CARNIVAL CORP
Form 10-Q
September 30, 2011
**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, 2011

**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 | Carnival House, 5 Gainsford Street, |
|---|---|
| Miami, Florida 33178-2428 | London SE1 2NE, United Kingdom |
| (Address of principal executive offices) (Zip Code) | (Address of principal 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 23, 2011, Carnival Corporation had outstanding 595,416,898 shares of Common Stock, $0.01 par value.

At September 23, 2011, Carnival plc had outstanding 214,699,114 Ordinary Shares $1.66 par value, one Special Voting Share, GBP 1.00 par value and 595,416,898 Trust Shares of beneficial interest in the P&O Princess Special Voting Trust.

Table of Contents

**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. | 16 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk. | 26 |
| Item 4. | Controls and Procedures. | 27 |
| **PART II - OTHER INFORMATION** | | |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds. | 27 |
| Item 6. | Exhibits. | 29 |
| **SIGNATURES** | | 31 |

**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, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Revenues** | | | | |
| Cruise | | | | |
| Passenger tickets | $ 3,907 | $ 3,478 | $ 9,336 | $ 8,418 |
| Onboard and other | 936 | 847 | 2,511 | 2,313 |
| Tour and other | 215 | 202 | 249 | 241 |
| | 5,058 | 4,527 | 12,096 | 10,972 |
| **Costs and Expenses** | | | | |
| Operating | | | | |
| Cruise | | | | |
| Commissions, transportation and other | 686 | 618 | 1,911 | 1,711 |
| Onboard and other | 137 | 131 | 379 | 350 |
| Payroll and related | 435 | 426 | 1,282 | 1,200 |
| Fuel | 581 | 396 | 1,611 | 1,209 |
| Food | 257 | 223 | 728 | 647 |
| Other ship operating | 575 | 467 | 1,640 | 1,445 |
| Tour and other | 143 | 128 | 179 | 174 |
| Total | 2,814 | 2,389 | 7,730 | 6,736 |
| Selling and administrative | 421 | 381 | 1,282 | 1,181 |
| Depreciation and amortization | 390 | 355 | 1,137 | 1,049 |
| | 3,625 | 3,125 | 10,149 | 8,966 |
| **Operating Income** | 1,433 | 1,402 | 1,947 | 2,006 |
| **Nonoperating (Expense) Income** | | | | |
| Interest income | 3 | 3 | 8 | 10 |
| Interest expense, net of capitalized interest | (96) | (90) | (273) | (285) |
| Other income (expense), net | 2 | (2) | 21 | (7) |
| | (91) | (89) | (244) | (282) |
| **Income Before Income Taxes** | 1,342 | 1,313 | 1,703 | 1,724 |
| **Income Tax (Expense) Benefit, Net** | (5) | (10) | (8) | 6 |
| **Net Income** | $ 1,337 | $ 1,303 | $ 1,695 | $ 1,730 |

| | | | | |
|---|---|---|---|---|
| **Earnings Per Share** | | | | |
| Basic | $ 1.69 | $ 1.65 | $ 2.14 | $ 2.20 |
| Diluted | $ 1.69 | $ 1.62 | $ 2.14 | $ 2.16 |
| **Dividends Declared Per Share** | $ 0.25 | $ 0.10 | $ 0.75 | $ 0.30 |

