CARNIVAL CORP
Form 10-Q
October 05, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended August 31, 2012

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: 1-9610	Commission file number: 1-15136
Carnival Corporation	Carnival plc
(Exact name of registrant as specified in its charter)	(Exact name of registrant as specified in its charter)
Republic of Panama	England and Wales
(State or other jurisdiction of incorporation or organization)	(State or other jurisdiction of incorporation or organization)
59-1562976	98-0357772
(I.R.S. Employer Identification No.)	(I.R.S. Employer Identification No.)
3655 N.W. 87th Avenue Miami, Florida 33178-2428	Carnival House, 5 Gainsford Street, London SE1 2NE, United Kingdom
(Address of principal	(Address of principal

executive offices) (Zip Code)	executive offices) (Zip Code)
(305) 599-2600	011 44 20 7940 5381
(Registrant s telephone number, including area code)	(Registrant s telephone number, including area code)
None	None
(Former name, former address and former fiscal year, if changed since last report)	(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 þ No ¨

Indicate by check mark whether the registrants have submitted electronically and posted on its 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 registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filers	þ	Accelerated filers	¨
Non-accelerated filers	¨	Smaller reporting companies	¨

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

At September 24, 2012, Carnival Corporation had outstanding 594,485,001 shares of Common Stock, $0.01 par value.

At September 24, 2012, Carnival plc had outstanding 215,159,936 Ordinary Shares $1.66 par value, one Special Voting Share, GBP 1.00 par value and 594,485,001 Trust Shares of beneficial interest in the P&O Princess Special Voting Trust.

CARNIVAL CORPORATION & PLC

TABLE OF CONTENTS

		Page
PART I - FINANCIAL INFORMATION		
Item 1.	Financial Statements.	3
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations.	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	29
Item 4.	Controls and Procedures.	30
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings.	30
Item 1A.	Risk Factors.	31
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	31
Item 6.	Exhibits.	33
SIGNATURES		35

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,	
	2012	2011	2012	2011
Revenues				
Cruise				
Passenger tickets	$ 3,561	$ 3,907	$ 9,000	$ 9,336
Onboard and other	965	936	2,618	2,511
Tour and other	158	215	186	249
	4,684	5,058	11,804	12,096
Operating Costs and Expenses				
Cruise				
Commissions, transportation and other	613	686	1,793	1,911
Onboard and other	150	137	404	379
Fuel	541	581	1,778	1,611
Payroll and related	422	435	1,299	1,282
Food	246	257	722	728
Other ship operating	534	575	1,647	1,640
Tour and other	91	143	126	179
	2,597	2,814	7,769	7,730
Selling and administrative	409	421	1,261	1,282
Depreciation and amortization	383	390	1,135	1,137
Ibero goodwill and trademark impairment charges	-	-	173	-
	3,389	3,625	10,338	10,149
Operating Income	1,295	1,433	1,466	1,947
Nonoperating Income (Expense)				
Interest income	2	3	8	8
Interest expense, net of capitalized interest	(84)	(96)	(259)	(273)
Unrealized gains on fuel derivatives, net	136	-	12	-
Realized losses on fuel derivatives	(12)	-	(12)	-
Other (expense) income, net	(1)	2	(6)	21
	41	(91)	(257)	(244)

Income Before Income Taxes	1,336	1,342	1,209	1,703
Income Tax Expense, Net	(6)	(5)	(4)	(8)
Net Income	$ 1,330	$ 1,337	$ 1,205	$ 1,695
Earnings Per Share				
Basic	$ 1.71	$ 1.69	$ 1.55	$ 2.14
Diluted	$ 1.71	$ 1.69	$ 1.55	$ 2.14
Dividends Declared Per Share	$ 0.25	$ 0.25	$ 0.75	$ 0.75

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

Table of Contents

CARNIVAL CORPORATION & PLC

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in millions, except par values)

