

CARNIVAL CORP
Form 10-Q
September 29, 2017

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, 2017

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 Commission file number: 001-15136

Carnival Corporation
(Exact name of registrant as
specified in its charter)

Carnival plc
(Exact name of registrant as
specified in its charter)

Republic of Panama
(State or other jurisdiction of
incorporation or organization)

England and Wales
(State or other jurisdiction of
incorporation or organization)

59-1562976
(I.R.S. Employer Identification No.)

98-0357772
(I.R.S. Employer Identification No.)

3655 N.W. 87th Avenue
Miami, Florida 33178-2428
(Address of principal
executive offices)
(Zip Code)

Carnival House, 100 Harbour Parade,
Southampton SO15 1ST, United Kingdom
(Address of principal
executive offices)
(Zip Code)

(305) 599-2600
(Registrant's telephone number,
including area code)

011 44 23 8065 5000
(Registrant's telephone number,
including area code)

None
(Former name, former address
and former fiscal year, if
changed since last report)

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

Edgar Filing: CARNIVAL CORP - Form 10-Q

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, smaller reporting companies, or emerging growth companies. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | | | | |
|--------------------------|--------------------|------------------------|-----------------------------|---------------------------|
| Large accelerated filers | Accelerated filers | Non-accelerated filers | Smaller reporting companies | Emerging growth companies |
|--------------------------|--------------------|------------------------|-----------------------------|---------------------------|

If emerging growth companies, indicate by check mark if the registrants have elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

| | |
|---|--|
| At September 22, 2017, Carnival Corporation had outstanding 533,637,019 shares of Common Stock, \$0.01 par value. | At September 22, 2017, Carnival plc had outstanding 213,468,320 Ordinary Shares \$1.66 par value, one Special Voting Share, GBP 1.00 par value and 533,637,019 Trust Shares of beneficial interest in the P&O Princess Special Voting Trust. |
|---|--|

Table of Contents

CARNIVAL CORPORATION & PLC
TABLE OF CONTENTS

| | Page |
|--|-----------|
| <u>PART I - FINANCIAL INFORMATION</u> | |
| Item 1. <u>Financial Statements</u> | <u>3</u> |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>20</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>39</u> |
| Item 4. <u>Controls and Procedures</u> | <u>40</u> |
| <u>PART II - OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | <u>40</u> |
| Item 1A. <u>Risk Factors</u> | <u>40</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>40</u> |
| Item 6. <u>Exhibits</u> | <u>42</u> |
| <u>SIGNATURES</u> | <u>44</u> |

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, | |
|---|-------------------------------------|---------|------------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | |
| Cruise | | | | |
| Passenger ticket | \$4,138 | \$3,803 | \$9,814 | \$9,217 |
| Onboard and other | 1,223 | 1,146 | 3,237 | 3,047 |
| Tour and other | 154 | 148 | 200 | 190 |
| | 5,515 | 5,097 | 13,251 | 12,454 |
| Operating Costs and Expenses | | | | |
| Cruise | | | | |
| Commissions, transportation and other | 699 | 646 | 1,781 | 1,723 |
| Onboard and other | 184 | 171 | 438 | 411 |
| Payroll and related | 520 | 494 | 1,552 | 1,488 |
| Fuel | 307 | 265 | 914 | 648 |
| Food | 270 | 260 | 774 | 755 |
| Other ship operating | 947 | 643 | 2,293 | 1,914 |
| Tour and other | 86 | 84 | 132 | 125 |
| | 3,013 | 2,563 | 7,884 | 7,064 |
| Selling and administrative | 547 | 529 | 1,649 | 1,613 |
| Depreciation and amortization | 473 | 443 | 1,368 | 1,303 |
| Goodwill and trademark impairment | 89 | — | 89 | — |
| | 4,122 | 3,535 | 10,990 | 9,980 |
| Operating Income | 1,393 | 1,562 | 2,261 | 2,474 |
| Nonoperating Income (Expense) | | | | |
| Interest income | 3 | 2 | 7 | 5 |
| Interest expense, net of capitalized interest | (49) | (61) | (150) | (168) |
| Gains (Losses) on fuel derivatives, net | 7 | (36) | (19) | (102) |
| Other income (expense), net | 14 | (2) | 7 | 6 |
| | (25) | (97) | (155) | (259) |
| Income Before Income Taxes | 1,368 | 1,465 | 2,106 | 2,215 |
| Income Tax Expense, Net | (39) | (41) | (46) | (44) |
| Net Income | \$1,329 | \$1,424 | \$2,060 | \$2,171 |
| Earnings Per Share | | | | |
| Basic | \$1.84 | \$1.93 | \$2.85 | \$2.89 |
| Diluted | \$1.83 | \$1.93 | \$2.84 | \$2.88 |
| Dividends Declared Per Share | \$0.40 | \$0.35 | \$1.15 | \$1.00 |

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, | |
|---|-------------------------------------|---------|------------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Income | \$1,329 | \$1,424 | \$2,060 | \$2,171 |
| Items Included in Other Comprehensive Income (Loss) | | | | |
| Change in foreign currency translation adjustment | 285 | (366) | 543 | (294) |
| Other | 24 | 2 | 66 | 23 |
| Other Comprehensive Income (Loss) | 309 | (364) | 609 | (271) |
| Total Comprehensive Income | \$1,638 | \$1,060 | \$2,669 | \$1,900 |

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, 2017 | November 30, 2016 |
|--|--------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 489 | \$ 603 |
| Trade and other receivables, net | 324 | 298 |
| Inventories | 357 | 322 |
| Prepaid expenses and other | 491 | 466 |
| Total current assets | 1,661 | 1,689 |
| Property and Equipment, Net | 34,172 | 32,429 |
| Goodwill | 2,957 | 2,910 |
| Other Intangibles | 1,247 | 1,275 |
| Other Assets | 606 | 578 |
| | \$ 40,643 | \$ 38,881 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Short-term borrowings | \$ 182 | \$ 457 |
| Current portion of long-term debt | 1,265 | 640 |
| Accounts payable | 639 | 713 |
| Accrued liabilities and other | 1,845 | 1,740 |
| Customer deposits | 4,038 | 3,522 |
| Total current liabilities | 7,969 | 7,072 |
| Long-Term Debt | 7,723 | 8,302 |
| Other Long-Term Liabilities | 779 | 910 |
| Contingencies | | |
| Shareholders' Equity | | |
| Common stock of Carnival Corporation, \$0.01 par value; 1,960 shares authorized; 655 shares at 2017 and 654 shares at 2016 issued | 7 | 7 |
| Ordinary shares of Carnival plc, \$1.66 par value; 217 shares at 2017 and 2016 issued | 358 | 358 |
| Additional paid-in capital | 8,690 | 8,632 |
| Retained earnings | 23,066 | 21,843 |
| Accumulated other comprehensive loss | (1,845) | (2,454) |
| Treasury stock, 121 shares at 2017 and 118 shares at 2016 of Carnival Corporation and 30 shares at 2017 and 27 shares at 2016 of Carnival plc, at cost | (6,104) | (5,789) |
| Total shareholders' equity | 24,172 | 22,597 |
| | \$ 40,643 | \$ 38,881 |

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)

| | Nine Months Ended August 31, | |
|--|------------------------------------|----------|
| | 2017 | 2016 |
| OPERATING ACTIVITIES | | |
| Net income | \$2,060 | \$2,171 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 1,368 | 1,303 |
| Impairments | 392 | — |
| Losses on fuel derivatives, net | 19 | 102 |
| Share-based compensation | 48 | 40 |
| Other, net | 52 | 46 |
| | 3,939 | 3,662 |
| Changes in operating assets and liabilities | | |
| Receivables | (1) | (35) |
| Inventories | (18) | 15 |
| Prepaid expenses and other | (1) | (10) |
| Accounts payable | (101) | 88 |
| Accrued liabilities and other | 25 | (5) |
| Customer deposits | 455 | 395 |
| Net cash provided by operating activities | 4,298 | 4,110 |
| INVESTING ACTIVITIES | | |
| Additions to property and equipment | (2,296) | (2,416) |
| Proceeds from sales of ships | — | 19 |
| Payments of fuel derivative settlements | (157) | (231) |
| Collateral proceeds for fuel derivatives | — | 22 |
| Other, net | 34 | (16) |
| Net cash used in investing activities | (2,419) | (2,622) |
| FINANCING ACTIVITIES | | |
| (Repayments of) proceeds from short-term borrowings, net | (335) | 301 |
| Principal repayments of long-term debt | (1,012) | (971) |
| Proceeds from issuance of long-term debt | 467 | 1,044 |
| Dividends paid | (797) | (721) |
| Purchases of treasury stock | (305) | (2,110) |
| Sales of treasury stock | — | 40 |
| Other, net | (22) | (9) |
| Net cash used in financing activities | (2,004) | (2,426) |
| Effect of exchange rate changes on cash and cash equivalents | 11 | 5 |
| Net decrease in cash and cash equivalents | (114) | (933) |
| Cash and cash equivalents at beginning of period | 603 | 1,395 |
| Cash and cash equivalents at end of period | \$489 | \$462 |

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.”

Basis of Presentation

The Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2017 and 2016, the Consolidated Balance Sheet at August 31, 2017 and the Consolidated Statements of Cash Flows for the nine months ended August 31, 2017 and 2016 are unaudited and, in the opinion of our management, contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement. 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 2016 joint Annual Report on Form 10-K (“Form 10-K”) filed with the U.S. Securities and Exchange Commission on January 30, 2017. Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire year.

Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) issued amended guidance regarding accounting for Interest - Imputation of Interest, which simplifies the presentation of debt issuance costs and which clarifies the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. The guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability. On December 1, 2016, we adopted this guidance using the retrospective approach and reclassified \$55 million from Other Assets to Long-Term Debt on our November 30, 2016 Consolidated Balance Sheet.

The FASB issued amended guidance regarding Compensation - Stock Compensation - Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. On December 1, 2016, we early adopted this guidance using the modified retrospective approach. The impact of adopting this guidance was primarily related to forfeitures and immaterial to our consolidated financial statements.

The FASB issued amended guidance regarding accounting for Intangibles - Goodwill and Other - Internal-Use Software, which clarifies the accounting for fees paid in a cloud computing arrangement. The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license or if the arrangement should be accounted for as a service contract. The amendments impact the accounting for software licenses but will not change a customer’s accounting for service contracts. On December 1, 2016, we adopted this guidance on a prospective basis, and it did not have a material impact to our consolidated financial statements.

The FASB issued amended guidance regarding accounting for Derivatives and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. On March 1, 2017, we early adopted this guidance on a prospective basis, and it did not have a material impact to our

consolidated financial statements.

The FASB issued amended guidance regarding accounting for Derivatives and Hedging - Contingent Put and Call Options in Debt Instruments, which clarifies the requirements for assessing whether contingent call and put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts or whether the embedded call and put options should be bifurcated from the related debt instrument and accounted for separately as a derivative. On June 1, 2017, we early adopted this guidance using a modified retrospective approach and it did not have a material impact to our consolidated financial statements.

The FASB issued amended guidance regarding Intangibles - Goodwill and Other - Simplifying the Accounting for Goodwill Impairment, which simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test requiring a hypothetical purchase price allocation. The new guidance requires that the impairment charge is based on the

7

Table of Contents

difference between the reporting unit's carrying amount and its fair value, but is limited to the amount of goodwill allocated to that reporting unit. On June 1, 2017, we early adopted this guidance on a prospective basis.

The FASB issued guidance regarding Presentation of Financial Statements - Going Concern, which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. This guidance is required to be adopted by us as of November 30, 2017. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

The FASB issued guidance regarding accounting for Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. When effective, this standard will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles ("U.S. GAAP"). The standard also requires more detailed disclosures and provides additional guidance for transactions that were not comprehensively addressed in U.S. GAAP. This guidance is required to be adopted by us in the first quarter of 2019 and can be applied using either a retrospective or a modified retrospective approach. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

The FASB issued amended guidance regarding Business Combinations - Clarifying the Definition of a Business, which assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is required to be adopted by us in the first quarter of 2019 on a prospective basis. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

The FASB issued amended guidance regarding Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are aimed at reducing the existing diversity in practice. This guidance is required to be adopted by us in the first quarter of 2019 and must be applied using a retrospective approach for each period presented. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

The FASB issued amended guidance regarding Statement of Cash Flows - Restricted Cash, which requires restricted cash to be presented with cash and cash equivalents in the statement of cash flows. This guidance is required to be adopted by us in the first quarter of 2019 and must be applied using a retrospective approach to each period presented. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

The FASB issued amended guidance regarding Compensation - Retirement Benefits - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the bifurcation of net benefit cost. This guidance is required to be adopted by us in the first quarter of 2019 and must be applied using a retrospective approach for the presentation of the service cost component and the other components of net benefit cost, and on a prospective basis for the capitalization of only the service cost component of net benefit cost. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

The FASB issued amended guidance regarding Service Concession Arrangements, which clarifies that the grantor in a service arrangement should be considered the customer of the operating entity in all cases. This guidance is required to be adopted by us in the first quarter of 2019 and can be applied using either a retrospective or a modified

retrospective approach. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

The FASB issued guidance regarding accounting for Leases, which requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. This guidance is required to be adopted by us in the first quarter of 2020 and must be applied using a modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

Other

Cruise passenger ticket revenues include fees, taxes and charges collected by us from our guests. The portion of these fees, taxes and charges included in passenger ticket revenues and commissions, transportation and other costs were \$161 million and \$148 million and \$440 million and \$407 million for the three and nine months ended August 31, 2017 and 2016, respectively.

