		8,724			43%
<b>Fiscal 2017</b>					
	February 2013	3,276	\$ 80	\$ 115	
	April 2013	2,028	\$ 75	\$ 110	
		5,304			26%

(a) Fuel derivatives mature evenly over each month within the above fiscal periods.

**Concentrations of Credit Risk**

As part of our ongoing control procedures, we monitor concentrations of credit risk associated with financial and other institutions with which we conduct significant business. Our maximum exposure under foreign currency and fuel derivative contracts and interest rate swap agreements that are in-the-money, which were not significant at August 31, 2013, is the replacement cost, net of any collateral received, in the event of nonperformance by the counterparties to the contracts, all of which are currently our lending banks. We seek to minimize credit risk exposure,

## Edgar Filing: CARNIVAL CORP - Form 10-Q

including counterparty nonperformance primarily associated with our cash equivalents, investments, committed financing facilities, contingent obligations, derivative instruments, insurance contracts and new ship progress payment guarantees, by normally conducting business with large, well-established financial institutions, insurance companies and export credit agencies, and by diversifying our counterparties. In addition, we have guidelines regarding credit ratings and investment maturities that we follow to help safeguard liquidity and minimize risk. We normally do require collateral and/or guarantees to support notes receivable on significant asset sales, long-term ship charters and new ship progress payments to shipyards. We currently believe the risk of nonperformance by any of our significant counterparties is remote.

**Table of Contents**

We also monitor the creditworthiness of travel agencies and tour operators in Europe and credit card providers to which we extend credit in the normal course of our business. Our credit exposure includes contingent obligations related to cash payments received directly by travel agents and tour operators for cash collected by them on cruise sales in most of Europe where we are obligated to extend credit in a like amount to these guests even if we do not receive payment from the travel agents or tour operators. Concentrations of credit risk associated with these receivables and contingent obligations are not considered to be material, primarily due to the large number of unrelated accounts within our customer base, the amount of these contingent obligations and their short maturities. We have experienced only minimal credit losses on our trade receivables and related contingent obligations. We do not normally require collateral or other security to support normal credit sales.

**NOTE 5 Segment Information**

We have three reportable cruise segments that are comprised of our (1) North America cruise brands, (2) EAA cruise brands and (3) Cruise Support. In addition, we have a Tour and Other segment. Our segments are reported on the same basis as the internally reported information that is provided to our chief operating decision maker ( CODM ), who is the President and Chief Executive Officer of Carnival Corporation and Carnival plc. Decisions to allocate resources and assess performance for Carnival Corporation & plc are made by the CODM upon review of the segment results across all of our cruise brands and other segments.

Our North America cruise segment includes Carnival Cruise Lines, Holland America Line, Princess and Seabourn. Our EAA cruise segment includes AIDA, Costa, Cunard, Ibero, P&O Cruises (Australia) and P&O Cruises (UK). These individual cruise brand operating segments have been aggregated into two reportable segments based on the similarity of their economic and other characteristics, including types of customers, regulatory environment, maintenance requirements, supporting systems and processes and products and services they provide. Our Cruise Support segment represents certain of our port and related facilities and other corporate-wide services that are provided for the benefit of our cruise brands. Our Tour and Other segment represented the hotel and transportation operations of Holland America Princess Alaska Tours and two of our ships that we chartered to an unaffiliated entity. In April 2013, we sold one of these chartered ships to the unaffiliated entity and recognized a \$15 million gain as a reduction of Tour and Other operating expenses.

**Table of Contents**

Selected information for our Cruise and Tour and Other segments was as follows (in millions):

	Three Months Ended August 31,					
	Revenues	Operating expenses	Selling and administrative	Depreciation and amortization	Ibero impairment charges	Operating income (loss)
<b>2013</b>						
North America Cruise Brands (a)	\$ 2,975	\$ 1,820	\$ 248	\$ 235	\$ -	\$ 672
EAA Cruise Brands	1,704	1,133(b)	163	156	13	239
Cruise Support	23	(2)	25	7	-	(7)
Tour and Other (a)	141	83	3	8	-	47
Intersegment elimination (a)	(117)	(117)	-	-	-	-
	\$ 4,726	\$ 2,917	\$ 439	\$ 406	\$ 13	\$ 951