	August 31, 2012	November 30, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 568	$ 450
Trade and other receivables, net	306	263
Insurance recoverables	482	30
Inventories	364	374
Prepaid expenses and other	221	195
Total current assets	1,941	1,312
Property and Equipment, Net	31,972	32,054
Goodwill	3,146	3,322
Other Intangibles	1,307	1,330
Other Assets	716	619
	$ 39,082	$ 38,637
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Short-term borrowings	$ 9	$ 281
Current portion of long-term debt	754	1,019
Accounts payable	561	576
Claims reserve	564	97
Accrued liabilities and other	970	1,026
Customer deposits	3,078	3,106
Total current liabilities	5,936	6,105
Long-Term Debt	8,289	8,053
Other Long-Term Liabilities and Deferred Income	664	647
Contingencies		
Shareholders Equity		
Common stock of Carnival Corporation, $0.01 par value; 1,960 shares authorized; 649 shares at 2012 and 647 shares at 2011 issued	6	6
Ordinary shares of Carnival plc, $1.66 par value; 215 shares at 2012 and 2011 issued	357	357
Additional paid-in capital	8,218	8,180
Retained earnings	18,969	18,349
Accumulated other comprehensive loss	(434)	(209)
Treasury stock, 54 shares at 2012 and 52 shares at 2011 of Carnival Corporation and 33 shares at 2012 and 2011 of Carnival plc, at cost	(2,923)	(2,851)
Total shareholders equity	24,193	23,832

	$ 39,082	$ 38,637

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

4

Table of Contents

CARNIVAL CORPORATION & PLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in millions)

	Nine Months Ended August 31,	
	2012	**2011**
OPERATING ACTIVITIES		
Net income	$ 1,205	$ 1,695
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,135	1,137
Ibero goodwill and trademark impairment charges	173	-
Unrealized gains on fuel derivatives, net	(12)	-
Realized losses on fuel derivatives	12	-
Share-based compensation	30	39
Other, net	38	42
Changes in operating assets and liabilities		
Receivables	(54)	(118)
Inventories	7	(36)
Insurance recoverables, prepaid expenses and other	34	39
Accounts payable	(4)	17
Claims reserves, accrued and other liabilities	(103)	(68)
Customer deposits	15	269
Net cash provided by operating activities	2,476	3,016
INVESTING ACTIVITIES		
Additions to property and equipment	(2,164)	(2,435)
Insurance proceeds for the ship	508	-
Other, net	56	25
Net cash used in investing activities	(1,600)	(2,410)
FINANCING ACTIVITIES		
(Repayments of) proceeds from short-term borrowings, net	(270)	165
Principal repayments of long-term debt	(753)	(1,021)
Proceeds from issuance of long-term debt	946	990
Dividends paid	(584)	(474)
Purchases of treasury stock	(69)	(288)
Other, net	(7)	20
Net cash used in financing activities	(737)	(608)
Effect of exchange rate changes on cash and cash equivalents	(21)	3
Net increase in cash and cash equivalents	118	1
Cash and cash equivalents at beginning of period	450	429
Cash and cash equivalents at end of period	$ 568	$ 430

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 Basis of Presentation

Carnival Corporation is incorporated in Panama, and Carnival plc is incorporated in England and Wales. Carnival Corporation and Carnival plc operate a dual listed company (DLC), whereby the businesses of Carnival Corporation and Carnival plc are combined through a number of contracts and through provisions in Carnival Corporation s Articles of Incorporation and By-Laws and Carnival plc s Articles of Association. The two companies operate as if they are a single economic enterprise, but each has retained its separate legal identity.

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

The accompanying Consolidated Balance Sheet at August 31, 2012, the Consolidated Statements of Income for the three and nine months ended August 31, 2012 and 2011 and the Consolidated Statements of Cash Flows for the nine months ended August 31, 2012 and 2011 are unaudited and, in the opinion of our management, contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation. Our interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in the Carnival Corporation & plc 2011 joint Annual Report on Form 10-K. Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire year. Certain balance sheet and cash flow reclassifications of prior period information have been made to conform to the current period presentation.

Cruise passenger ticket revenues include fees and taxes levied by governmental authorities and collected by us from our guests. The portion of these fees and taxes included in passenger ticket revenues and commissions, transportation and other costs were $126 million and $108 million and $364 million and $311 million for the three and nine months ended August 31, 2012 and 2011, respectively.