Table of Contents

NOTE 2 – Unsecured Debt

At August 31, 2017, our short-term borrowings consisted of euro- and U.S. dollar-denominated commercial paper of \$138 million and \$28 million, respectively, and euro-denominated bank loans of \$16 million.

In January 2017, we borrowed \$100 million under a floating rate bank loan, due in January 2022.

In January 2017, we entered into an approximately \$800 million export credit facility, which may be drawn in euros or U.S. dollars in 2021 and will be due in semi-annual installments through 2033. The interest rate on this export credit facility can be fixed or floating, at our discretion.

In April 2017, we entered into two euro-denominated export credit facilities totaling \$1.6 billion. The facilities are expected to be drawn in 2021 and 2022 and will be due in semi-annual installments through 2033 and 2034, respectively. The interest rate on these export credit facilities can be fixed or floating, at our discretion.

In May 2017, we repaid \$620 million of export credit facilities prior to their 2025 and 2026 maturity dates.

In May 2017, we borrowed \$367 million under an export credit facility. The facility is due in semi-annual installments through April 2028.

In June 2017, we entered into a \$619 million export credit facility, which may be drawn in euro or U.S. dollars in 2020 and will be due in semi-annual installments through 2032. The interest rate on this export credit facility can be fixed or floating, at our discretion.

For the nine months ended August 31, 2017, we had borrowings of \$111 million and repayments of \$364 million of commercial paper with original maturities greater than three months.

We use the net proceeds from our borrowings for payments related to the purchases of new ships and general corporate purposes.

NOTE 3 – Contingencies

Litigation

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 the maximum amount of our liability, net of any insurance recoverables, is typically limited to our self-insurance retention levels. We believe the ultimate outcome of these claims and lawsuits will not have a material impact on our consolidated financial statements.

Contingent Obligation – Lease Out and Lease Back Type Transaction

At August 31, 2017, we had an estimated contingent obligation of \$122 million. At the inception of the lease, we paid the aggregate of the net present value of the obligation to a group of major financial institutions, who agreed to act as payment undertakers and directly pay this obligation. As a result, this contingent obligation is considered extinguished and neither the funds nor the contingent obligation have been included in our Consolidated Balance Sheets. In January 2016, we exercised our option to terminate, at no cost, this transaction as of January 2, 2018.

Contingent Obligations – Indemnifications

Some of the debt contracts we enter into include indemnification provisions obligating us to make payments to the counterparty if certain events occur. These contingencies generally relate to changes in taxes or changes in laws which increase our lender's costs. 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.

Table of Contents

NOTE 4 – Fair Value Measurements, Derivative Instruments and Hedging Activities

Fair Value Measurements

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and is measured using inputs in one of the following three categories: 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.

Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, certain estimates of fair value 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 carrying values, estimated fair values and basis of valuation of our financial instrument assets and liabilities not measured at fair value on a recurring basis were as follows (in millions):

| | August 31, 2017 | | | November 30, 2016 | | |
|----------------------------|-----------------|--------------------|--------------------|-------------------|--------------------|--------------------|
| | Carrying Value | Fair Value Level 1 | Level 2 Level 3 | Carrying Value | Fair Value Level 1 | Level 2 Level 3 |
| Assets | | | | | | |
| Long-term other assets (a) | \$ 133 | \$—\$54 | \$ 75 | \$99 | \$1 \$68 | \$ 31 |
| Total | \$133 | \$—\$54 | \$ 75 | \$99 | \$1 \$68 | \$ 31 |
| Liabilities | | | | | | |
| Fixed rate debt (b) | \$5,755 | \$—\$6,108 | \$ — | \$5,436 | \$—\$5,727 | \$ — |
| Floating rate debt (b) | 3,470 | —3,553 | — | 4,018 | — 4,048 | — |
| Total | \$9,225 | \$—\$9,661 | \$ — | \$9,454 | \$—\$9,775 | \$ — |

Long-term other assets are comprised of notes and other receivables. The fair values of our Level 2 notes and other (a) receivables were based on estimated future cash flows discounted at appropriate market interest rates. The fair values of our Level 3 notes receivable were estimated using risk-adjusted discount rates.

The debt amounts above do not include the impact of interest rate swaps or debt issuance costs. The fair values of (b) our publicly-traded notes were based on their unadjusted quoted market prices in markets that are not sufficiently active to be Level 1 and, accordingly, are considered Level 2. The fair values of our other debt were estimated based on appropriate market interest rates being applied to this debt.

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

Valuation of Goodwill and Other Intangibles

As of July 31, 2017, we performed our annual goodwill and trademark impairment reviews and we determined there was no impairment for goodwill or trademarks related to AIDA, Carnival Cruise Line, Costa, Cunard, Holland America Line, Princess Cruises, and P&O Cruises (UK).

During the third quarter of 2017, we made a decision to strategically realign our business in Australia, which includes reducing capacity in P&O Cruises (Australia). We performed discounted cash flow analyses and determined that the estimated fair values of the P&O Cruises (Australia) reporting unit and its trademark no longer exceeded their carrying values. We recognized a goodwill impairment charge of \$38 million and a trademark impairment charge of \$50 million during the third quarter of 2017.

Table of Contents

The determination of our reporting unit goodwill and trademark fair values includes numerous assumptions that are subject to various risks and uncertainties. The principal assumptions, all of which are considered Level 3 inputs, used in our cash flow analyses consisted of:

- Forecasted operating results, including net revenue yields and net cruise costs including fuel prices
- Capacity changes and the expected rotation of vessels into or out of each of these cruise brands, including decisions about the allocation of new ships amongst brands, the transfer of ships between brands and the timing of ship dispositions
- Weighted-average cost of capital of market participants, adjusted for the risk attributable to the geographic regions in which these cruise brands operate
- Capital expenditures, proceeds from forecasted dispositions of ships and terminal values

We believe that we have made reasonable estimates and judgments. Changes in the conditions or circumstances may result in a need to recognize an additional impairment charge.

The reconciliations of the changes in the carrying amounts of our goodwill, trademarks, and amortizable intangibles were as follows:

| (in millions) | Goodwill | | |
|---|-----------------------|-------------|---------|
| | North America Segment | EAA Segment | Total |
| Balance at November 30, 2016 | \$1,898 | \$1,012 | \$2,910 |
| Impairment charge | — | (38) | (38) |
| Foreign currency translation adjustment | — | 85 | 85 |
| Balance at August 31, 2017 | \$1,898 | \$1,059 | \$2,957 |

(a) Europe, Australia & Asia (“EAA”)

| (in millions) | Trademarks | | |
|---|-----------------------|-------------|---------|
| | North America Segment | EAA Segment | Total |
| Balance at November 30, 2016 | \$927 | \$279 | \$1,206 |
| Impairment charge | — | (50) | (50) |
| Foreign currency translation adjustment | — | 19 | 19 |
| Balance at August 31, 2017 | \$927 | \$248 | \$1,175 |

| (in millions) | Amortizable Intangibles | | | |
|---|-------------------------|-------------|------------------------|-------|
| | Cruise Support Segment | EAA Segment | Tour and Other Segment | Total |
| Balance at November 30, 2016 | \$57 | \$12 | \$— | \$69 |
| Additions | — | — | 4 | 4 |
| Amortization | (2) | — | (1) | (3) |
| Foreign currency translation adjustment | — | 1 | — | 1 |
| Balance at August 31, 2017 | \$55 | \$13 | \$3 | \$71 |

Table of Contents

Impairments of Ships

We review our long-lived assets for impairment whenever events or circumstances indicate potential impairment. Primarily as a result of our decision during the third quarter of 2017 to strategically realign our business in Australia, which includes reducing capacity in P&O Cruises (Australia), we performed undiscounted cash flow analyses on certain ships as of July 31, 2017. Based on these undiscounted cash flow analyses, we determined that certain ships had net carrying values that exceeded their estimated undiscounted future cash flows. We estimated the July 31, 2017 fair values of these ships based on their discounted cash flows and comparable market transactions. We then compared these estimated fair values to the net carrying values and, as a result, we recognized \$304 million of ship impairment charges in the EAA segment, included in other ship operating expenses of our consolidated statements of income for the third quarter of 2017.

The principal assumptions used in our analyses consisted of forecasted future operating results, including net revenue yields and net cruise costs including fuel prices, estimated ship sale proceeds, and changes in strategy, including decisions about the transfer of ships between brands. All principal assumptions are considered Level 3 inputs.

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 measured at fair value on a recurring basis were as follows (in millions):

| | August 31, 2017 | | | November 30, 2016 | | |
|--|-----------------|---------------|-------------|-------------------|---------------|--------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | |
| Cash and cash equivalents (a) | \$489 | \$ — | \$ — | -\$603 | \$ — | \$ — |
| Restricted cash | 31 | — | — | 60 | — | — |
| Short-term investments (b) | — | — | — | — | — | 21 |
| Marketable securities held in rabbi trusts (c) | 91 | 4 | — | 93 | 4 | — |
| Derivative financial instruments | — | 22 | — | — | 15 | — |
| Total | \$611 | \$ 26 | \$ — | -\$756 | \$ 19 | \$ 21 |
| Liabilities | | | | | | |
| Derivative financial instruments | \$— | \$ 265 | \$ — | -\$— | \$ 434 | \$ — |
| Total | \$— | \$ 265 | \$ — | -\$— | \$ 434 | \$ — |

(a) Cash and cash equivalents are comprised of cash and marketable securities with maturities of less than 90 days.

The fair value of the auction rate security included in short-term investments, as of November 30, 2016, was based

(b) on a broker quote in an inactive market, which is considered a Level 3 input. This auction-rate security was sold in December 2016.

At August 31, 2017, marketable securities held in rabbi trusts were comprised of Level 1 bonds, frequently-priced

(c) mutual funds invested in common stocks and money market funds and Level 2 other investments. Their use is restricted to funding certain deferred compensation and non-qualified U.S. pension plans.

Table of Contents

Derivative Instruments and Hedging Activities

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

| | Balance Sheet Location | August 31, 2017 | November 30, 2016 |
|---|-------------------------------|-----------------|-------------------|
| Derivative assets | | | |
| Derivatives designated as hedging instruments | | | |
| Net investment hedges (a) | Prepaid expenses and other | \$ 3 | \$ 12 |
| | Other assets | — | 3 |
| Foreign currency zero cost collars (c) | Prepaid expenses and other | 8 | — |
| | Other assets | 11 | — |
| Total derivative assets | | \$ 22 | \$ 15 |
| Derivative liabilities | | | |
| Derivatives designated as hedging instruments | | | |
| Net investment hedges (a) | Accrued liabilities and other | \$ 13 | \$ 26 |
| | Other long-term liabilities | 16 | — |
| Interest rate swaps (b) | Accrued liabilities and other | 11 | 10 |
| | Other long-term liabilities | 21 | 23 |
| Foreign currency zero cost collars (c) | Accrued liabilities and other | — | 12 |
| | Other long-term liabilities | — | 21 |
| | | 61 | 92 |
| Derivatives not designated as hedging instruments | | | |
| Fuel (d) | Accrued liabilities and other | 159 | 198 |
| | Other long-term liabilities | 45 | 144 |
| | | 204 | 342 |
| Total derivative liabilities | | \$ 265 | \$ 434 |

We had foreign currency swaps totaling \$328 million at August 31, 2017 and \$291 million at November 30, 2016 (a) that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At August 31, 2017, these foreign currency swaps settle through 2019.

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. These interest rate swap agreements effectively (b) changed \$511 million at August 31, 2017 and \$500 million at November 30, 2016 of EURIBOR-based floating rate euro debt to fixed rate euro debt. At August 31, 2017, these interest rate swaps settle through 2025.

At August 31, 2017 and November 30, 2016, we had foreign currency derivatives consisting of foreign currency (c) 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.