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, 2011 | November 30, 2010 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 430 | $ 429 |
| Trade and other receivables, net | 353 | 248 |
| Inventories | 366 | 320 |
| Prepaid expenses and other | 248 | 247 |
| Total current assets | 1,397 | 1,244 |
| **Property and Equipment, Net** | 33,243 | 30,967 |
| **Goodwill** | 3,430 | 3,320 |
| **Other Intangibles** | 1,396 | 1,320 |
| **Other Assets** | 560 | 639 |
| | $ 40,026 | $ 37,490 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| **Current Liabilities** | | |
| Short-term borrowings | $ 912 | $ 740 |
| Current portion of long-term debt | 1,196 | 613 |
| Accounts payable | 548 | 503 |
| Accrued liabilities and other | 1,084 | 1,094 |
| Customer deposits | 3,141 | 2,805 |
| Total current liabilities | 6,881 | 5,755 |
| **Long-Term Debt** | 7,714 | 8,011 |
| **Other Long-Term Liabilities and Deferred Income** | 679 | 693 |
| **Contingencies (Note 3)** | | |
| **Shareholders Equity** | | |
| Common stock of Carnival Corporation, $0.01 par value; 1,960 shares authorized; 647 shares at 2011 and 646 shares at 2010 issued | 6 | 6 |
| Ordinary shares of Carnival plc, $1.66 par value; 215 shares at 2011 and 214 shares at 2010 issued | 357 | 355 |
| Additional paid-in capital | 8,167 | 8,094 |
| Retained earnings | 18,319 | 17,224 |
| Accumulated other comprehensive income (loss) | 585 | (254) |
| Treasury stock, 48 shares at 2011 and 39 shares at 2010 of Carnival Corporation and 32 shares at 2011 and 31 shares at 2010 of Carnival plc, at cost | (2,682) | (2,394) |
| Total shareholders equity | 24,752 | 23,031 |
| | $ 40,026 | $ 37,490 |

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, | |
|---|---|---|
| | **2011** | **2010** |
| **OPERATING ACTIVITIES** | | |
| Net income | $ 1,695 | $ 1,730 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 1,137 | 1,049 |
| Share-based compensation | 39 | 33 |
| Other | 42 | (21) |
| Changes in operating assets and liabilities | | |
| Receivables | (118) | (58) |
| Inventories | (36) | 13 |
| Prepaid expenses and other | 39 | (41) |
| Accounts payable | 17 | 11 |
| Accrued and other liabilities | (68) | 87 |
| Customer deposits | 269 | 281 |
| Net cash provided by operating activities | 3,016 | 3,084 |
| **INVESTING ACTIVITIES** | | |
| Additions to property and equipment | (2,435) | (2,838) |
| Other, net | 25 | 102 |
| Net cash used in investing activities | (2,410) | (2,736) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from short-term borrowings, net | 165 | 300 |
| Principal repayments of revolvers | (13) | (341) |
| Proceeds from revolvers | 8 | 89 |
| Principal repayments of other long-term debt | (1,021) | (1,081) |
| Proceeds from issuance of other long-term debt | 990 | 806 |
| Dividends paid | (474) | (158) |
| Purchases of treasury stock | (288) | (514) |
| Sales of treasury stock | - | 534 |
| Other, net | 25 | 38 |
| Net cash used in financing activities | (608) | (327) |
| Effect of exchange rate changes on cash and cash equivalents | 3 | (32) |
| Net increase (decrease) in cash and cash equivalents | 1 | (11) |
| Cash and cash equivalents at beginning of period | 429 | 538 |
| Cash and cash equivalents at end of period | $ 430 | $ 527 |

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, 2011 and the Consolidated Statements of Income for the three and nine months ended August 31, 2011 and 2010 and the Consolidated Statements of Cash Flows for the nine months ended August 31, 2011 and 2010 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 2010 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.

During the fourth quarter of 2010, we changed the classification of our port costs that vary with guest head counts to a gross presentation from a net presentation, which resulted in an increase in passenger ticket revenues and commissions, transportation and other costs. This change had no impact on our operating or net income. We adjusted the three and nine months ended August 31, 2010 to conform to this new classification. The amounts included on a gross basis in passenger ticket revenues and commissions, transportation and other costs were $108 million and $101 million and $311 million and $256 million for the three and nine months ended August 31, 2011 and 2010, respectively.

**NOTE 2 Debt**

At August 31, 2011, unsecured short-term borrowings consisted of $659 million of commercial paper and $253 million of euro-denominated bank loans with an aggregate weighted-average interest rate of 0.7%.

In January 2011, the collateral for $313 million of fixed rate export credit facilities was released and, accordingly, this debt is no longer secured.