NOTE 2 *Costa Concordia* and *Costa Allegra*

During the first quarter of fiscal 2012, we wrote-off the euro-denominated net carrying value of *Costa Concordia* (the ship) in the amount of $515 million (or 381 million) and recorded a short-term insurance recoverable for the same amount since the ship was deemed to be a constructive total loss. In May 2012, we received $508 million (or 395 million) of euro-denominated hull and machinery insurance proceeds for the total loss of the ship and recognized $17 million (or 14 million) of proceeds in excess of the net carrying value of the ship as a reduction to other ship operating expenses. In addition, during the nine months ended August 31, 2012, we recognized $30 million for incident-related expenses that are not covered by insurance, substantially all of which were recognized in the first quarter of fiscal 2012, including a $10 million insurance deductible related to third party personal injury liabilities. These incident-related expenses are principally included in other ship operating expenses.

As a result of the ship incident, litigation claims, enforcement actions, regulatory actions and investigations, including, but not limited to, those arising from personal injury, loss of life, loss of or damage to personal property, business interruption losses or environmental damage to any affected coastal waters and the surrounding areas, have been and may be asserted or brought against various parties, including us. The existing assertions are in their initial stages and there are significant jurisdictional uncertainties. We are currently evaluating the possible merits of these matters and their ultimate outcome cannot be determined at this time. However, we have insurance coverage for third-party claims such as those mentioned above.

Since the ship incident, we have separately presented short-term insurance recoverables and short-term claims reserve in our Consolidated Balance Sheets. At August 31, 2012, substantially all of our aggregated short-term and long-term insurance recoverables relate to crew, guest and other third party claims for the ship incident. At August 31, 2012, primarily all of our aggregated short-term and long-term claims reserves also relate to the ship incident. At August 31, 2012 and November 30, 2011, our long-term insurance recoverables and long-term claims reserve are included in other assets and other long-term liabilities and deferred income, respectively, and are not significant. We expect to continue to incur incident-related costs in the future. Although at this time these costs are not yet determinable, we do not expect them to have a significant impact on our results of operations because we believe these additional costs will be recoverable under our insurance coverage.

In February 2012, *Costa Allegra* suffered fire damage and, accordingly, we decided to withdraw this ship from operations resulting in $34 million of impairment charges recognized during the first quarter of fiscal 2012. These impairment charges are included in other ship operating expenses. At August 31, 2012, the remaining carrying value of this ship is not significant.

Table of Contents

NOTE 3 Debt

In May 2012, we borrowed $383 million under an unsecured euro-denominated export credit facility, the proceeds of which were used to pay for a portion of *AIDAmar s* purchase price. This facility bears interest at EURIBOR plus a margin of 20 basis points (bps) and is due in semi-annual installments through May 2024.

In May 2012, we borrowed $560 million under an unsecured export credit facility, the proceeds of which were used to pay for a portion of *Carnival Breeze s* purchase price. This facility bears interest at LIBOR plus a margin of 160 bps and is due in semi-annual installments through May 2024.

In June 2012, we repaid $312 million of fixed rate, sterling-denominated notes at their maturity.

NOTE 4 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, accordingly, the maximum amount of our liability, net of any insurance recoverables, is typically limited to our self-insurance retention levels. Management believes the ultimate outcome of these claims and lawsuits will not have a material adverse impact on our consolidated financial statements. See Note 2 for a discussion of loss contingencies related to the ship incident.

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

At August 31, 2012, Carnival Corporation had estimated contingent obligations totaling $422 million, excluding termination payments as discussed below, to participants in LILO transactions for two of its ships. At the inception of these leases, the aggregate of the net present value of these obligations was paid by Carnival Corporation to a group of major financial institutions, who agreed to act as payment undertakers and directly pay these obligations. As a result, these contingent obligations are considered extinguished and neither the funds nor the contingent obligations have been included in our accompanying Consolidated Balance Sheets.

In the event that Carnival Corporation were to default on its contingent obligations and assuming performance by all other participants, we estimate that we would, as of August 31, 2012, be responsible for a termination payment of $43 million. In 2017, we have the right to exercise options that would terminate these LILO transactions at no cost to us.

In certain cases, if the credit ratings of the financial institutions who are directly paying the contingent obligations fall below AA-, then Carnival Corporation will be required to replace these financial institutions with other financial institutions whose credit ratings are at least AA or meet other specified credit requirements. In such circumstances, we would incur additional costs, although we estimate that they would not be material to our consolidated financial statements. The two financial institution payment undertakers subject to this AA- credit rating threshold each have a credit rating of AA. If Carnival Corporation s credit rating, which is BBB+, falls below BBB, it will be required to provide a standby letter of credit for $43 million, or, alternatively, provide mortgages for this aggregate amount on these two ships.