At August 31, 2017 and November 30, 2016, we had fuel derivatives consisting of zero cost collars on Brent crude (d) oil (“Brent”) to cover a portion of our estimated fuel consumption through 2018. See “Fuel Price Risks” below for additional information regarding these derivatives.

Table of Contents

Our derivative contracts include rights of offset with our counterparties. We have elected to net certain of our derivative assets and liabilities within counterparties. The amounts recognized within assets and liabilities were as follows (in millions):

August 31, 2017

| | Gross Amounts | Total Net Amounts | Gross Amounts not Offset in the Balance Sheet | Net Amounts |
|-------------|------------------|----------------------|---|----------------|
| Assets | \$22 | \$ — | \$ (9) | \$ 13 |
| Liabilities | \$265 | \$ — | \$ (9) | \$ 256 |

November 30, 2016

| | Gross Amounts | Total Net Amounts | Gross Amounts not Offset in the Balance Sheet | Net Amounts |
|-------------|------------------|----------------------|---|----------------|
| Assets | \$15 | \$ — | \$ (15) | \$ — |
| Liabilities | \$434 | \$ — | \$ (15) | \$ 419 |

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

| | Three Months Ended August 31, 2017 | Nine Months Ended August 31, 2016 | Three Months Ended August 31, 2017 | Nine Months Ended August 31, 2016 |
|---|--|---|--|---|
| Net investment hedges | \$(17) | \$ — | \$(33) | \$(17) |
| Foreign currency zero cost collars – cash flow hedges | \$17 | \$ 2 | \$52 | \$21 |
| Interest rate swaps – cash flow hedges | \$1 | \$ — | \$5 | \$3 |

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 cash collateral to be posted or received to the extent the fuel derivative fair value payable to or receivable from an individual counterparty exceeds \$100 million. At August 31, 2017 and November 30, 2016, 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, 2017 and November 30, 2016 and for the three and nine months ended August 31, 2017 and 2016 where such impacts were not significant.

Fuel Price Risks

Substantially all of our exposure to market risk for changes in fuel prices relates to the consumption of fuel on our ships. We have Brent call options and Brent put options, collectively referred to as zero cost collars, that establish ceiling and floor prices and mitigate a portion of our economic risk attributable to potential fuel price increases. To maximize operational flexibility we utilized derivative markets with significant trading liquidity.

Edgar Filing: CARNIVAL CORP - Form 10-Q

Our zero cost collars 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 zero cost collars will act as economic hedges; however, hedge accounting is not applied.

Our unrealized and realized gains (losses), net on fuel derivatives were as follows (in millions):

| | Three Months Ended August 31, | | Nine Months Ended August 31, | |
|---|--|--------|------------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Unrealized gains on fuel derivatives, net | \$65 | \$25 | \$134 | \$121 |
| Realized losses on fuel derivatives, net | (57) | (61) | (153) | (223) |
| Gains (losses) on fuel derivatives, net | \$7 | \$(36) | \$(19) | \$(102) |

Table of Contents

At August 31, 2017, our outstanding fuel derivatives consisted of zero cost collars on Brent as follows:

| Maturities (a) | Transaction Dates | Barrels (in thousands) | Weighted-Average Floor Prices | Weighted-Average Ceiling Prices |
|------------------|-------------------|------------------------|-------------------------------|---------------------------------|
| Fiscal 2017 (4Q) | | | | |
| | February 2013 | 819 | \$ 80 | \$ 115 |
| | April 2013 | 507 | \$ 75 | \$ 110 |
| | January 2014 | 450 | \$ 75 | \$ 114 |
| | October 2014 | 255 | \$ 80 | \$ 113 |
| | | 2,031 | | |
| Fiscal 2018 | | | | |
| | January 2014 | 2,700 | \$ 75 | \$ 110 |
| | October 2014 | 3,000 | \$ 80 | \$ 114 |
| | | 5,700 | | |

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

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 non-derivative financial instruments. Our primary focus is to monitor our exposure to, and manage, the economic foreign currency exchange risks faced by our operations and realized if we exchange one currency for another. We currently only hedge certain of our ship commitments and net investments in foreign operations. The financial impacts of the hedging instruments we do employ generally offset the changes in the underlying exposures being hedged.

Operational Currency Risks

Our EAA segment operations generate significant revenues and incur significant expenses in their functional currencies, which subjects us to “foreign currency translational” risk related to these currencies. Accordingly, exchange rate fluctuations in their functional currencies 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 this segment’s revenues and expenses. Any weakening of the U.S. dollar has the opposite effect.

Substantially all of our operations also have non-functional currency risk related to their international sales. In addition, we have a portion of our operating expenses denominated in non-functional currencies. Accordingly, we also have “foreign currency transactional” risks related to changes in the exchange rates for our revenues and expenses that are in a currency other than the functional currency. The revenues and expenses which occur in the same non-functional currencies create some degree of natural offset.

Investment Currency Risks

We consider our investments in foreign operations to be denominated in stable currencies. Our investments in foreign operations are of a long-term nature. We have \$5.6 billion and \$402 million of euro- and sterling-denominated debt, respectively, including the effect of foreign currency swaps, which provides an economic offset for our operations with euro and sterling functional currency. We also partially mitigate our net investment currency exposures by denominating a portion of our foreign currency intercompany payables in our foreign operations’ functional currencies.

Table of Contents

Newbuild Currency Risks

Our shipbuilding contracts are typically denominated in euros. Our decision to hedge a non-functional currency ship commitment for our cruise brands is made on a case-by-case basis, considering the amount and duration of the exposure, market volatility, economic trends, our overall expected net cash flows by currency and other offsetting risks. We use foreign currency derivative contracts to manage foreign currency exchange rate risk for some of our ship construction payments.

At August 31, 2017, we had foreign currency zero cost collars that are designated as cash flow hedges for a portion of euro-denominated shipyard payments for the following newbuilds:

| | Entered Into | Matures in | Weighted-Average Floor Rate | Weighted- Average Ceiling Rate |
|---------------------------------|--------------|---------------|--------------------------------|---|
| Carnival Horizon | 2016 | March 2018 | \$ 1.02 | \$ 1.25 |
| Seabourn Ovation | 2016 | April 2018 | \$ 1.02 | \$ 1.25 |
| Holland America Nieuw Statendam | 2016 | November 2018 | \$ 1.05 | \$ 1.25 |

If the spot rate is between the weighted-average ceiling and floor rates on the date of maturity, then we would not owe or receive any payments under these collars.

At August 31, 2017, our remaining newbuild currency exchange rate risk primarily relates to euro-denominated newbuild contract payments (including newbuild contracts entered into through September 26, 2017), which represent a total unhedged commitment of \$7.0 billion and substantially relates to newbuilds to be delivered during 2019 through 2022 to non-euro functional currency brands.

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

Interest Rate Risks

We manage our exposure to fluctuations in interest rates through our debt portfolio management and investment strategies. We evaluate our debt portfolio to determine 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.

Table of Contents

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. We seek to minimize these credit risk exposures, 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:

• Conducting business with large, well-established financial institutions, insurance companies and export credit agencies

• Diversifying our counterparties

• Having guidelines regarding credit ratings and investment maturities that we follow to help safeguard liquidity and minimize risk

• Generally requiring 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. At August 31, 2017, our exposures under foreign currency and fuel derivative contracts and interest rate swap agreements were not material.

We also monitor the creditworthiness of travel agencies and tour operators in Asia, Australia and Europe, which includes charter-hire agreements in Asia, and credit and debit card providers to which we extend credit in the normal course of our business prior to sailing. Our credit exposure also includes contingent obligations related to cash payments received directly by travel agents and tour operators for cash collected by them on cruise sales in Australia and most of Europe where we are obligated to honor our guests' cruise payments made by them to their travel agents and tour operators regardless of whether we have received these payments. Concentrations of credit risk associated with these trade receivables, charter-hire agreements and contingent obligations are not considered to be material, principally due to the large number of unrelated accounts, the nature of these contingent obligations and their short maturities. We have not experienced significant credit losses on our trade receivables, charter-hire agreements and contingent obligations. We do not normally require collateral or other security to support normal credit sales.

NOTE 5 – Segment Information

We have four reportable segments that are comprised of (1) North America, (2) EAA, (3) Cruise Support and (4) Tour and Other. 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. The CODM assesses performance and makes decisions to allocate resources for Carnival Corporation & plc based upon review of the results across all of our segments.

Our North America segment includes Carnival Cruise Line, Holland America Line, Princess Cruises and Seabourn. Our EAA segment includes AIDA Cruises, Costa Cruises, Cunard, P&O Cruises (Australia) and P&O Cruises (UK). The operations of these reporting units 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 services that are provided for the benefit of our cruise brands. Our Tour and Other segment represents the hotel and transportation operations of Holland America Princess Alaska Tours and other operations.

Table of Contents

Selected information for our segments and the reconciliation to the consolidated financial statement amounts was as follows (in millions):

| | Three Months Ended August 31, | | | | |
|--------------------------|-------------------------------|------------------------------|----------------------------|-------------------------------|-------------------------|
| | Revenues | Operating costs and expenses | Selling and administrative | Depreciation and amortization | Operating income (loss) |
| 2017 | | | | | |
| North America | \$3,561 | \$ 1,773 | \$ 306 | \$ 287 | \$ 1,195 |
| EAA | 1,879 | 1,262 | 172 | 163 | 193 (a) |
| Cruise Support | 28 | — | 65 | 13 | (50) |
| Tour and Other | 155 | 86 | 4 | 10 | 55 |
| Intersegment elimination | (108) | (108) | — | — | — |
| | \$5,515 | \$ 3,013 | \$ 547 | \$ 473 | \$ 1,393 |
| 2016 | | | | | |
| North America | \$3,284 | \$ 1,668 | \$ 293 | \$ 272 | \$ 1,051 |
| EAA | 1,738 | 903 | 161 | 152 | 522 |
| Cruise Support | 31 | 12 | 73 | 9 | (63) |
| Tour and Other | 148 | 84 | 2 | 10 | 52 |
| Intersegment elimination | (104) | (104) | — | — | — |
| | \$5,097 | \$ 2,563 | \$ 529 | \$ 443 | \$ 1,562 |
| | Nine Months Ended August 31, | | | | |
| | Revenues | Operating costs and expenses | Selling and administrative | Depreciation and amortization | Operating income (loss) |
| 2017 | | | | | |
| North America | \$8,547 | \$ 4,776 | \$ 945 | \$ 845 | \$ 1,981 |
| EAA | 4,527 | 3,082 | 512 | 459 | 385 (a) |
| Cruise Support | 101 | 18 | 180 | 36 | (133) |
| Tour and Other | 200 | 132 | 12 | 28 | 28 |
| Intersegment elimination | (124) | (124) | — | — | — |
| | \$13,251 | \$ 7,884 | \$ 1,649 | \$ 1,368 | \$ 2,261 |
| 2016 | | | | | |
| North America | \$7,823 | \$ 4,368 | \$ 897 | \$ 791 | \$ 1,767 |
| EAA | 4,466 | 2,666 | 513 | 450 | 837 |
| Cruise Support | 93 | 23 | 196 | 32 | (158) |
| Tour and Other | 190 | 125 | 7 | 30 | 28 |
| Intersegment elimination | (118) | (118) | — | — | — |
| | \$12,454 | \$ 7,064 | \$ 1,613 | \$ 1,303 | \$ 2,474 |

(a) Includes \$89 million of impairment charges related to EAA's goodwill and trademarks.

A portion of the North America segment's revenues includes revenues for the tour portion of a cruise when a cruise and land tour package are sold together by Holland America Line and Princess Cruises. These intersegment tour revenues, which are also included in our Tour and Other segment, are eliminated by the North America segment's revenues and operating expenses in the line "Intersegment elimination."

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 | | Nine Months | |
|---|--------------|----------|-------------|----------|
| | Ended | | Ended | |
| | August 31, | | August 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net income for basic and diluted earnings per share | \$ 1,329 | \$ 1,424 | \$ 2,060 | \$ 2,171 |
| Weighted-average shares outstanding | 723 | 737 | 724 | 751 |
| Dilutive effect of equity plans | 3 | 2 | 3 | 3 |
| Diluted weighted-average shares outstanding | 726 | 739 | 727 | 754 |
| Basic earnings per share | \$ 1.84 | \$ 1.93 | \$ 2.85 | \$ 2.89 |
| Diluted earnings per share | \$ 1.83 | \$ 1.93 | \$ 2.84 | \$ 2.88 |

NOTE 7 – Shareholders’ Equity

On April 6, 2017, the Boards of Directors approved a modification of the general authorization to repurchase Carnival Corporation common stock and/or Carnival plc ordinary shares (the “Repurchase Program”), which replenished the remaining authorized repurchases at the time of the approval to \$1.0 billion. During the nine months ended August 31, 2017, we repurchased 2.8 million shares of Carnival plc ordinary shares and 2.4 million shares of Carnival Corporation common stock for \$156 million and \$158 million, respectively, under the Repurchase Program. At August 31, 2017, the remaining availability under the Repurchase Program was \$830 million.