In March 2011, we borrowed $407 million under an unsecured euro-denominated export credit facility, the proceeds of which were used to pay for a portion of *AIDAsol 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 March 2023.

In April 2011, we borrowed $583 million under an unsecured export credit facility, the proceeds of which were used to pay for a portion of *Carnival Magic s* purchase price. This facility bears interest at LIBOR plus a margin of 160 bps and is due in semi-annual installments through April 2023.

In May 2011, we cancelled one of our undrawn revolving credit facilities in the amount of $212 million.

In May 2011, concurrently with the early termination of our existing multi-currency revolving credit facility for $2.0 billion (comprised of $1.2 billion, 400 million and £200 million), Carnival Corporation, Carnival plc and certain of Carnival plc s subsidiaries entered into a five-year multi-currency revolving credit facility for $2.5 billion (comprised of $1.6 billion, 450 million and £150 million) (the Facility ). The Facility currently bears interest at LIBOR/EURIBOR plus a margin of 65 bps. The margin will vary based on changes to Carnival Corporation s and Carnival plc s long-term credit rating. We are required to pay a commitment fee of 35% of the margin per annum on any undrawn portion. If more than one-third or if more than two-thirds of the Facility is drawn, we will incur an additional 15 bps or 30 bps utilization fee, respectively, on the total amount outstanding. At August 31, 2011, $2.0 billion was available under this Facility and our other revolving credit facilities, net of outstanding commercial paper.

In June 2011, we repaid $300 million of an unsecured floating rate export credit facility that was borrowed to pay for a portion of *Queen Elizabeth*  s purchase price prior to its maturity dates through 2022.

In June 2011, we repaid $136 million of an unsecured floating rate euro-denominated bank loan prior to its 2014 maturity date.

In July 2011, we cancelled our *AIDAbella* unsecured export credit committed ship financing in the amount of $252 million.

In August 2011, we repaid $150 million of an unsecured floating rate bank loan prior to its fiscal 2013 maturity date.

In August 2011, we obtained commitments for two unsecured export credit ship financings. The committed ship financings will provide us with the ability to borrow up to an aggregate $1.2 billion, denominated in euros. Proceeds from these financings will be used to pay for a portion of the purchase price of a Costa Cruises ( Costa ) ship, which is expected to be delivered in October 2014, and a P&O Cruises (UK) ship, which is expected to be delivered in February 2015. Each financing will have a fixed interest rate of 3.9%, although we have the option to change the interest rate to EURIBOR plus 80 bps up until 30 days prior to the applicable ship delivery date. Each financing will be due in semi-annual installments over 12 years from the date of funding and is cancellable until thirty days prior to drawing.

**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, accordingly, the maximum amount of our liability, net of any insurance recoverables, is typically limited to our self-insurance retention levels. However, management believes the ultimate outcome of these claims and lawsuits that are not covered by insurance will not have a material adverse impact on our consolidated financial statements.

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

In April 2011, Carnival Corporation and certain participants voluntarily unwound $87 million of one of its LILO contingent liability transactions. Accordingly, at August 31, 2011 Carnival Corporation had estimated contingent obligations totaling $421 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, 2011, be responsible for a termination payment of $61 million. In 2017, we have the right to exercise options that would terminate these two 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 be immaterial to our consolidated financial statements. For the two financial institution payment undertakers subject to this AA- credit rating threshold, one has a credit rating of AAA and the other has a credit rating of AA. If Carnival Corporation s credit rating, which is BBB+, falls below BBB, it will be required to provide a standby letter of credit for $46 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 4 Comprehensive Income**

Comprehensive income was as follows (in millions):

| | Three Months Ended August 31, | | Nine Months Ended August 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | $ 1,337 | $ 1,303 | $ 1,695 | $ 1,730 |
| Items included in other comprehensive income (loss) | | | | |
| Change in foreign currency translation adjustment | 52 | 477 | 760 | (914) |
| Other | (10) | 7 | 79 | (93) |
| Other comprehensive income (loss) | 42 | 484 | 839 | (1,007) |
| Total comprehensive income | $ 1,379 | $ 1,787 | $ 2,534 | $ 723 |