Contingent Obligations Indemnifications

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

Table of Contents

NOTE 5 Comprehensive Income

Comprehensive income was as follows (in millions):

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2012	2011	2012	2011
Net income	$ 1,330	$ 1,337	$ 1,205	$ 1,695
Items included in other comprehensive income (loss)				
Change in foreign currency translation adjustment	85	52	(218)	760
Other	2	(10)	(7)	79
Other comprehensive income (loss)	87	42	(225)	839
Total comprehensive income	$ 1,417	$ 1,379	$ 980	$ 2,534

NOTE 6 Fair Value Measurements, Derivative Instruments and Hedging Activities

Fair Value Measurements

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

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

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

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

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

The fair value measurement of a financial asset or financial liability must reflect the nonperformance risk of the counterparty and us. Therefore, the impact of our counterparty s creditworthiness was considered when in an asset position, and our creditworthiness was considered when in a liability position in the fair value measurement of our financial instruments. Creditworthiness did not have a material impact on the fair values of our financial instruments at August 31, 2012 and November 30, 2011. Both the counterparties and we are expected to continue to perform under the contractual terms of the instruments. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, certain estimates of fair values presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

8

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

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

	August 31, 2012			November 30, 2011		
	Carrying	Fair Value		Carrying	Fair Value	
	Value	Level 1	Level 2	Value	Level 1	Level 2
Assets						
Cash and cash equivalents (a)	$ 260	$ 260	$ -	$ 358	$ 358	$ -
Long-term other assets (b)	39	1	35	42	2	39
Total	$ 299	$ 261	$ 35	$ 400	$ 360	$ 39
Liabilities						
Fixed rate debt (c)	$ 5,332	$ -	$ 5,932	$ 6,251	$ -	$ 6,715
Floating rate debt (c)	3,720	-	3,686	3,102	-	3,057
Total	$ 9,052	$ -	$ 9,618	$ 9,353	$ -	$ 9,772

(a) Cash and cash equivalents are comprised of cash on hand and time deposits and, due to their short maturities, the carrying values approximate their fair values.

(b) At August 31, 2012 and November 30, 2011, substantially all of our long-term other assets were comprised of notes and other receivables. The fair values of notes and other receivables were based on estimated future cash flows discounted at appropriate market interest rates.

(c) The net difference between the fair value of our fixed rate debt and its carrying value was due to the market interest rates in existence at August 31, 2012 and November 30, 2011 being lower than the fixed interest rates on these debt obligations, including the impact of changes in our credit ratings, if any. The net difference between the fair value of our floating rate debt and its carrying value was due to the market interest rates in existence at August 31, 2012 and November 30, 2011 being higher than the floating interest rates on these debt obligations, including the impact of changes in our credit ratings, if any. The fair values of our publicly-traded notes were based on their unadjusted quoted market prices in active markets. The fair values of our other debt were estimated based on appropriate market interest rates being applied to this debt.

Financial Instruments that are Measured at Fair Value on a Recurring Basis

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

	August 31, 2012		November 30, 2011	
	Level 1	Level 2	Level 1	Level 2
Assets				
Cash equivalents (a)	$ 308	$ -	$ 92	$ -
Restricted cash (b)	31	-	11	-
Marketable securities held in rabbi trusts (c)	107	16	98	18
Derivative financial instruments (d)	-	41	-	6
Total	$ 446	$ 57	$ 201	$ 24
Liabilities				
Derivative financial instruments (d)	$ -	$ 38	$ -	$ 12

Total	$ -	$ 38	$ -	$ 12

(a) Cash equivalents are comprised of money market funds.
(b) Restricted cash is comprised of money market funds.
(c) Level 1 and 2 marketable securities are held in rabbi trusts and are primarily comprised of frequently-priced mutual funds invested in common stocks and other investments, respectively. Their use is restricted to funding certain deferred compensation and non-qualified U.S. pension plans.
(d) See Derivative Instruments and Hedging Activities section below for detailed information regarding our derivative financial instruments.