During the three months ended August 31, 2017, our Boards of Directors declared a dividend to holders of Carnival Corporation common stock and Carnival plc ordinary shares of \$0.40 per share.

NOTE 8 – Property and Equipment

In April 2017, we transferred an EAA segment 1,550-passenger capacity ship under a bareboat charter agreement which was accounted for as a sale.

In July 2017, we entered into a bareboat charter agreement under which an EAA segment 1,300-passenger capacity ship will be chartered from April 2018 through April 2025. This transaction will be accounted for as a sales-type lease with the recognition of sale and derecognition of asset upon asset delivery.

In September 2017, we entered into an agreement to sell an EAA segment 700-passenger capacity ship. The ownership of the ship will be transferred to the buyer in March 2018.

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 document 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. All statements other than statements of historical facts are statements that could be deemed forward-looking. These statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and the beliefs and assumptions of our management. We have tried, whenever possible, to identify these statements by using words like “will,” “may,” “could,” “should,” “would,” “believe,” “dep,” “expect,” “goal,” “anticipate,” “forecast,” “project,” “future,” “intend,” “plan,” “estimate,” “target,” “indicate,” “outlook” and expressions of future intent or the negative of such terms.

Forward-looking statements include those statements that relate to our outlook and financial position including, but not limited to, statements regarding:

- Net revenue yields
- Booking levels
- Pricing and occupancy
- Interest, tax and fuel expenses
- Currency exchange rates
- Net cruise costs, excluding fuel per available lower berth day
- Estimates of ship depreciable lives and residual values
- Goodwill, ship and trademark fair values
- Liquidity
- Adjusted earnings per share

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 by our forward-looking statements. This note contains important cautionary statements of the known factors that we consider could materially affect the accuracy of our forward-looking statements and adversely affect our business, results of operations and financial position. It is not possible to predict or identify all such risks. There may be additional risks that we consider immaterial or which are unknown. These factors include, but are not limited to, the following:

- Incidents, such as ship incidents, security incidents, the spread of contagious diseases and threats thereof, adverse weather conditions or other natural disasters and the related adverse publicity affecting our reputation and the health, safety, security and satisfaction of guests and crew
- Economic conditions and adverse world events affecting the safety and security of travel, such as civil unrest, armed conflicts and terrorist attacks
- Changes in and compliance with laws and regulations relating to the environment, health, safety, security, tax and anti-corruption under which we operate
- Disruptions and other damages to our information technology and other networks and operations, and breaches in data security
- Ability to recruit, develop and retain qualified personnel
- Increases in fuel prices
- Fluctuations in foreign currency exchange rates
- Misallocation of capital among our ship, joint venture and other strategic investments
- Future operating cash flow may not be sufficient to fund future obligations and we may be unable to obtain financing
- Overcapacity in the cruise ship and land-based vacation industry
- Deterioration of our cruise brands’ strengths and our inability to implement our strategies
- 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 prices for, the services and products provided by these vendors
-

Inability to implement our shipbuilding programs and ship repairs, maintenance and refurbishments on terms that are favorable or consistent with our expectations and increases to our repairs and maintenance expenses and refurbishment costs as our fleet ages

Failure to keep pace with developments in technology

Geographic regions in which we try to expand our business may be slow to develop and ultimately not develop how we expect and our international operations are subject to additional risks not generally applicable to our U.S. operations

Competition from the cruise ship and land-based vacation industry

Economic, market and political factors that are beyond our control

Table of Contents

- Litigation, enforcement actions, fines or penalties
- Lack of continuing availability of attractive, convenient and safe port destinations on terms that are favorable or consistent with our expectations
- Union disputes and other employee relationship issues
- Decisions to self-insure against various risks or the inability to obtain insurance for certain risks at reasonable rates
- Reliance on third-party providers of various services integral to the operations of our business
- Business activities that involve our co-investment with third parties
- 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
- Our shareholders may be subject to the uncertainties of a foreign legal system since Carnival Corporation and Carnival plc are not U.S. corporations
- Small group of shareholders may be able to effectively control the outcome of shareholder voting
- Provisions in Carnival Corporation’s and Carnival plc’s constitutional documents may prevent or discourage takeovers and business combinations that our shareholders might consider to be in their best interests
- The dual listed company arrangement involves risks not associated with the more common ways of combining the operations of two companies

The ordering of the risk factors set forth above is not intended to reflect our indication of priority or likelihood. 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 document, 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.

Outlook

On September 26, 2017, we disclosed in our earnings release that we expected our adjusted earnings per share for the 2017 fourth quarter to be in the range of \$0.44 to \$0.50 and 2017 full year to be in the range of \$3.64 to \$3.70 (see “Key Performance Non-GAAP Financial Indicators”). Our guidance was based on the following assumptions:

| | 2017 Fourth Quarter | 2017 Full Year |
|----------------------------------|---------------------|----------------|
| Fuel price per metric ton | \$397 | \$378 |
| Currencies | | |
| U.S. dollar to euro | \$1.19 to €1 | \$1.13 to €1 |
| U.S. dollar to sterling | \$1.35 to £1 | \$1.28 to £1 |
| U.S. dollar to Australian dollar | \$0.80 to A\$1 | \$0.77 to A\$1 |

The fuel and currency assumptions used in our guidance change daily and, accordingly, our forecasts change daily based on the changes in these assumptions. We have not provided a reconciliation of forecasted U.S. GAAP earnings per share to forecasted adjusted earnings per share because preparation of meaningful U.S. GAAP forecasts of earnings per share would require unreasonable effort. We are unable to predict, without unreasonable effort, the future movement of foreign exchange rates and fuel prices. While we forecast realized gains and losses on fuel derivatives by applying current Brent prices to the derivatives that settle in the forecast period, we do not forecast the impact of unrealized gains and losses on fuel derivatives because we do not believe they are an indication of our future earnings performance. We are unable to determine the future impact of gains or losses on ships sales, restructuring expenses and other non-core gains and charges.

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. You should read the above forward-looking statements together with the discussion of the risks under “Cautionary Note Concerning Factors That

May Affect Future Results.”

21

Table of Contents

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 Form 10-K. A discussion of our impairment charges recognized during the 2017 third quarter for the impairment of ships as well as the results of our annual goodwill and trademark impairment reviews as of July 31, 2017 is included 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. Changes in the conditions or circumstances influencing fair values may result in a need to recognize additional impairment charges.

New Accounting Pronouncements

Refer to our consolidated financial statements for further information on Recent Accounting Pronouncements.

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.

Statistical Information

| | Three Months Ended August 31, 2017 | | Nine Months Ended August 31, 2016 | |
|---|---|---------|--|---------|
| Available Lower Berth Days (“ALBDs”) (in thousands) (a) (b) | 21,120 | 20,572 | 61,541 | 59,555 |
| Occupancy percentage (c) | 111.3 % | 111.4 % | 106.7 % | 106.6 % |
| Passengers carried (in thousands) | 3,441 | 3,265 | 9,116 | 8,606 |
| Fuel consumption in metric tons (in thousands) | 814 | 793 | 2,463 | 2,417 |
| Fuel consumption in metric tons per thousand ALBDs | 38.5 | 38.6 | 40.0 | 40.6 |
| Fuel cost per metric ton consumed | \$378 | \$335 | \$371 | \$268 |
| Currencies | | | | |
| U.S. dollar to euro | \$1.15 | \$1.12 | \$1.11 | \$1.11 |
| U.S. dollar to sterling | \$1.29 | \$1.34 | \$1.27 | \$1.41 |
| U.S. dollar to Australian dollar | \$0.78 | \$0.75 | \$0.76 | \$0.74 |

ALBD is a standard measure of passenger capacity for the period that we use to approximate rate and capacity variances, based on consistently applied formulas that we use to perform analyses to determine the main (a) non-capacity driven factors that cause our cruise revenues and expenses to vary. ALBDs assume that each cabin we offer for sale accommodates two passengers and is computed by multiplying passenger capacity by revenue-producing ship operating days in the period.

(b)

Edgar Filing: CARNIVAL CORP - Form 10-Q

For the three months ended August 31, 2017 compared to the three months ended August 31, 2016, we had a 2.7% capacity increase in ALBDs comprised of a 2.1% capacity increase in our North America segment and a 3.5% capacity increase in our EAA segment.

Our North America segment's capacity increase was caused by the full quarter impact from one Princess Cruises 3,560-passenger capacity ship that entered into service in April 2017, which was offset by the full quarter impact from the transfer of one Princess Cruises 2,000-passenger capacity ship to P&O Cruises (Australia) in May 2017.

Our EAA segment's capacity increase was caused by:

22

Table of Contents

• Full quarter impact from one AIDA Cruises 3,290-passenger capacity ship that entered into service in June 2017
• Partial quarter impact from the transfer of one Princess Cruises 2,000-passenger capacity ship to P&O Cruises (Australia) that entered into service in July 2017.

These increases were partially offset by the full quarter impact from one P&O Cruises (Australia) 1,550-passenger capacity ship removed from service in April 2017.

For the nine months ended August 31, 2017 compared to the nine months ended August 31, 2016, we had a 3.3% capacity increase in ALBDs comprised of a 4.2% capacity increase in our North America segment and a 2.0% capacity increase in our EAA segment.

Our North America segment's capacity increase was caused by:

• Partial period impact from one Holland America Line 2,650-passenger capacity ship that entered into service in April 2016

• Partial period impact from one Carnival Cruise Line 3,930-passenger capacity ship that entered into service in May 2016

• Partial period impact from one Princess Cruises 3,560-passenger capacity ship that entered into service in April 2017

These increases were offset by the partial period impact from the transfer of one Princess Cruises 2,000-passenger capacity ship to P&O Cruises (Australia) in May 2017.

Our EAA segment's capacity increase was caused by:

• Partial period impact from one AIDA Cruises 3,290-passenger capacity ship that entered into service in April 2016

• Partial period impact from one AIDA Cruises 3,290-passenger capacity ship that entered into service in June 2017

• Partial period impact from the transfer of one Princess Cruises 2,000-passenger capacity ship to P&O Cruises (Australia) that entered into service in July 2017

These increases were partially offset by the partial period impact from one P&O Cruises (Australia) 1,550-passenger capacity ship removed from service in April 2017.

In accordance with cruise industry practice, occupancy is calculated using a denominator of ALBDs, which (c) assumes two passengers per cabin even though some cabins can accommodate three or more passengers.

Percentages in excess of 100% indicate that on average more than two passengers occupied some cabins.

Three Months Ended August 31, 2017 ("2017") Compared to Three Months Ended August 31, 2016 ("2016")

Revenues

Consolidated

Cruise passenger ticket revenues made up 75% of our 2017 total revenues. Cruise passenger ticket revenues increased by \$335 million, or 8.8%, to \$4.1 billion in 2017 from \$3.8 billion in 2016.

This increase was driven by:

\$191 million - increase in cruise ticket revenues, driven primarily by price improvements in our Caribbean, European and Alaska programs for our North America segment and European and Caribbean programs for our EAA segment, partially offset by decreases in our China programs

\$101 million - 2.7% capacity increase in ALBDs

•

\$21 million - foreign currency translational impact from a weaker U.S. dollar against the functional currencies of our foreign operations (“foreign currency translational impact”)

The remaining 25% of 2017 total revenues were substantially all comprised of onboard and other cruise revenues, which increased by \$77 million, or 6.7%, to \$1.2 billion in 2017 from \$1.1 billion in 2016.

This increase was driven by:

- \$33 million - higher onboard spending by our guests
- \$31 million - 2.7% capacity increase in ALBDs

Table of Contents

Concession revenues, which are included in onboard and other revenues, increased by \$9 million, or 2.9%, to \$331 million in 2017 from \$321 million in 2016.

North America Segment

Cruise passenger ticket revenues made up 75% of our North America segment's 2017 total revenues. Cruise passenger ticket revenues increased by \$221 million, or 9.3%, to \$2.6 billion in 2017 compared to \$2.4 billion in 2016.

This increase was driven by:

• \$152 million - increase in cruise ticket revenues, driven primarily by price improvements in the Caribbean, European and Alaska programs

• \$50 million - 2.1% capacity increase in ALBDs

The remaining 25% of our North America segment's 2017 total revenues were comprised of onboard and other cruise revenues, which increased by \$51 million, or 6.3%, to \$859 million in 2017 from \$808 million in 2016.