<b>2012</b>						
North America Cruise Brands (a)	\$ 2,934	\$ 1,642	\$ 231	\$ 227	\$ -	\$ 834
EAA Cruise Brands	1,657	956	153	140	-	408
Cruise Support	22	(5)	23	6	-	(2)
Tour and Other (a)	158	91	2	10	-	55
Intersegment elimination (a)	(87)	(87)	-	-	-	-
	\$ 4,684	\$ 2,597	\$ 409	\$ 383	\$ -	\$ 1,295

	Nine Months Ended August 31,					
	Revenues	Operating expenses	Selling and administrative	Depreciation and amortization	Ibero impairment charges	Operating income (loss)
<b>2013</b>						
North America Cruise Brands (a)	\$ 7,212	\$ 4,837	\$ 762	\$ 691	\$ -	\$ 922
EAA Cruise Brands	4,464	3,147(b)	494	449	13	361
Cruise Support	73	34	85	18	-	(64)
Tour and Other (a)	177	113	6	28	-	30
Intersegment elimination (a)	(128)	(128)	-	-	-	-
	\$ 11,798	\$ 8,003	\$ 1,347	\$ 1,186	\$ 13	\$ 1,249

<b>2012</b>						
North America Cruise Brands (a)	\$ 7,186	\$ 4,670	\$ 706	\$ 669	\$ -	\$ 1,141
EAA Cruise Brands	4,462	3,063	467	417	173	342
Cruise Support	64	4	82	19	-	(41)
Tour and Other (a)	186	126	6	30	-	24
Intersegment elimination (a)	(94)	(94)	-	-	-	-
	\$ 11,804	\$ 7,769	\$ 1,261	\$ 1,135	\$ 173	\$ 1,466

(a) A portion of the North America cruise brands segment revenues include revenues for the tour portion of a cruise when a land tour package is sold along with a cruise by Holland America Line and Princess. These intersegment tour revenues, which are included in our Tour and

## Edgar Filing: CARNIVAL CORP - Form 10-Q

Other segment, are eliminated directly against the North America cruise brands segment revenues and operating expenses in the line Intersegment elimination.

- (b) Includes \$176 million of ship impairment charges related to two smaller Costa ships.

**Table of Contents****NOTE 6 Earnings Per Share**

Our basic and diluted earnings per share were computed as follows (in millions, except per share data):

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2013	2012	2013	2012
Net income for basic and diluted earnings per share	\$ 934	\$ 1,330	\$ 1,012	\$ 1,205
Weighted-average common and ordinary shares outstanding	775	778	775	778
Dilutive effect of equity plans	2	1	2	1
Diluted weighted-average shares outstanding	777	779	777	779
Basic earnings per share	\$ 1.20	\$ 1.71	\$ 1.31	\$ 1.55
Diluted earnings per share	\$ 1.20	\$ 1.71	\$ 1.30	\$ 1.55
Anti-dilutive equity awards excluded from diluted earnings per share computations	5	9	5	9

**NOTE 7 Shareholders Equity**

During the nine months ended August 31, 2013, we repurchased 2.8 million shares of Carnival Corporation common stock for \$103 million under our general repurchase authorization program ( Repurchase Program ). From September 1, 2013 through September 23, 2013, no shares of Carnival Corporation common stock or Carnival plc ordinary shares were repurchased under the Repurchase Program. At September 23, 2013, the remaining availability under the Repurchase Program was \$975 million.

During the nine months ended August 31, 2013, Carnival Investments Limited, a subsidiary of Carnival Corporation, sold 0.9 million of Carnival plc ordinary shares for net proceeds of \$35 million. Substantially all of the net proceeds from these sales were used to purchase 0.9 million shares of Carnival Corporation common stock. Pursuant to our Stock Swap ( Stock Swap ) program, Carnival Corporation sold these Carnival plc ordinary shares owned by Carnival Investments Limited only to the extent it was able to repurchase shares of Carnival Corporation common stock in the U.S. on at least an equivalent basis.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**  
**Cautionary Note Concerning Factors That May Affect Future Results**

Some of the statements, estimates or projections contained in this joint Quarterly Report on Form 10-Q are forward-looking statements that involve risks, uncertainties and assumptions with respect to us, including some statements concerning future results, outlooks, plans, goals and other events which have not yet occurred. These statements are intended to qualify for the safe harbors from liability provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We have tried, whenever possible, to identify these statements by using words like will, may, could, should, would, believe, depends, expect, goal, anticipate, forecast, future, target, indicate and similar expressions of future intent or the negative of such terms.