Table of Contents

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

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

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

	North America Cruise Brands	EAA Cruise Brands	Total
Balance at November 30, 2011	$ 1,898	$ 1,424	$ 3,322
Ibero goodwill impairment charge (a)	-	(153)	(153)
Foreign currency translation adjustment	-	(23)	(23)
Balance at August 31, 2012	$ 1,898	$ 1,248	$ 3,146

(a) At February 29, 2012, given the current state of the Spanish economy and considering the low level of Ibero Cruises (Ibero) estimated fair value in excess of its carrying value, we performed an interim impairment review of Ibero s goodwill. The interim discounted future cash flow analysis that was used to estimate Ibero s fair value was primarily impacted by slower than anticipated Ibero capacity growth. As a result, Ibero s estimated fair value no longer exceeded its carrying value. Accordingly, we proceeded to step two of the impairment test and recognized a goodwill impairment charge of $153 million during the first quarter of fiscal 2012, which represented Ibero s entire goodwill balance. At August 31, 2012, accumulated goodwill impairment charges were $153 million.

In 2012, we adopted new authoritative accounting guidance that allows us to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. We would perform the two-step test if our qualitative assessment determined it is more-likely-than-not that a reporting unit s fair value is less than its carrying amount. We may also elect to bypass the qualitative assessment and proceed directly to step one of the quantitative test for any reporting unit. When performing the two-step process, if the fair value of the reporting unit exceeds its carrying value, no further analysis or write-down of goodwill is required. If the fair value of the reporting unit is less than the carrying value of its net assets, the implied fair value of the reporting unit is allocated to all its underlying assets and liabilities, including both recognized and unrecognized tangible and intangible assets, based on their fair values. If necessary, goodwill is then written down to its implied fair value.

At July 31, 2012, all of our cruise brands carried goodwill, except for Ibero and Seabourn. We performed our annual impairment test as of July 31, 2012, which included performing a qualitative assessment for all cruise brands that carried goodwill, except for Costa Cruises (Costa). Qualitative factors such as industry and market conditions, macroeconomic conditions, changes to the weighted-average cost of capital (WACC), overall financial performance and changes in fuel were considered in the qualitative assessment to determine how changes in these factors would affect each of these cruise brands estimated fair values. Based on our qualitative assessments, we determined it was not more-likely-than-not that each of these cruise brands estimated fair values were less than their carrying values and, therefore, we did not proceed to the two-step quantitative goodwill impairment test.

As of July 31, 2012, we also performed our annual goodwill impairment test of Costa s goodwill. We did not perform a qualitative assessment but instead proceeded directly to step one of the two-step goodwill impairment test and compared Costa s estimated fair value to the carrying value of its allocated net assets. Costa s estimated cruise brand fair value was based on a discounted future cash flow analysis. The principal assumptions used in our cash flow analysis related to forecasting future operating results, include net revenue yields, net cruise costs including fuel prices, capacity changes, including the expected deployment of vessels into, or out of, Costa, WACC for comparable publicly-traded companies, adjusted for the risk attributable to the geographic region in which Costa operates and terminal values, which are all considered level 3 inputs. Based on the discounted cash flow analysis, we determined that Costa s estimated fair value exceeded its carrying value and, therefore, we did not proceed to step two of the impairment test.

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

	North America Cruise Brands	EAA Cruise Brands	Total
Balance at November 30, 2011	$ 927	$ 386	$ 1,313
Ibero trademarks impairment charge (a)	-	(20)	(20)
Foreign currency translation adjustment	-	(1)	(1)
Balance at August 31, 2012	$ 927	$ 365	$ 1,292

(a) At February 29, 2012, we also performed an interim impairment test of Ibero s trademarks, which resulted in a $20 million impairment charge, based on the reduction of revenues primarily as a result of slower than anticipated Ibero capacity growth and a lower estimated royalty rate. At August 31, 2012, Ibero s remaining trademark carrying values are not significant.

During the third quarter of fiscal 2012, we adopted new authoritative accounting guidance that allows us to first assess qualitative factors to determine whether it is more-likely-than-not that our trademarks are impaired. We would perform a quantitative impairment test if our qualitative assessment determined it was more-likely-than-not that the trademarks are impaired. We may also elect to bypass the qualitative assessment and proceed directly to the quantitative impairment test.

At July 31, 2012, our cruise brands that have significant trademarks recorded include AIDA Cruises (AIDA), P&O Cruises (Australia), P&O Cruises (UK) and Princess Cruises (Princess). We performed our annual trademark impairment reviews for these cruise brands, as of July 31, 2012, which included performing a qualitative assessment. Qualitative factors such as industry and market conditions, macroeconomic conditions, changes to the WACC, changes to the royalty rates and overall financial performance were considered in the qualitative assessment to determine how changes in these factors would affect the estimated fair values for each of our cruise brands recorded trademarks. Based on our qualitative assessment, we determined it was not more likely-than-not that the estimated fair value for each of these cruise brands recorded trademarks was less than their carrying value, and therefore, none of these trademarks were impaired.