This increase was driven by:

• \$24 million - higher onboard spending by our guests

• \$17 million - 2.1% capacity increase in ALBDs

Concession revenues, which are included in onboard and other revenues, increased by \$3 million, or 1.5%, to \$226 million in 2017 from \$223 million in 2016.

EAA Segment

Cruise passenger ticket revenues made up 82% of our EAA segment's 2017 total revenues. Cruise passenger ticket revenues increased by \$110 million, or 7.6%, and was \$1.5 billion in 2017 compared to \$1.4 billion in 2016.

This increase was caused by:

• \$51 million - 3.5% capacity increase in ALBDs

• \$45 million - increase in cruise ticket revenues driven primarily by price improvements in the Caribbean and European programs, partially offset by decreases in the China programs.

• \$21 million - foreign currency translational impact

The remaining 18% of our EAA segment's 2017 total revenues were comprised of onboard and other cruise revenues, which increased by \$30 million, or 10%, and was \$330 million in 2017 and \$300 million in 2016.

This increase was driven by:

• \$15 million - higher onboard spending by our guests

• \$11 million - 3.5% capacity increase in ALBDs

Concession revenues, which are included in onboard and other revenues, increased by \$6 million, or 6.5%, to \$104 million in 2017 from \$98 million in 2016.

Costs and Expenses

Consolidated

Operating costs and expenses increased by \$450 million, or 18%, to \$3.0 billion in 2017 from \$2.6 billion in 2016.

This increase was caused by:

\$304 million - impairment of ships, resulting primarily from our decision to strategically realign our business in Australia

\$66 million - 2.7% capacity increase in ALBDs

\$35 million - higher fuel prices

\$32 million - higher commissions, transportation and other

\$20 million - foreign currency translational impact

\$15 million - higher port expenses

Table of Contents

These increases were partially offset by lower dry-dock expenses and repair and maintenance expenses, which accounted for \$19 million.

Selling and administrative expenses increased by \$18 million, or 3.4%, to \$547 million in 2017 from \$529 million in 2016.

Depreciation and amortization expenses increased by \$30 million, or 6.8%, to \$473 million in 2017 from \$443 million in 2016.

Goodwill and trademark impairment charges of \$89 million include a goodwill impairment charge of \$38 million and a trademark impairment charge of \$50 million during the third quarter of 2017, resulting from our decision to strategically realign our business in Australia.

North America Segment

Operating costs and expenses increased by \$101 million, or 6.5%, to \$1.7 billion in 2017 from \$1.6 billion in 2016.

This increase was driven by:

\$33 million - 2.1% capacity increase in ALBDs

\$30 million - higher commissions, transportation and other

\$20 million - higher fuel prices

Selling and administrative expenses increased by \$13 million, or 4.4%, to \$306 million in 2017 from \$293 million in 2016.

Depreciation and amortization expenses increased by \$15 million, or 5.5%, to \$287 million in 2017 from \$272 million in 2016.

EAA Segment

Operating costs and expenses increased by \$359 million, or 40%, to \$1,262 million in 2017 from \$903 million in 2016.

This increase was caused by:

\$304 million - impairment of ships, resulting primarily from our decision to strategically realign our business in Australia

\$32 million - 3.5% capacity increase in ALBDs

\$20 million - foreign currency translational impact

\$15 million - higher fuel prices

These increases were partially offset by lower dry-dock expenses and repair and maintenance expenses, which accounted for \$11 million.

Selling and administrative expenses increased by \$11 million, or 6.8%, to \$172 million in 2017 from \$161 million in 2016.

Depreciation and amortization expenses increased by \$11 million, or 7.2%, to \$163 million in 2017 from \$152 million in 2016.

Goodwill and trademark impairment charges of \$89 million include a goodwill impairment charge of \$38 million and a trademark impairment charge of \$50 million during the third quarter of 2017, resulting from our decision to strategically realign our business in Australia.

Operating Income

Our consolidated operating income decreased by \$169 million, or 11%, to \$1.4 billion in 2017 from \$1.6 billion in 2016. Our North America segment's operating income increased by \$144 million, or 14%, to \$1.2 billion in 2017 from \$1.1 billion in 2016, and our EAA segment's operating income decreased by \$329 million, or 63%, to \$193 million in 2017 from \$522 million in 2016. These changes were primarily due to the reasons discussed above.

Table of Contents

Nonoperating Income (Expense)

Gains (losses) on fuel derivatives, net were comprised of the following (in millions):

| | Three Months Ended August 31, | |
|---|--|--------|
| | 2017 | 2016 |
| Unrealized gains on fuel derivatives, net | \$65 | \$25 |
| Realized losses on fuel derivatives, net | (57) | (61) |
| Gains (losses) on fuel derivatives, net | \$7 | \$(36) |

Key Performance Non-GAAP Financial Indicators

Non-GAAP Financial Measures

We use net cruise revenues per ALBD (“net revenue yields”), net cruise costs excluding fuel per ALBD, adjusted net income and adjusted earnings per share as non-GAAP financial measures of our cruise segments’ and the company’s financial performance. These non-GAAP financial measures are provided along with U.S. GAAP gross cruise revenues per ALBD (“gross revenue yields”), gross cruise costs per ALBD and U.S. GAAP net income and U.S. GAAP earnings per share.

We believe that gains and losses on ship sales, impairment charges and restructuring and certain other expenses are not part of our core operating business and, therefore, are not an indication of our future earnings performance. As such, we exclude these items from non-GAAP measures. Net revenue yields and net cruise costs excluding fuel per ALBD enable us to separate the impact of predictable capacity or ALBD changes from price and other changes that affect our business. We believe these non-GAAP measures provide useful information to investors and expanded insight to measure our revenue and cost performance as a supplement to our U.S. GAAP consolidated financial statements.

The presentation of our non-GAAP financial information is not intended to be considered in isolation from, as a substitute for, or superior to the financial information prepared in accordance with U.S. GAAP. It is possible that our non-GAAP financial measures may not be exactly comparable to the like-kind information presented by other companies, which is a potential risk associated with using these measures to compare us to other companies.

Net revenue yields are commonly used in the cruise industry to measure a company’s cruise segment revenue performance and for revenue management purposes. We use “net cruise revenues” rather than “gross cruise revenues” to calculate net revenue yields. We believe that net cruise revenues is a more meaningful measure in determining revenue yield than gross cruise revenues because it reflects the cruise revenues earned net of our most significant variable costs, which are travel agent commissions, cost of air and other transportation, certain other costs that are directly associated with onboard and other revenues and credit and debit card fees.

Net passenger ticket revenues reflect gross passenger ticket revenues, net of commissions, transportation and other costs.

Net onboard and other revenues reflect gross onboard and other revenues, net of onboard and other cruise costs.

Net cruise costs excluding fuel per ALBD is the measure we use to monitor our ability to control our cruise segments’ costs rather than gross cruise costs per ALBD. We exclude the same variable costs that are included in the calculation of net cruise revenues as well as fuel expense to calculate net cruise costs without fuel to avoid duplicating these

variable costs in our non-GAAP financial measures. Substantially all of our net cruise costs excluding fuel are largely fixed, except for the impact of changing prices, once the number of ALBDs has been determined.

We have not provided a reconciliation of forecasted gross cruise revenues to forecasted net cruise revenues or forecasted gross cruise costs to forecasted net cruise costs without fuel or forecasted U.S. GAAP net income to forecasted adjusted net income or forecasted U.S. GAAP earnings per share to forecasted adjusted earnings per share because preparation of meaningful U.S. GAAP forecasts of gross cruise revenues, gross cruise costs, net income and earnings per share would require unreasonable effort. We are unable to predict, without unreasonable effort, the future movement of foreign exchange rates and fuel prices. While we forecast realized gains and losses on fuel derivatives by applying current Brent prices to the derivatives that settle in the forecast period, we do not forecast the impact of unrealized gains and losses on fuel derivatives because we do not believe they are an indication of our future earnings performance. We are unable to determine the future impact of gains or losses on ships sales, restructuring expenses and other non-core gains and charges.

Table of Contents

Constant Dollar and Constant Currency

Our EAA segment and Cruise Support segment operations utilize the euro, sterling and Australian dollar as their functional currencies to measure their results and financial condition. This subjects us to foreign currency translational risk. Our North America, EAA and Cruise Support segment operations also have revenues and expenses that are in a currency other than their functional currency. This subjects us to foreign currency transactional risk.

We report net revenue yields, net passenger revenue yields, net onboard and other revenue yields and net cruise costs excluding fuel per ALBD on a “constant dollar” and “constant currency” basis assuming the 2017 periods’ currency exchange rates have remained constant with the 2016 periods’ rates. These metrics facilitate a comparative view for the changes in our business in an environment with fluctuating exchange rates.

Constant dollar reporting is a non-GAAP financial measure that removes only the impact of changes in exchange rates on the translation of our EAA segment and Cruise Support segment operations.

Constant currency reporting is a non-GAAP financial measure that removes the impact of changes in exchange rates on the translation of our EAA segment and Cruise Support segment operations (as in constant dollar) plus the transactional impact of changes in exchange rates from revenues and expenses that are denominated in a currency other than the functional currency for our North America, EAA and Cruise Support segments.

Examples:

The translation of our EAA segment operations to our U.S. dollar reporting currency results in decreases in reported U.S. dollar revenues and expenses if the U.S. dollar strengthens against these foreign currencies and increases in reported U.S. dollar revenues and expenses if the U.S. dollar weakens against these foreign currencies.

- Our North American segment operations have a U.S. dollar functional currency but also have revenue and expense transactions in currencies other than the U.S. dollar. If the U.S. dollar strengthens against these other currencies, it reduces the U.S. dollar revenues and expenses. If the U.S. dollar weakens against these other currencies, it increases the U.S. dollar revenues and expenses.

Our EAA segment operations have euro, sterling and Australian dollar functional currencies but also have revenue and expense transactions in currencies other than their functional currency. If their functional currency strengthens against these other currencies, it reduces the functional currency revenues and expenses. If the functional currency weakens against these other currencies, it increases the functional currency revenues and expenses.

Under U.S. GAAP, the realized and unrealized gains and losses on fuel derivatives not qualifying as fuel hedges are recognized currently in earnings. We believe that unrealized gains and losses on fuel derivatives are not an indication of our earnings performance since they relate to future periods and may not ultimately be realized in our future earnings. Therefore, we believe it is more meaningful for the unrealized gains and losses on fuel derivatives to be excluded from our net income and earnings per share and, accordingly, we present adjusted net income and adjusted earnings per share excluding these unrealized gains and losses.

We believe that gains and losses on ship sales, impairment charges, restructuring and other expenses are not part of our core operating business and are not an indication of our future earnings performance. Therefore, we believe it is more meaningful for gains and losses on ship sales, impairment charges, and restructuring and other non-core gains and charges to be excluded from our net income and earnings per share and, accordingly, we present adjusted net income and adjusted earnings per share excluding these items.

Table of Contents

Consolidated gross and net revenue yields were computed by dividing the gross and net cruise revenues by ALBDs as follows (dollars in millions, except yields):

| | Three Months Ended August 31, | | |
|---------------------------------------|-------------------------------|----------------------------|------------|
| | 2017 | 2017 Constant Dollar | 2016 |
| Passenger ticket revenues | \$4,138 | \$4,117 | \$ 3,803 |
| Onboard and other revenues | 1,223 | 1,218 | 1,146 |
| Gross cruise revenues | 5,361 | 5,335 | 4,949 |
| Less cruise costs | | | |
| Commissions, transportation and other | (699) | (695) | (646) |
| Onboard and other | (184) | (184) | (171) |
| | (883) | (879) | (817) |
| Net passenger ticket revenues | 3,439 | 3,422 | 3,157 |
| Net onboard and other revenues | 1,039 | 1,034 | 975 |
| Net cruise revenues | \$4,478 | \$4,456 | \$ 4,132 |
| ALBDs | 21,120,155 | 21,120,155 | 20,572,112 |
| Gross revenue yields | \$253.82 | \$252.63 | \$ 240.60 |
| % increase vs. 2016 | 5.5 | % 5.0 | % |
| Net revenue yields | \$211.99 | \$211.02 | \$ 200.87 |
| % increase vs. 2016 | 5.5 | % 5.1 | % |
| Net passenger ticket revenue yields | \$162.82 | \$162.05 | \$ 153.47 |
| % increase vs. 2016 | 6.1 | % 5.6 | % |
| Net onboard and other revenue yields | \$49.17 | \$48.97 | \$ 47.39 |
| % increase vs. 2016 | 3.8 | % 3.3 | % |

| | Three Months Ended August 31, | | |
|--------------------------------------|-------------------------------|------------------------------|------------|
| | 2017 | 2017 Constant Currency | 2016 |
| Net passenger ticket revenues | \$3,439 | \$3,424 | \$ 3,157 |
| Net onboard and other revenues | 1,039 | 1,033 | 975 |
| Net cruise revenues | \$4,478 | \$4,457 | \$ 4,132 |
| ALBDs | 21,120,155 | 21,120,155 | 20,572,112 |
| Net revenue yields | \$211.99 | \$211.05 | \$ 200.87 |
| % increase vs. 2016 | 5.5 | % 5.1 | % |
| Net passenger ticket revenue yields | \$162.82 | \$162.13 | \$ 153.47 |
| % increase vs. 2016 | 6.1 | % 5.6 | % |
| Net onboard and other revenue yields | \$49.17 | \$48.92 | \$ 47.39 |
| % increase vs. 2016 | 3.8 | % 3.2 | % |