Forward-looking statements include those statements that may impact, among other things, the forecasting of our non-GAAP earnings per share (EPS); net revenue yields; booking levels; pricing; occupancy; operating, financing and tax costs, including fuel expenses; costs per available lower berth day (ALBD); estimates of ship depreciable lives and residual values; liquidity; goodwill and trademark fair values and outlook. Because forward-looking statements involve risks and uncertainties, there are many factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied in this joint Quarterly Report on Form 10-Q. These factors include, but are not limited to, the following:

- general economic and business conditions;
- increases in fuel prices;
- incidents, the spread of contagious diseases and threats thereof, adverse weather conditions or other natural disasters and other incidents affecting the health, safety, security and satisfaction of guests and crew;
- the international political climate, armed conflicts, terrorist and pirate attacks, vessel seizures, and threats thereof, and other world events affecting the safety and security of travel;
- negative publicity concerning the cruise business in general or us in particular, including any adverse environmental impacts of cruising;
- litigation, enforcement actions, fines or penalties;
- economic, market and political factors that are beyond our control, which could increase our operating, financing and other costs;
- changes in and compliance with laws and regulations relating to the protection of persons with disabilities, employment, environment, health, safety, security, tax and other regulations under which we operate;
- our ability to implement our shipbuilding programs and ship repairs, maintenance and refurbishments on terms that are favorable or consistent with our expectations;
- increases to our repairs and maintenance expenses and refurbishment costs as our fleet ages;
- lack of continuing availability of attractive, convenient and safe port destinations;
- continuing financial viability of our travel agent distribution system, air service providers and other key vendors in our supply chain and reductions in the availability of, and increases in the pricing for, the services and products provided by these vendors;
- disruptions and other damages to our information technology and other networks and operations, and breaches in data security;
- failure to keep pace with developments in technology;
- competition from and overcapacity in the cruise ship or land-based vacation industry;
- loss of key personnel or our ability to recruit or retain qualified personnel;
- union disputes and other employee relation issues;
- disruptions in the global financial markets or other events that may negatively affect the ability of our counterparties and others to perform their obligations to us;
- the continued strength of our cruise brands and our ability to implement our brand strategies;
- our international operations are subject to additional risks not generally applicable to our U.S. operations;
- geographic regions in which we try to expand our business may be slow to develop and ultimately not develop how we expect;
- our decisions to self-insure against various risks or our inability to obtain insurance for certain risks at reasonable rates;
- fluctuations in foreign currency exchange rates;
- whether our future operating cash flow will be sufficient to fund future obligations and whether we will be able to obtain financing, if necessary, in sufficient amounts and on terms that are favorable or consistent with our expectations;
- risks associated with the dual listed company arrangement; and
- uncertainties of foreign legal systems as Carnival Corporation and Carnival plc are not U.S. corporations.

Forward-looking statements should not be relied upon as a prediction of actual results. Subject to any continuing obligations under applicable law or any relevant stock exchange rules, we expressly disclaim any obligation to disseminate, after the date of this joint Quarterly Report on Form 10-Q, any updates or revisions to any such forward-looking statements to reflect any change in expectations or events, conditions or circumstances on which any such statements are based.





---

## **Table of Contents**

### **Outlook**

On September 24, 2013, we announced that we expected our non-GAAP diluted earnings (loss) per share for the 2013 fourth quarter and full year would be in the ranges of \$(0.03) to \$0.03 and \$1.51 to \$1.57, respectively (see Key Performance Non-GAAP Financial Indicators ). Our 2013 fourth quarter guidance was based on fuel prices of \$687 per metric ton. In addition, this 2013 fourth quarter guidance was based on currency rates of \$1.33 to the euro, \$1.57 to sterling and \$0.93 to the Australian dollar. The fuel and currency assumptions used in our guidance change daily and, accordingly, our forecasts change daily based on the changes in these assumptions.