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

There have not been any events or circumstances subsequent to July 31, 2012, which we believe would require us to perform an interim goodwill or trademark impairment test.

At August 31, 2012 and November 30, 2011, our intangible assets subject to amortization are not significant to our consolidated financial statements.

Derivative Instruments and Hedging Activities

We utilize derivative and nonderivative financial instruments, such as foreign currency forwards, options and swaps, foreign currency debt obligations and foreign currency cash balances, to manage our exposure to fluctuations in certain foreign currency exchange rates, and interest rate swaps to manage our interest rate exposure in order to achieve a desired proportion of fixed and floating rate debt. In November 2011, we implemented a fuel derivatives program to mitigate a portion of the risk to our future cash flows attributable to potentially significant fuel price increases, which we define as our economic risk. Our policy is to not use any financial instruments for trading or other speculative purposes.

All derivatives are recorded at fair value. The changes in fair value are immediately included in earnings if the derivatives do not qualify as effective hedges, or if we do not seek to qualify for hedge accounting treatment, such as for our fuel derivatives. If a derivative is designated as a fair value hedge, then changes in the fair value of the derivative are offset against the changes in the fair value of the underlying hedged item. If a derivative is designated as a cash flow hedge, then the effective portion of the changes in the fair value of the derivative is recognized as a

component of accumulated other comprehensive income (AOCI) until the underlying hedged item is recognized in earnings or the forecasted transaction is no longer probable. If a derivative or a nonderivative financial instrument is designated as a hedge of our net investment in a foreign operation, then changes in the fair value of the financial instrument are recognized as a component of AOCI to offset a portion of the change in the translated value of the net investment being hedged, until the investment is sold or liquidated. We formally document hedging relationships for all derivative and nonderivative hedges and the underlying hedged items, as well as our risk management objectives and strategies for undertaking the hedge transactions.

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

Table of Contents

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

	Balance Sheet Location	August 31, 2012	November 30, 2011
Derivative assets			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Prepaid expenses and other	$ 2	$ -
	Other assets long-term	9	3
Foreign currency options (b)	Prepaid expenses and other	2	-
	Other assets long-term	1	-
Interest rate swaps (c)	Prepaid expenses and other	-	2
		14	5
Derivatives not designated as hedging instruments			
Fuel (d)	Other assets long-term	27	1
Total derivative assets		$ 41	$ 6
Derivative liabilities			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Accrued liabilities and other	$ -	$ 1
Interest rate swaps (c)	Accrued liabilities and other	7	5
	Other long-term liabilities	17	6
		24	12
Derivatives not designated as hedging instruments			
Fuel (d)	Accrued liabilities and other	10	-
	Other long-term liabilities	4	-
		14	-
Total derivative liabilities		$ 38	$ 12

(a) At August 31, 2012 and November 30, 2011, we had foreign currency forwards totaling $180 million and $183 million, respectively, that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At August 31, 2012, $40 million of our foreign currency forwards mature through September 2012 and $140 million mature through July 2017.

(b) At August 31, 2012, we had foreign currency derivatives consisting of zero cost collars (referred to as foreign currency options) totaling $815 million that are designated as foreign currency cash flow hedges for a portion of our euro-denominated shipbuilding payments. See Newbuild Currency Risks below for additional information regarding these derivatives.

(c) We have euro interest rate swaps designated as cash flow hedges whereby we receive floating interest rate payments in exchange for making fixed interest rate payments. At August 31, 2012 and November 30, 2011, these interest rate swap agreements effectively changed $260 million and $320 million, respectively, of EURIBOR-based floating rate euro debt to fixed rate debt. These interest rate swaps mature through February 2022. In addition, at November 30, 2011 we had both U.S. dollar and sterling interest rate swaps designated as

fair value hedges whereby we receive fixed interest rate payments in exchange for making floating interest rate payments. These interest rate swap agreements effectively changed $510 million of fixed rate debt to U.S. dollar LIBOR or GBP LIBOR-based floating rate debt. The U.S. dollar and sterling interest rate swaps matured in February 2012 and June 2012, respectively.