Table of Contents

**NOTE 5 Segment Information**

During the fourth quarter of 2010, we began to separate our cruise brand operating segments into three reportable cruise segments in order to provide a better understanding of our business performance. These three reportable cruise segments are comprised of our (1) North America cruise brands, (2) Europe, Australia & Asia ( EAA ) cruise brands and (3) Cruise Support. All information for the three and nine months ended August 31, 2010 has been restated to conform to this new cruise segment presentation. There were no changes made to our Tour and Other segment.

Our North America cruise segment includes Carnival Cruise Lines, Holland America Line, Princess Cruises ( Princess ) and Seabourn. Our EAA cruise segment includes AIDA Cruises ( AIDA ), Costa, Cunard, Ibero Cruises ( Ibero ), P&O Cruises (UK) and P&O Cruises (Australia). These individual cruise brand operating segments have been aggregated into two reportable segments based on the similarity of their economic and other characteristics, including the 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, tour and transportation operations of Holland America Princess Alaska Tours and our two owned 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 | Operating income (loss) |
| **2011** | | | | | |
| North America Cruise Brands | $ 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 | 305 | 233 | 8 | 11 | 53 |
| Intersegment elimination | (90) | (90) | - | - | - |
| | $ 5,058 | $ 2,814 | $ 421 | $ 390 | $ 1,433 |
| **2010** | | | | | |
| North America Cruise Brands | $ 2,594 | $ 1,397 | $ 221 | $ 214 | $ 762 |
| EAA Cruise Brands | 1,713 | 873 | 126 | 123 | 591 |
| Cruise Support | 18 | (9) | 26 | 7 | (6) |
| Tour and Other | 292 | 218 | 8 | 11 | 55 |
| Intersegment elimination | (90) | (90) | - | - | - |
| | $ 4,527 | $ 2,389 | $ 381 | $ 355 | $ 1,402 |

| | Nine Months Ended August 31, | | | | |
|---|---|---|---|---|---|
| | Revenues | Operating expenses | Selling and administrative | Depreciation and amortization | Operating income (loss) |
| **2011** | | | | | |
| North America Cruise Brands | $ 6,810 | $ 4,350 | $ 700 | $ 649 | $ 1,111 |
| EAA Cruise Brands | 4,975 | 3,215 | 485 | 432 | 843 |
| Cruise Support | 62 | (14) | 79 | 23 | (26) |
| Tour and Other | 349 | 279 | 18 | 33 | 19 |
| Intersegment elimination | (100) | (100) | - | - | - |
| | $ 12,096 | $ 7,730 | $ 1,282 | $ 1,137 | $ 1,947 |

| **2010** | | | | | |
|---|---|---|---|---|---|
| North America Cruise Brands | $ 6,422 | $ 3,935 | $ 673 | $ 627 | $ 1,187 |
| EAA Cruise Brands | 4,249 | 2,636 | 413 | 372 | 828 |
| Cruise Support | 60 | (9) | 72 | 20 | (23) |
| Tour and Other | 346 | 279 | 23 | 30 | 14 |
| Intersegment elimination | (105) | (105) | - | - | - |
| | $ 10,972 | $ 6,736 | $ 1,181 | $ 1,049 | $ 2,006 |

Table of Contents

**NOTE 6 Earnings Per Share**

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

| | Three Months Ended August 31, | | Nine Months Ended August 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | $ 1,337 | $ 1,303 | $ 1,695 | $ 1,730 |
| Interest on dilutive convertible notes | - | 3 | - | 9 |
| Net income for diluted earnings per share | $ 1,337 | $ 1,306 | $ 1,695 | $ 1,739 |
| Weighted-average common and ordinary shares outstanding | 790 | 789 | 791 | 788 |
| Dilutive effect of convertible notes | - | 15 | - | 15 |
| Dilutive effect of equity plans | 2 | 2 | 2 | 3 |
| Diluted weighted-average shares outstanding | 792 | 806 | 793 | 806 |
| Basic earnings per share | $ 1.69 | $ 1.65 | $ 2.14 | $ 2.20 |
| Diluted earnings per share | $ 1.69 | $ 1.62 | $ 2.14 | $ 2.16 |
| Anti-dilutive stock options excluded from diluted earnings per share computations | 9 | 11 | 9 | 10 |