For the first half of 2014, we presently estimate net revenue yields will be down in a range similar to the second half of 2013. For the full year 2014, net cruise costs excluding fuel per ALBD are expected to be up in a range similar to 2013.

We believe it is more meaningful to evaluate our earnings performance by excluding, among other things, the impact of unrealized gains and losses on fuel derivatives from non-GAAP diluted EPS. Therefore, we do not include any year-to-date impact or future estimates of unrealized gains and losses on fuel derivatives in our non-GAAP EPS guidance. However, we do forecast realized gains and losses on fuel derivatives by applying current Brent prices to the derivatives that settle in the forecast period. Based on this approach and current prices, we are not forecasting any realized gains or losses for the 2013 fourth quarter under our current fuel derivatives portfolio.

The above forward-looking statements involve risks, uncertainties and assumptions with respect to us. There are many factors that could cause our actual results to differ materially from those expressed above including, but not limited to, general economic and business conditions, increases in fuel prices, incidents, spread of contagious diseases, adverse weather conditions, geo-political events, negative publicity and other factors that could adversely impact our revenues, costs and expenses. You should read the above forward-looking statement together with the discussion of these and other risks under Cautionary Note Concerning Factors That May Affect Future Results.

### **Critical Accounting Estimates**

For a discussion of our critical accounting estimates, see Management's Discussion and Analysis of Financial Condition and Results of Operations that is included in the 2012 Form 10-K.

Given the ongoing continued weakness of the Spanish economy and its impact on Ibero's cruise ticket pricing, it is possible that a portion of the net carrying values of Ibero's cruise ships could become impaired. However, we believe that the Spanish economy will recover over the long-term and alternative guest source markets and ship deployments are available for Ibero's cruise ships to enable us to recover their carrying values. At August 31, 2013, the net carrying value of Ibero's cruise ships was \$111 million, excluding *Grand Mistral* that will be rebranded as a Costa ship in November 2013.

For a discussion of our impairment charges recognized during the 2013 third quarter for two smaller Costa ships as well as the results of our annual goodwill and trademark impairment reviews as of July 31, 2013, see Note 4 Fair Value Measurements, Derivative Instruments and Hedging Activities in the accompanying consolidated financial statements.

The determination of our cruise brand, cruise ship and trademark fair values includes numerous assumptions that are subject to various risks and uncertainties. We believe that we have made reasonable estimates and judgments in determining whether our goodwill, cruise ships and trademarks have been impaired. However, if there is a change in assumptions used or if there is a change in the conditions or circumstances influencing fair values, then we may need to recognize an impairment charge.

### **Seasonality**

Our revenues from the sale of passenger tickets are seasonal. Historically, demand for cruises has been greatest during our third quarter, which includes the Northern Hemisphere summer months. This higher demand during the third quarter results in higher ticket prices and occupancy levels and, accordingly, the largest share of our operating income is earned during this period. The seasonality of our results also increases due to ships being taken out-of-service for maintenance, which we schedule during non-peak demand periods. In addition, substantially all of Holland America Princess Alaska Tours' revenue and net income is generated from May through September in conjunction with the Alaska cruise season.

**Table of Contents****Statistical Information**

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2013	2012	2013	2012
ALBDs (in thousands) (a) (b)	19,248	18,613	55,220	53,706
Passengers carried (in thousands)	2,881	2,804	7,550	7,400
Occupancy percentage (c)	110.7%	110.8%	106.1%	106.3%
Fuel consumption in metric tons (in thousands)	807	823	2,447	2,512
Fuel consumption in metric tons per ALBD	0.042	0.044	0.044	0.047
Fuel cost per metric ton consumed	\$ 674	\$ 659	\$ 678	\$ 708
<b>Currencies</b>				
U.S. dollar to 1	\$ 1.32	\$ 1.24	\$ 1.32	\$ 1.28
U.S. dollar to £1	\$ 1.54	\$ 1.56	\$ 1.55	\$ 1.57
U.S. dollar to Australian dollar	\$ 0.92	\$ 1.02	\$ 1.00	\$ 1.03