(d) At August 31, 2012, we had fuel derivatives consisting of zero cost collars on Brent crude oil (Brent) to cover a portion of our estimated fuel consumption for the remainder of fiscal 2012 through fiscal 2016. See Fuel Price Risks below for additional information regarding these fuel derivatives. At November 30, 2011, we had fuel derivatives consisting of zero cost collars on Brent to cover 10% of our estimated fuel consumption for the second half of fiscal 2012 through fiscal 2015.

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

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2012	2011	2012	2011
Net investment hedges	$ (2)	$ 1	$ 53	$ (22)
Foreign currency options cash flow hedges	$ 3	$ -	$ 3	$ 76
Interest rate swaps cash flow hedges	$ (1)	$ (9)	$ (11)	$ (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 interest-bearing, non-restricted cash to be posted or received as collateral to the extent the fuel derivative fair value payable to or receivable from an individual counterparty, respectively, exceeds $100 million. At August 31, 2012, no collateral was required to be posted to or received from our fuel derivative counterparties.

The amount of estimated cash flow hedges unrealized gains and losses that are expected to be reclassified to earnings in the next twelve months is not significant. We have not provided additional disclosures of the impact that derivative instruments and hedging activities have on our consolidated financial statements as of August 31, 2012 and November 30, 2011 and for the three and nine months ended August 31, 2012 and 2011 where such impacts were not significant.

Foreign Currency Exchange Rate Risks

Overall Strategy

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

Operational and Investment Currency Risks

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

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

We consider our investments in foreign operations to be denominated in relatively stable currencies and of a long-term nature. We partially mitigate our net investment currency exposures by denominating a portion of our foreign currency third-party debt and foreign currency intercompany payables in our foreign operations functional currencies, generally the euro or sterling. As of August 31, 2012 and November 30, 2011, we have designated $2.0 billion of our foreign currency intercompany payables and $3.6 billion for our foreign currency third-party debt and intercompany payables, respectively, as nonderivative hedges of our net investments in foreign operations. Accordingly, we have included $274 million and $204 million of cumulative foreign currency transaction non-derivative gains in the cumulative translation adjustment component of AOCI at August 31, 2012 and November 30, 2011, respectively, which offsets a portion of the losses recorded in AOCI upon translating our foreign operations net assets into U.S. dollars. During the three and nine months ended August 31, 2012, we recognized foreign currency non-derivative transaction gains and (losses) of $2 million ($(23) million in 2011) and $69 million ($(242) million in 2011),

respectively, in the cumulative translation adjustment component of AOCI.

Table of Contents

Newbuild Currency Risks

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

In June 2012, we entered into foreign currency options that are designated as cash flow hedges for a portion of our *Royal Princess* euro-denominated shipyard payments. These foreign currency options mature in May 2013 at a weighted-average ceiling rate of $1.30 to the euro, or $560 million, and a weighted-average floor rate of $1.19 to the euro, or $512 million.

In July 2012, we entered into foreign currency options that are designated as cash flow hedges for a portion of our P&O Cruises (UK) newbuild s euro-denominated shipyard payments. These foreign currency options mature in February 2015 at a weighted-average ceiling rate of £0.83 to the euro, or $290 million, and a weighted-average floor rate of £0.77 to the euro, or $269 million.

As of August 31, 2012, substantially all of our remaining newbuild currency exchange risk relates to euro-denominated newbuild contracts for the *Regal Princess* and a portion of our P&O Cruises (UK) newbuild. These newbuild contracts have remaining commitments of $1.0 billion.

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

Interest Rate Risks

We manage our exposure to fluctuations in interest rates through our investment and debt portfolio management strategies. These strategies include purchasing high quality short-term investments with floating interest rates, and evaluating our debt portfolio to make periodic adjustments to the mix of fixed and floating rate debt through the use of interest rate swaps and the issuance of new debt or the early retirement of existing debt. At August 31, 2012, 62% and 38% (65% and 35% at November 30, 2011) of our debt bore fixed and floating interest rates, respectively, including the effect of interest rate swaps.

Fuel Price Risks

Our exposure to market risk for changes in fuel prices substantially all relate to the consumption of fuel on our ships. We use our fuel derivatives program to mitigate a portion of our economic risk attributable to potentially significant fuel price increases. We designed our fuel derivatives program to maximize operational flexibility by utilizing derivative markets with significant trading liquidity. As part of our fuel derivatives program, we will continue to evaluate various derivative products and strategies.