**NOTE 7 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 quoted prices in active markets for identical assets or liabilities that we have the ability to access.

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 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, 2011 and November 30, 2010. Both the counterparties and we are expected to continue to perform under the contractual terms of the instruments.

Table of Contents

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

The estimated carrying and fair values 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, 2011 | | November 30, 2010 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Cash and cash equivalents (a) | $ 333 | $ 333 | $ 404 | $ 404 |
| Long-term other assets (b) | $ 95 | $ 90 | $ 191 | $ 178 |
| Fixed rate debt (c) | $ (6,600) | $ (6,986) | $ (6,689) | $ (7,076) |
| Floating rate debt (c) | $ (3,222) | $ (3,110) | $ (2,669) | $ (2,630) |
| Other | $ - | $ - | $ (6) | $ (7) |

(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, 2011 and November 30, 2010, 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, 2011 and November 30, 2010 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, 2011 and November 30, 2010 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 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, 2011 | | November 30, 2010 | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 1** | **Level 2** |
| Cash equivalents (a) | $ 97 | $ - | $ 25 | $ - |
| Marketable securities held in rabbi trusts (b) | $ 100 | $ 20 | $ 105 | $ 21 |
| Derivatives | | | | |
| Ship foreign currency options (c) | $ - | $ - | $ - | $ 8 |
| Net investment hedges (d) | $ - | $ (7) | $ - | $ 12 |
| Interest rate swaps (e) | $ - | $ (5) | $ - | $ 1 |

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

(b) 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.

(c) At November 30, 2010, we had foreign currency options totaling $785 million that were designated as foreign currency cash flow hedges for certain of our euro-denominated shipbuilding contracts. These foreign currency options matured through May 2011.

(d) At August 31, 2011 and November 30, 2010, we have foreign currency forwards totaling $247 million and $352 million, respectively, that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency and were principally entered into to convert U.S. dollar-denominated debt into euro debt. These foreign currency forwards mature through July 2017.

(e) We have 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. At August 31, 2011 and November 30, 2010, these interest rate swap agreements effectively changed $528 million and $512 million, respectively, of fixed rate debt to U.S. dollar LIBOR or GBP LIBOR-based floating rate debt. These interest rate swaps mature through June 2012. In addition, we have euro interest rate swaps designated as cash flow hedges whereby we receive floating interest rate payments in exchange for making fixed interest

Table of Contents

rate payments. At August 31, 2011 and November 30, 2010, these interest rate swap agreements effectively changed $349 million and $333 million, respectively, of EURIBOR-based floating rate euro debt to fixed rate debt. These interest rate swaps mature through February 2022.

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 curves, forward currency exchange rates, credit spreads, maturity dates, volatilities and netting arrangements. We use the income approach to value the 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.

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

The carrying amount of our goodwill has been allocated to our North America and EAA cruise brands as follows (in millions):

| | North America Cruise Brands | EAA Cruise Brands | Total |
|---|---|---|---|
| Balance at November 30, 2010 | $ 1,898 | $ 1,422 | $ 3,320 |
| Foreign currency translation adjustment | - | 110 | 110 |
| Balance at August 31, 2011 | $ 1,898 | $ 1,532 | $ 3,430 |

As of July 31, 2011, we performed our annual goodwill impairment reviews by comparing the estimated fair value of the cruise brand to the carrying value of the net assets allocated to that cruise brand. All of our cruise brands carry goodwill, except for Seabourn. No goodwill was considered to be impaired because the estimated fair value of each cruise brand exceeded its respective carrying value and, accordingly, we did not proceed to step two of the impairment analysis.