Table of Contents

Consolidated gross and net cruise costs and net cruise costs excluding fuel per ALBD were computed by dividing the gross and net cruise costs and net cruise costs excluding fuel by ALBDs as follows (dollars in millions, except costs per ALBD):

| | Three Months Ended August 31, | | |
|--|-------------------------------|----------------------------|------------|
| | 2017 | 2017 Constant Dollar | 2016 |
| Cruise operating expenses | \$2,927 | \$2,908 | \$2,479 |
| Cruise selling and administrative expenses | 543 | 542 | 527 |
| Gross cruise costs | 3,470 | 3,450 | 3,006 |
| Less cruise costs included above | | | |
| Commissions, transportation and other | (699) | (695) | (646) |
| Onboard and other | (184) | (184) | (171) |
| (Losses) gains on ship sales and impairments | (304) | (294) | — |
| Restructuring expenses | (3) | (3) | — |
| Other | — | — | (18) |
| Net cruise costs | 2,280 | 2,274 | 2,171 |
| Less fuel | (307) | (307) | (265) |
| Net cruise costs excluding fuel | \$1,973 | \$1,967 | \$1,906 |
| ALBDs | 21,120,155 | 21,120,155 | 20,572,112 |
| Gross cruise costs per ALBD | \$164.32 | \$163.32 | \$146.18 |
| % increase vs. 2016 | 12.4 | % 11.7 | % |
| Net cruise costs excluding fuel per ALBD | \$93.39 | \$93.08 | \$92.63 |
| % increase vs. 2016 | 0.8 | % 0.5 | % |

| | Three Months Ended August 31, | | |
|--|-------------------------------|------------------------------|------------|
| | 2017 | 2017 Constant Currency | 2016 |
| Net cruise costs excluding fuel | \$1,973 | \$1,960 | \$1,906 |
| ALBDs | 21,120,155 | 21,120,155 | 20,572,112 |
| Net cruise costs excluding fuel per ALBD | \$93.39 | \$92.78 | \$92.63 |
| % increase vs. 2016 | 0.8 | % 0.2 | % |

Table of Contents

Adjusted fully diluted earnings per share was computed as follows (in millions, except per share data):

| | Three Months Ended August 31, 2017 2016 | |
|--|---|---------|
| Net income | | |
| U.S. GAAP net income | \$1,329 | \$1,424 |
| Unrealized (gains) losses on fuel derivatives, net | (65) | (25) |
| Losses (gains) on ship sales and impairments | 392 | — |
| Restructuring expenses | 3 | — |
| Other | — | 18 |
| Adjusted net income | \$1,659 | \$1,417 |
| Weighted-average shares outstanding | 726 | 739 |
| Earnings per share | | |
| U.S. GAAP earnings per share | \$1.83 | \$1.93 |
| Unrealized (gains) losses on fuel derivatives, net | (0.09) | (0.03) |
| Losses (gains) on ship sales and impairments | 0.55 | — |
| Restructuring expenses | — | — |
| Other | — | 0.02 |
| Adjusted earnings per share | \$2.29 | \$1.92 |

Net cruise revenues increased by \$346 million, or 8.4%, to \$4.5 billion in 2017 from \$4.1 billion in 2016.

The increase was driven by:

\$214 million - 5.1% increase in constant currency net revenue yields

\$110 million - 2.7% capacity increase in ALBDs

\$21 million - foreign currency impacts (including both the foreign currency translational and transactional impacts)

The 5.1% increase in net revenue yields on a constant currency basis was due to a 5.6% increase in net passenger ticket revenue yields and a 3.2% increase in net onboard and other revenue yields.

The 5.6% increase in net passenger ticket revenue yields was driven primarily by price improvements in our Caribbean, European and Alaska programs for our North America segment and European and Caribbean programs for our EAA segment, partially offset by decreases in our China programs. This 5.6% increase in net passenger ticket revenue yields was comprised of a 7.3% increase from our North America segment and a 2.6% increase from our EAA segment.

The 3.2% increase in net onboard and other revenue yields was caused by similar increases in our North America and EAA segments.

Gross cruise revenues increased by \$412 million, or 8.3%, to \$5.4 billion in 2017 from \$4.9 billion in 2016 for largely the same reasons as discussed above.

Net cruise costs excluding fuel increased by \$67 million, or 3.5%, to \$2.0 billion in 2017 from \$1.9 billion in 2016.

The increase was driven by:

\$51 million - 2.7% capacity increase in ALBDs

\$13 million - foreign currency impacts (including both the foreign currency translational and transactional impacts)

Net cruise costs excluding fuel per ALBD increased by 0.2%.

Fuel costs increased by \$42 million, or 16%, to \$307 million in 2017 from \$265 million in 2016. This increase was driven by higher fuel prices, which accounted for \$35 million.

Gross cruise costs increased by \$464 million, or 15%, to \$3.5 billion in 2017 from \$3.0 billion in 2016 for largely the same reasons as discussed above and the impairment of ships, which accounted for \$304 million.

Table of Contents

Nine Months Ended August 31, 2017 (“2017”) Compared to Nine Months Ended August 31, 2016 (“2016”)

Revenues

Consolidated

Cruise passenger ticket revenues made up 74% of our 2017 total revenues. Cruise passenger ticket revenues increased by \$597 million, or 6.5%, to \$9.8 billion in 2017 from \$9.2 billion in 2016.

This increase was caused by:

- \$411 million - increase in cruise ticket revenues, driven primarily by price improvements in our Caribbean, European and Alaska programs for our North America segment and European and Caribbean programs for our EAA segment, partially offset by decreases in our China programs
- \$307 million - 3.3% capacity increase in ALBDs

These increases were partially offset by:

- \$129 million - foreign currency translational impact from a stronger U.S. dollar against the functional currencies of our foreign operations (“foreign currency translational impact”)
- \$32 million - decrease in air transportation revenues from guests who purchased their tickets from us

The remaining 26% of 2017 total revenues were substantially all comprised of onboard and other cruise revenues, which increased by \$190 million, or 6.2%, to \$3.2 billion in 2017 from \$3.0 billion in 2016.

This increase was caused by:

- \$102 million - higher onboard spending by our guests
- \$102 million - 3.3% capacity increase in ALBDs

These increases were partially offset by the foreign currency translational impact, which accounted for \$25 million.

Concession revenues, which are included in onboard and other revenues, increased by \$14 million, or 1.8%, to \$802 million in 2017 from \$788 million in 2016.

North America Segment

Cruise passenger ticket revenues made up 73% of our North America segment’s 2017 total revenues. Cruise passenger ticket revenues increased by \$551 million, or 9.9%, to \$6.1 billion in 2017 from \$5.6 billion in 2016.

This increase was driven by:

- \$261 million - increase in cruise ticket revenues, driven primarily by price improvements in the Caribbean, European and Alaska programs
- \$238 million - 4.2% capacity increase in ALBDs
- \$39 million - slight increase in occupancy

The remaining 27% of our North America segment’s 2017 total revenues were comprised of onboard and other cruise revenues, which increased by \$167 million, or 7.9%, to \$2.3 billion in 2017 from \$2.1 billion in 2016.

The increase was driven by:

- \$90 million - 4.2% capacity increase in ALBDs

\$64 million - higher onboard spending by our guests

Concession revenues, which are included in onboard and other revenues, increased by \$21 million, or 4.0%, to \$557 million in 2017 from \$536 million in 2016.

Table of Contents

EAA Segment

Cruise passenger ticket revenues made up 81% of our EAA segment's 2017 total revenues. Cruise passenger ticket revenues increased by \$31 million, or 0.8%, and remained at \$3.7 billion in both 2017 and 2016.

This increase was caused by:

\$128 million - increase in cruise ticket revenues, driven primarily by price improvements in the Caribbean and European programs, partially offset by decreases in the China programs

\$72 million - 2.0% capacity increase in ALBDs

These increases were partially offset by:

\$129 million - foreign currency translational impact

\$29 million - slight decrease in occupancy driven primarily by the China programs

\$23 million - decrease in air transportation revenues from guests who purchased their tickets from us

The remaining 19% of our EAA segment's 2017 total revenues were comprised of onboard and other cruise revenues, which increased by \$30 million, or 3.7%, to \$843 million in 2017 from \$813 million in 2016. This increase was caused by \$40 million of higher onboard spending by our guests, partially offset by a foreign currency translational impact of \$25 million.

Concession revenues, which are included in onboard and other revenues, decreased by \$7 million, or 2.7%, to \$245 million in 2017 from and \$252 million in 2016.

Costs and Expenses

Consolidated

Operating costs and expenses increased by \$820 million, or 12%, to \$7.9 billion in 2017 from \$7.1 billion in 2016.

This increase was caused by:

\$304 million - impairment of ships, resulting primarily from our decision to strategically realign our business in Australia

\$254 million - higher fuel prices

\$231 million - 3.3% capacity increase in ALBD

\$55 million - higher port expenses

\$39 million - higher cruise payroll and related expenses

\$26 million - higher commissions, transportation and other

These increases were partially offset by the foreign currency translational impact, which accounted for \$85 million.

Selling and administrative expenses increased by \$36 million, or 2.2%, and remained at \$1.6 billion in both 2017 and 2016.

Depreciation and amortization expenses increased by \$65 million, or 5.0%, to \$1.4 billion in 2017 from \$1.3 billion in 2016.

Goodwill and trademark impairment charges of \$89 million include a goodwill impairment charge of \$38 million and a trademark impairment charge of \$50 million during the third quarter of 2017, resulting from our decision to strategically realign our business in Australia.

North America Segment

Operating costs and expenses increased by \$402 million, or 9.5%, to \$4.7 billion in 2017 from \$4.3 billion in 2016.

This increase was caused by:

\$181 million - 4.2% capacity increase in ALBDs

\$160 million - higher fuel prices

\$50 million - higher commissions, transportation and other

\$27 million - higher port expenses

These increases were partially offset by lower dry-dock expenses and repair and maintenance expenses, which accounted for \$41 million.

Table of Contents

Selling and administrative expenses increased by \$48 million, or 5.4%, to \$945 million in 2017 from \$897 million in 2016.

Depreciation and amortization expenses increased by \$54 million, or 6.8%, to \$845 million in 2017 from \$791 million in 2016.

EAA Segment

Operating costs and expenses increased by \$416 million, or 16%, to \$3.1 billion in 2017 from \$2.7 billion in 2016.

This increase was caused by:

\$304 million - impairment of ships, resulting primarily from our decision to strategically realign our business in Australia

\$94 million - higher fuel prices

\$53 million - 2.0% capacity increase in ALBDs

\$31 million - higher dry-dock expenses and repair and maintenance expenses

\$27 million - higher port expenses

These increases were partially offset by:

\$85 million - foreign currency translational impact

\$29 million - decrease in air transportation costs related to the decrease in revenues from guests who purchased their tickets from us

Selling and administrative expenses decreased by \$1 million, or 0.2% to \$512 million in 2017 from \$513 million in 2016.

Depreciation and amortization expenses increased by \$9 million, or 2.0%, to \$459 million in 2017 from \$450 million in 2016.

Goodwill and trademark impairment charges of \$89 million include a goodwill impairment charge of \$38 million and a trademark impairment charge of \$50 million during the third quarter of 2017, resulting from our decision to strategically realign our business in Australia.

Operating Income

Our consolidated operating income decreased by \$213 million, or 8.6%, to \$2.3 billion in 2017 from \$2.5 billion in 2016. Our North America segment's operating income increased by \$214 million, or 12%, to \$2.0 billion in 2017 from \$1.8 billion in 2016, and our EAA segment's operating income decreased by \$452 million, or 54%, to \$385 million in 2017 from \$837 million in 2016. These changes were primarily due to the reasons discussed above.