During the three and nine months ended August 31, 2012, we entered into additional zero cost collar fuel derivatives on Brent that established ceiling and floor prices. These derivatives are based on Brent prices whereas the actual fuel used on our ships is marine fuel. Changes in the Brent prices may not show a high degree of correlation with changes in our underlying marine fuel prices. We will not realize any economic gain or loss upon the monthly maturities of our zero cost collars unless the average monthly price of Brent is above the ceiling price or below the floor price. We believe that these derivatives will act as economic hedges, however hedge accounting is not applied.

Table of Contents

At August 31, 2012, our outstanding fuel derivatives consisted of zero cost collars on Brent to cover a portion of our estimated fuel consumption as follows:

Maturities (a)	Transaction Dates	Barrels (in thousands)	Weighted-Average Floor Prices	Weighted-Average Ceiling Prices	Percent of Estimated Fuel Consumption Covered
Fiscal 2012-Q4					
	November 2011	522	$ 75	$ 135	
	February 2012	522	$ 109	$ 128	
	March 2012	1,044	$ 112	$ 132	
		2,088			36%
Fiscal 2013					
	November 2011	2,112	$ 74	$ 132	
	February 2012	2,112	$ 98	$ 127	
	March 2012	4,224	$ 100	$ 130	
		8,448			38%
Fiscal 2014					
	November 2011	2,112	$ 71	$ 128	
	February 2012	2,112	$ 88	$ 125	
	June 2012	2,376	$ 71	$ 116	
		6,600			29%
Fiscal 2015					
	November 2011	2,160	$ 71	$ 125	
	February 2012	2,160	$ 80	$ 125	
	June 2012	1,236	$ 74	$ 110	
		5,556			24%
Fiscal 2016	June 2012	3,564	$ 75	$ 108	15%

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

Concentrations of Credit Risk

As part of our ongoing control procedures, we monitor concentrations of credit risk associated with financial and other institutions with which we conduct significant business. Our maximum exposure under foreign currency and fuel derivative contracts and interest rate swap agreements that are in-the-money, which were not significant at August 31, 2012, is the replacement cost, net of any collateral received, which includes the value of the contracts, in the event of nonperformance by the counterparties to the contracts, all of which are currently our lending banks. We seek to minimize credit risk exposure, including counterparty nonperformance primarily associated with our cash equivalents, investments, committed financing facilities, contingent obligations, derivative instruments, insurance contracts and new ship progress payment guarantees, by normally conducting business with large, well-established financial institutions and insurance companies, and by diversifying our counterparties. In addition, we have guidelines regarding credit ratings and investment maturities that we follow to help safeguard liquidity and minimize risk. We normally do require collateral and/or guarantees to support notes receivable on significant asset sales, long-term ship charters and new ship progress payments to shipyards. We currently believe the risk of nonperformance by any of our significant counterparties is remote.

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

NOTE 7 Segment Information

We have three reportable cruise segments that are comprised of our (1) North America cruise brands, (2) EAA cruise brands and (3) Cruise Support. In addition, we have a Tour and Other segment. Our segments are reported on the same basis as the internally reported information that is provided to our Chief Operating Decision Maker, the Chairman of the Boards of Directors and Chief Executive Officer of Carnival Corporation and Carnival plc.

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

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

	Three Months Ended August 31,					
	Revenues	Operating expenses	Selling and administrative	Depreciation and amortization	Ibero impairment charges	Operating income (loss)
2012						
North America Cruise Brands (a)	$ 2,934	$ 1,642	$ 231	$ 227	$ -	$ 834
EAA Cruise Brands	1,657	956	153	140	-	408
Cruise Support	22	(5)	23	6	-	(2)
Tour and Other (a)	158	91	2	10	-	55
Intersegment elimination (a)	(87)	(87)	-	-	-	-
	$ 4,684	$ 2,597	$ 409	$ 383	$ -	$ 1,295
2011						
North America Cruise Brands (a)	$ 2,819	$ 1,575	$ 228	$ 220	$ -	$ 796
EAA Cruise Brands	2,004	1,103	160	152	-	589
Cruise Support	20	(7)	25	7	-	(5)
Tour and Other (a)	305	233	8	11		