Nonoperating Income (Expense)

Losses on fuel derivatives, net were comprised of the following (in millions):

| | Nine Months Ended August 31, | |
|---|------------------------------------|---------|
| | 2017 | 2016 |
| Unrealized gains on fuel derivatives, net | \$134 | \$121 |
| Realized losses on fuel derivatives, net | (153) | (223) |
| Losses on fuel derivatives, net | \$(19) | \$(102) |

Table of Contents

Key Performance Non-GAAP Financial Indicators

Consolidated gross and net revenue yields were computed by dividing the gross and net cruise revenues by ALBDs as follows (dollars in millions, except yields):

| | Nine Months Ended August 31, | | |
|---------------------------------------|------------------------------|----------------------------|------------|
| | 2017 | 2017 Constant Dollar | 2016 |
| Passenger ticket revenues | \$9,814 | \$9,942 | \$9,217 |
| Onboard and other revenues | 3,237 | 3,262 | 3,047 |
| Gross cruise revenues | 13,051 | 13,204 | 12,264 |
| Less cruise costs | | | |
| Commissions, transportation and other | (1,781) | (1,809) | (1,723) |
| Onboard and other | (438) | (442) | (411) |
| | (2,219) | (2,251) | (2,134) |
| Net passenger ticket revenues | 8,033 | 8,133 | 7,494 |
| Net onboard and other revenues | 2,799 | 2,820 | 2,636 |
| Net cruise revenues | \$10,832 | \$10,953 | \$10,130 |
| ALBDs | 61,540,974 | 61,540,974 | 59,555,384 |
| Gross revenue yields | \$212.07 | \$214.57 | \$205.94 |
| % increase vs. 2016 | 3.0 | % 4.2 | % |
| Net revenue yields | \$176.01 | \$177.99 | \$170.10 |
| % increase vs. 2016 | 3.5 | % 4.6 | % |
| Net passenger ticket revenue yields | \$130.52 | \$132.17 | \$125.84 |
| % increase vs. 2016 | 3.7 | % 5.0 | % |
| Net onboard and other revenue yields | \$45.49 | \$45.83 | \$44.26 |
| % increase vs. 2016 | 2.8 | % 3.5 | % |

| | Nine Months Ended August 31, | | |
|--------------------------------------|------------------------------|------------------------------|------------|
| | 2017 | 2017 Constant Currency | 2016 |
| Net passenger ticket revenues | \$8,033 | \$8,140 | \$7,494 |
| Net onboard and other revenues | 2,799 | 2,811 | 2,636 |
| Net cruise revenues | \$10,832 | \$10,951 | \$10,130 |
| ALBDs | 61,540,974 | 61,540,974 | 59,555,384 |
| Net revenue yields | \$176.01 | \$177.95 | \$170.10 |
| % increase vs. 2016 | 3.5 | % 4.6 | % |
| Net passenger ticket revenue yields | \$130.52 | \$132.28 | \$125.84 |
| % increase vs. 2016 | 3.7 | % 5.1 | % |
| Net onboard and other revenue yields | \$45.49 | \$45.67 | \$44.26 |
| % increase vs. 2016 | 2.8 | % 3.2 | % |

Table of Contents

Consolidated gross and net cruise costs and net cruise costs excluding fuel per ALBD were computed by dividing the gross and net cruise costs and net cruise costs excluding fuel by ALBDs as follows (dollars in millions, except costs per ALBD):

| | Nine Months Ended August 31, | | |
|--|------------------------------|----------------------------|------------|
| | 2017 | 2017 Constant Dollar | 2016 |
| Cruise operating expenses | \$7,752 | \$7,837 | \$6,939 |
| Cruise selling and administrative expenses | 1,637 | 1,658 | 1,606 |
| Gross cruise costs | 9,389 | 9,495 | 8,545 |
| Less cruise costs included above | | | |
| Commissions, transportation and other | (1,781) | (1,809) | (1,723) |
| Onboard and other | (438) | (442) | (411) |
| (Losses) gains on ship sales and impairments | (300) | (290) | 2 |
| Restructuring expenses | (3) | (3) | (2) |
| Other | — | — | (39) |
| Net cruise costs | 6,867 | 6,951 | 6,372 |
| Less fuel | (914) | (914) | (648) |
| Net cruise costs excluding fuel | \$5,953 | \$6,037 | \$5,724 |
| ALBDs | 61,540,974 | 61,540,974 | 59,555,384 |
| Gross cruise costs per ALBD | \$152.56 | \$154.29 | \$143.50 |
| % increase vs. 2016 | 6.3 | % 7.5 | % |
| Net cruise costs excluding fuel per ALBD | \$96.72 | \$98.09 | \$96.10 |
| % increase vs. 2016 | 0.6 | % 2.1 | % |
| | Nine Months Ended August 31, | | |
| | 2017 | | |
| | 2017 | Constant | 2016 |
| | Currency | | |
| Net cruise costs excluding fuel | \$5,953 | \$6,011 | \$5,724 |
| ALBDs | 61,540,974 | 61,540,974 | 59,555,384 |
| Net cruise costs excluding fuel per ALBD | \$96.72 | \$97.67 | \$96.10 |
| % increase vs. 2016 | 0.6 | % 1.6 | % |

Table of Contents

Adjusted fully diluted earnings per share was computed as follows (in millions, except per share data):

| | Nine Months Ended August 31, | |
|--|------------------------------------|---------|
| | 2017 | 2016 |
| Net income | | |
| U.S. GAAP net income | \$2,060 | \$2,171 |
| Unrealized (gains) losses on fuel derivatives, net | (134) | (121) |
| Losses (gains) on ship sales and impairments | 389 | (2) |
| Restructuring expenses | 3 | 2 |
| Other | — | 39 |
| Adjusted net income | \$2,318 | \$2,089 |
| Weighted-average shares outstanding | 727 | 754 |
| Earnings per share | | |
| U.S. GAAP earnings per share | \$2.84 | \$2.88 |
| Unrealized (gains) losses on fuel derivatives, net | (0.18) | (0.16) |
| Losses (gains) on ship sales and impairments | 0.53 | — |
| Restructuring expenses | — | — |
| Other | — | 0.05 |
| Adjusted earnings per share | \$3.19 | \$2.77 |

Net cruise revenues increased by \$702 million, or 6.9%, to \$10.8 billion in 2017 from \$10.1 billion in 2016.

The increase was caused by:

\$485 million - 4.6% increase in constant currency net revenue yields

\$338 million - 3.3% capacity increase in ALBDs

These increases were partially offset by foreign currency impacts (including both the foreign currency translational and transactional impacts), which accounted for \$122 million.

The 4.6% increase in net revenue yields on a constant currency basis was due to a 5.1% increase in net passenger ticket revenue yields and a 3.2% increase in net onboard and other revenue yields.

The 5.1% increase in net passenger ticket revenue yields was driven primarily by price improvements in our Caribbean, European and Alaska programs for our North America segment and European and Caribbean programs for our EAA segment, partially offset by decreases in our China programs. This 5.1% increase in net passenger ticket revenue yields was comprised of a 5.6% increase from our North America segment and a 3.6% increase from our EAA segment.

The 3.2% increase in net onboard and other revenue yields was caused by similar increases in our North America and EAA segments.

Gross cruise revenues increased by \$787 million, or 6.4%, to \$13.1 billion in 2017 from \$12.3 billion in 2016 for largely the same reasons as discussed above.

Net cruise costs excluding fuel increased by \$229 million, or 4.0%, to \$6.0 billion in 2017 from \$5.7 billion in 2016.

The increase was caused by:

\$191 million - 3.3% capacity increase in ALBDs

\$100 million - 1.6% increase in constant currency net cruise costs excluding fuel

These increases were partially offset by:

\$62 million - Foreign currency impacts (including both the foreign currency translational and transactional impacts)

Net cruise costs excluding fuel impairment per ALBD increased by 1.6%.

Fuel costs increased by \$266 million, or 41%, to \$914 million in 2017 from \$648 million in 2016. This was driven by higher fuel prices, which accounted for \$254 million.

Gross cruise costs increased by \$844 million, or 9.9%, to \$9.4 billion in 2017 from \$8.5 billion in 2016 for largely the same reasons as discussed above and the impairment of ships, which accounted for \$304 million.

Table of Contents

Liquidity, Financial Condition and Capital Resources

Our primary financial goals are to profitably grow our cruise business and increase our return on invested capital (“ROIC”), reaching double digit returns, while maintaining a strong balance sheet and strong investment grade credit ratings. We define ROIC as the twelve month adjusted earnings before interest divided by the monthly average of debt plus equity minus construction-in-progress. Our ability to generate significant operating cash flow allows us to internally fund our capital investments. We are committed to returning free cash flow to our shareholders in the form of dividends and/or share repurchases. As we continue to profitably grow our cruise business, we plan to increase our debt level in a manner consistent with maintaining our strong credit metrics. This will allow us to return both free cash flow and incremental debt proceeds to our shareholders in the form of dividends and/or share repurchases. Other objectives of our capital structure policy are to maintain a sufficient level of liquidity with our available cash and cash equivalents and committed financings for immediate and future liquidity needs, and a reasonable debt maturity profile.

Based on our historical results, projections and financial condition, we believe that our future operating cash flows and liquidity will be sufficient to fund all of our expected capital projects including shipbuilding commitments, ship improvements, debt service requirements, working capital needs and other firm commitments over the next several years. We believe that our ability to generate significant operating cash flows and our strong balance sheet as evidenced by our investment grade credit ratings provide us with the ability, in most financial credit market environments, to obtain debt financing.

We had a working capital deficit of \$6.3 billion as of August 31, 2017 compared to a working capital deficit of \$5.4 billion as of November 30, 2016. The increase in working capital deficit was mainly due to the increase in customer deposits and our net current portion of our borrowings. We operate with a substantial working capital deficit. This deficit is mainly attributable to the fact that, under our business model, substantially all of our passenger ticket receipts are collected in advance of the applicable sailing date. These advance passenger receipts remain a current liability until the sailing date. The cash generated from these advance receipts is used interchangeably with cash on hand from other sources, such as our borrowings and other cash from operations. The cash received as advanced receipts can be used to fund operating expenses, pay down our debt, invest in long term investments or any other use of cash. Included within our working capital deficit are \$4.0 billion and \$3.5 billion of customer deposits as of August 31, 2017 and November 30, 2016, respectively. In addition, we have a relatively low-level of accounts receivable and limited investment in inventories. We generate substantial cash flows from operations and our business model has historically allowed us to maintain this working capital deficit and still meet our operating, investing and financing needs. We expect that we will continue to have working capital deficits in the future.

Sources and Uses of Cash

Operating Activities

Our business provided \$4.3 billion of net cash from operations during the nine months ended August 31, 2017, an increase of \$188 million, or 5%, compared to \$4.1 billion for the same period in 2016. This increase was caused by an increase in our revenues less expenses settled in cash and an increase in customer deposits.

Investing Activities

During the nine months ended August 31, 2017, net cash used in investing activities was \$2.4 billion. This was substantially due to:

- Capital expenditures of \$1.2 billion for our ongoing new shipbuilding program
- Capital expenditures of \$1.1 billion for ship improvements and replacements, information technology, buildings and improvements and other assets
- Payments of \$157 million of fuel derivative settlements

During the nine months ended August 31, 2016, net cash used in investing activities was \$2.6 billion. This was comprised of:

• Capital expenditures of \$1.5 billion for our ongoing new shipbuilding program

• Capital expenditures of \$914 million for ship improvements and replacements, information technology, buildings and improvements and other assets

• Payments of \$231 million of fuel derivative settlements

• Return of collateral of \$22 million from one of our fuel derivative counterparties

Table of Contents

Financing Activities

During the nine months ended August 31, 2017, net cash used in financing activities of \$2.0 billion was substantially due to the following:

- Repayments of short-term borrowings of \$335 million in connection with our availability of, and needs for, cash at various times throughout the period
- Repayments of \$1.0 billion of long-term debt
- Issuances of \$100 million of long-term debt under a term loan
- Proceeds of \$367 million of long-term debt under an export credit facility
- Payments of cash dividends of \$797 million
- Purchases of \$305 million of Carnival Corporation common stock and Carnival plc ordinary shares in open market transactions under our Repurchase Program

During the nine months ended August 31, 2016, net cash used in financing activities of \$2.4 billion was substantially due to the following:

- Net proceeds from short-term borrowings of \$301 million in connection with our availability of, and needs for, cash at various times throughout the period
- Repayments of \$971 million of long-term debt
- Issuances of \$555 million of euro-denominated publicly-traded notes, which net proceeds are being used for general corporate purposes
- Proceeds of \$379 million of long-term debt under an export credit facility
- Proceeds of \$110 million of long-term debt under euro-denominated bank loans
- Payments of cash dividends of \$721 million
- Purchases of \$2.1 billion of shares of Carnival Corporation common stock in open market transactions of which \$2.1 billion were repurchased under our Repurchase Program and \$39 million were repurchased under our Stock Swap Programs
- Sales of \$40 million of treasury stock under our Stock Swap Programs

Future Commitments and Funding Sources

Our total annual capital expenditures consist of ships under contract for construction entered into through September 26, 2017, and estimated improvements to existing ships and shoreside assets and are expected to be (in billions):

| | | | | | | |
|--|------|------|------|------|------|------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|------|------|------|------|------|------|

| | | | | | | |
|-----------------------------------|-------|-------|-------|-------|-------|-------|
| Total annual capital expenditures | \$3.1 | \$4.1 | \$5.0 | \$4.7 | \$3.8 | \$3.6 |
|-----------------------------------|-------|-------|-------|-------|-------|-------|

The year-over-year percentage increases in our annual capacity are expected to result primarily from contracted new ships as of September 26, 2017, entering service and are currently expected to be:

| | | | | | | |
|--|------|------|------|------|------|------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|------|------|------|------|------|------|

| | | | | | | |
|------------------------------|------|------|------|------|------|-----|
| Annual capacity increase (a) | 2.8% | 2.2% | 5.4% | 7.4% | 7.5% | 3.9 |
|------------------------------|------|------|------|------|------|-----|

(a) These percentage increases include only contracted ship orders, sales and other dispositions.

At August 31, 2017, we had liquidity of \$13.5 billion. Our liquidity consisted of \$157 million of cash and cash equivalents, which excludes \$332 million of cash used for current operations, \$2.8 billion available for borrowing under our revolving credit facilities, net of our outstanding commercial paper borrowings, and \$10.6 billion under our committed future financings, which are comprised of ship export credit facilities. These commitments are from numerous large and well-established banks and export credit agencies, which we believe will honor their contractual agreements with us. The committed future financing will be available as follows (in millions):

| | | | | | |
|--|------|------|------|------|------|
| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|------|------|------|------|------|

| | | | | | |
|---|---------|---------|---------|---------|-------|
| Availability of committed future financing at August 31, 2017 | \$2,099 | \$2,692 | \$3,049 | \$1,811 | \$938 |
|---|---------|---------|---------|---------|-------|

At August 31, 2017, all of our revolving credit facilities are scheduled to mature in 2021, except for \$300 million that matures in 2020.

Substantially all of our debt agreements contain financial covenants as described in Note 6 - "Unsecured Debt" in the annual consolidated financial statements, which are included within our Form 10-K. At August 31, 2017, we were in compliance with our

38

Table of Contents

debt covenants. In addition, based on our forecasted operating results, financial condition and cash flows, we expect to be in compliance with our debt covenants for the foreseeable future. Generally, if an event of default under any debt agreement occurs, then pursuant to cross-default acceleration clauses, substantially all of our outstanding debt and derivative contract payables could become due, and all debt and derivative contracts could be terminated.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements, including guarantee contracts, retained or contingent interests, certain derivative instruments and variable interest entities that either have, or are reasonably likely to have, a current or future material effect on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of our hedging strategies and market risks, see the discussion below and Note 4 - "Fair Value Measurements, Derivative Instruments and Hedging Activities" in our consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations within our Form 10-K.

Operational Currency Risks

We have foreign operations that have functional currencies other than the U.S. dollar, which result in foreign currency translational impacts. We execute transactions in a number of currencies other than their functional currencies, which result in foreign currency transactional impacts. Based on a 10% change in all currency exchange rates that were used in our September 26, 2017 guidance, we estimate that our adjusted diluted earnings per share September 26, 2017 guidance would change by the following:

\$0.05 per share for the fourth quarter of 2017

Interest Rate Risks

The composition of our debt, including the effect of foreign currency swaps and interest rate swaps, was as follows:

| | August 31, November 30, | | | |
|--------------------|-------------------------|---|------|---|
| | 2017 | | 2016 | |
| Fixed rate | 29 | % | 28 | % |
| Euro fixed rate | 39 | % | 35 | % |
| Floating rate | 6 | % | 14 | % |
| Euro floating rate | 22 | % | 23 | % |
| GBP floating rate | 4 | | — | % |

Fuel Price Risks

Based on a 10% change in fuel prices versus the current spot price that was used to calculate fuel expense in our September 26, 2017 guidance, we estimate that our adjusted diluted earnings per share September 26, 2017 guidance would change by the following:

\$0.05 per share for the fourth quarter of 2017

Based on a 10% change in Brent prices versus the current spot price that was used to calculate realized gains (losses) on fuel derivatives in our September 26, 2017 guidance, we estimate that our adjusted diluted earnings per share September 26, 2017 guidance would change by the following:

\$0.02 per share for the fourth quarter of 2017

At August 31, 2017, the unrealized losses on our outstanding fuel derivative contracts were \$187 million.

39

Table of Contents

Item 4. Controls and Procedures.

A. Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Our President and Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer have evaluated our disclosure controls and procedures and have concluded, as of August 31, 2017, that they are effective at a reasonable level of assurance, as described above.

B. Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended August 31, 2017 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On May 19, 2017, Holland America Line and Princess Cruises notified the National Oceanic and Atmospheric Administration ("NOAA") regarding discharges made by certain vessels in the recently expanded area of the National Marine Sanctuary in the Farallones Islands. NOAA continues to conduct an investigation. We believe the ultimate outcome will not have a material impact on our consolidated financial statements.

Item 1A. Risk Factors.

The risk factors that affect our business and financial results are discussed in "Item 1A. Risk Factors," included in the Form 10-K, and there has been no material change to these risk factors since the Form 10-K filing. We wish to caution the reader that the risk factors discussed in "Item 1A. Risk Factors," included in the Form 10-K, and those described elsewhere in this report or other Securities and Exchange Commission filings, could cause future results to differ materially from those stated in any forward-looking statements. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

A. Repurchase Program

Under a share repurchase program effective 2004, we are authorized to repurchase Carnival Corporation common stock and Carnival plc ordinary shares (the "Repurchase Program"). On April 6, 2017, the Boards of Directors approved a modification of the general authorization under the Repurchase Program, which replenished the remaining authorized repurchases at the time of the approval to \$1.0 billion. The Repurchase Program does not have an expiration date and may be discontinued by our Boards of Directors at any time.

Table of Contents

No shares of Carnival plc ordinary shares were repurchased pursuant to the Repurchase Program during the three months ended August 31, 2017. During this period, repurchases of Carnival Corporation common stock pursuant to the Repurchase Program were as follows:

| Period | Total Number of Shares of Carnival Corporation Common Stock Purchased (in millions) | Average Price Paid per Share of Carnival Corporation Common Stock | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Repurchase Program (in millions) |
|--|---|---|--|
| June 1, 2017 through June 30, 2017 | 0.2 | \$ 65.80 | \$ 975 |
| July 1, 2017 through July 31, 2017 | 1.0 | \$ 66.56 | \$ 909 |
| August 1, 2017 through August 31, 2017 | 1.2 | \$ 68.14 | \$ 830 |
| Total | 2.4 | \$ 67.27 | |

No shares of Carnival Corporation common stock and Carnival plc ordinary shares were purchased outside of publicly announced plans or programs.

B. Stock Swap Programs

In addition to the Repurchase Program, we also have programs that allow us to obtain an economic benefit when either Carnival Corporation common stock is trading at a premium to the price of Carnival plc ordinary shares or Carnival plc ordinary shares are trading at a premium to Carnival Corporation common stock (the “Stock Swap Programs”). For example:

In the event that Carnival Corporation common stock trades at a premium to Carnival plc ordinary shares, we may elect to sell shares of Carnival Corporation common stock through a sales agent, at prevailing market prices in ordinary brokers’ transactions, and use the sale proceeds to repurchase Carnival plc ordinary shares in the UK market on an equivalent basis.

In the event that Carnival plc ordinary shares trade at a premium to Carnival Corporation common stock, we may elect to sell ordinary shares of Carnival plc, with such sales made by Carnival Corporation or Carnival Investments Limited (“CIL”) through its sales agent, at prevailing market prices in ordinary brokers’ transactions, and use the sale proceeds to repurchase shares of Carnival Corporation common stock in the U.S. market on an equivalent basis.

Any realized economic benefit under the Stock Swap Programs is used for general corporate purposes, which could include repurchasing additional stock under the Repurchase Program.

Under the Stock Swap Programs effective 2008, the Boards of Directors have made the following authorizations:

In January 2017, to sell up to 22.0 million shares of Carnival Corporation common stock in the U.S. market and repurchase up to 22.0 million of Carnival plc ordinary shares in the UK market. We had 22.0 million shares remaining under this authorization at August 31, 2017.

In February 2016, to sell up to 26.9 million of existing Carnival plc ordinary shares in the UK market and repurchase up to 26.9 million shares of Carnival Corporation common stock in the U.S. market. We had 26.0 million shares remaining under this authorization at August 31, 2017.

Any sales of Carnival Corporation shares and Carnival plc ordinary shares have been or will be registered under the Securities Act of 1933. During the three months ended August 31, 2017, no Carnival Corporation common stock or Carnival plc ordinary shares were sold or repurchased under the Stock Swap Programs.

C. Carnival plc Shareholder Approvals

Carnival plc ordinary share repurchases under both the Repurchase Program and the Stock Swap Programs require annual shareholder approval. The existing shareholder approval is limited to a maximum of 21.6 million ordinary shares and is valid until the earlier of the conclusion of the Carnival plc 2018 annual general meeting or July 4, 2018.

Table of Contents

Item 6. Exhibits.

INDEX TO EXHIBITS

| Exhibit Number | Exhibit Description | Incorporated by Reference | | Filing Date | Filed/ Furnished Herewith |
|--|--|---------------------------|---------|-------------|---------------------------------|
| | | Form | Exhibit | | |
| Articles of incorporation and by-laws | | | | | |
| 3.1 | <u>Third Amended and Restated Articles of Incorporation of Carnival Corporation.</u> | 8-K | 3.1 | 4/17/2003 | |
| 3.2 | <u>Third Amended and Restated By-Laws of Carnival Corporation.</u> | 8-K | 3.1 | 4/20/2009 | |
| 3.3 | <u>Articles of Association of Carnival plc.</u> | 8-K | 3.3 | 4/20/2009 | |
| Statement regarding computations of ratios | | | | | |
| 12 | <u>Ratio of Earnings to Fixed Charges.</u> | | | | X |
| Rule 13a-14(a)/15d-14(a) certifications | | | | | |
| 31.1 | <u>Certification of President and Chief Executive Officer of Carnival Corporation pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> | | | | X |
| 31.2 | <u>Certification of Chief Financial Officer and Chief Accounting Officer of Carnival Corporation pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> | | | | X |
| 31.3 | <u>Certification of President and Chief Executive Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> | | | | X |
| 31.4 | <u>Certification of Chief Financial Officer and Chief Accounting Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> | | | | X |
| Section 1350 certifications | | | | | |
| 32.1* | <u>Certification of President and Chief Executive Officer of Carnival Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> | | | | X |
| 32.2* | <u>Certification of Chief Financial Officer and Chief Accounting Officer of Carnival Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> | | | | X |
| 32.3* | <u>Certification of President and Chief Executive Officer of Carnival plc pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> | | | | X |
| 32.4* | <u>Certification of Chief Financial Officer and Chief Accounting Officer of Carnival plc pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> | | | | X |

Table of Contents

INDEX TO EXHIBITS

| Exhibit Number | Exhibit Description | Incorporated by Reference | | Filed/ Furnished Herewith |
|-------------------|---|------------------------------|---------------------------|---------------------------------|
| | | Form | Exhibit Filing Date | |
| | Interactive Data File | | | |
| 101 | The consolidated financial statements from Carnival Corporation & plc's joint Quarterly Report on Form 10-Q for the quarter ended August 31, 2017, as filed with the Securities and Exchange Commission on September 29, 2017, formatted in XBRL, are as follows: | | | |
| | (i) the Consolidated Statements of Income for the three and nine months ended August 31, 2017 and 2016; | | | X |
| | (ii) the Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2017 and 2016; | | | X |
| | (iii) the Consolidated Balance Sheets at August 31, 2017 and November 30, 2016; | | | X |
| | (iv) the Consolidated Statements of Cash Flows for the nine months ended August 31, 2017 and 2016 and | | | X |
| | (v) the notes to the consolidated financial statements, tagged in summary and detail. | | | X |

*These items are furnished and not filed.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each of the registrants has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CARNIVAL CORPORATION

By:/s/ Arnold W. Donald
Arnold W. Donald
President and Chief Executive Officer

By:/s/ David Bernstein
David Bernstein
Chief Financial Officer and Chief Accounting Officer

Date: September 29, 2017

CARNIVAL PLC

By:/s/ Arnold W. Donald
Arnold W. Donald
President and Chief Executive Officer

By:/s/ David Bernstein
David Bernstein
Chief Financial Officer and Chief Accounting Officer

Date: September 29, 2017