In determining the estimated cruise brand fair values, we considered both their (a) discounted future cash flow analysis and (b) market multiples of comparable publicly-traded companies. The principal assumptions used in our cash flow analysis related to forecasting future operating results, including net revenue yields, net cruise costs including fuel prices, capacity changes, including the expected deployment of vessels into, or out of, the cruise brand, weighted-average cost of capital for comparable publicly-traded companies, adjusted for the risk attributable to the cruise brand including the geographic region in which it operates, that ranged from 10% to 13%, and terminal values, which are all considered level 3 inputs.

We believe the estimated fair value for each of our cruise brands that carry goodwill significantly exceeds the carrying value of their allocated net assets, except for Ibero. At July 31, 2011, Ibero s estimated fair value only exceeded its carrying value by 2%, or $12 million. We performed a sensitivity analysis to identify the magnitude of the changes to Ibero s principal discounted cash flow assumptions that would eliminate this excess. Based on this analysis, relatively minor changes to these assumptions would lead to an Ibero impairment.

Given the continuing weakness of the Spanish economy and its impact on the vacation industry, it is possible that Ibero s goodwill, which was $167 million at July 31, 2011, could become impaired in the future if the Spanish vacation industry does not recover enough to enable Ibero to increase its cruise pricing. The recoverability of Ibero s goodwill is not without doubt because it is difficult to predict the timing of the resurgence of the Spanish economy and its vacation industry.

The carrying amount of our intangible assets not subject to amortization, which represents trademarks, has been allocated to our North America and EAA cruise brands as follows (in millions):

| | North America Cruise Brands | EAA Cruise Brands | Total |
|---|---|---|---|
| Balance at November 30, 2010 | $ 927 | $ 384 | $ 1,311 |
| Foreign currency translation adjustment | - | 30 | 30 |

| | | | |
|---|---|---|---|
| Balance at August 31, 2011 | $ 927 | $ 414 | $ 1,341 |

As of July 31, 2011, we also performed our annual trademark impairment reviews by comparing the estimated fair values of our trademarks to their carrying values. The cruise brands that have trademark amounts recorded are AIDA, Ibero, P&O Cruises (Australia), P&O Cruises (UK) and Princess. The estimated fair value for each of our trademarks significantly exceeded its respective carrying value and, therefore, none of our trademarks were impaired. We estimated fair values based upon a discounted future cash flow analysis, which estimated the amount of royalties that we are relieved from having to pay for use of the associated trademarks,

based upon forecasted cruise revenues and royalty rates that a market participant would forecast. The royalty rates are estimated primarily using comparable royalty agreements for similar industries.

The determination of our cruise brand and trademark fair values include numerous assumptions, which 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 in our determination of fair values 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.

At August 31, 2011 and November 30, 2010, our intangible assets subject to amortization are immaterial 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. Our policy is to not use any financial instruments for trading or other speculative purposes.

All derivatives are recorded at fair value, and the changes in fair value are immediately included in earnings if the derivatives do not qualify as effective hedges. 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 and the fair values of our hedged firm commitments as either current or long-term, which are included in prepaid expenses and other assets and accrued and other liabilities, 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.

The effective portions of our net foreign currency derivative (losses) and gains on cash flow hedges recognized in other comprehensive income (loss) in the three and nine months ended August 31, 2011 and 2010 totaled $(9) million ($6 million in 2010) and $73 million ($(94) million in 2010), respectively.

The effective portions of our net foreign currency derivative gains and (losses) on net investment hedges recognized in other comprehensive income (loss) in the three and nine months ended August 31, 2011 and 2010 totaled $1 million ($(1) million in 2010) and $(22) million ($84 million in 2010), respectively.

There are no amounts excluded from the assessment of hedge effectiveness, and there are no credit risk related contingent features in our derivative agreements. 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, 2011 and November 30, 2010 and for the three and nine months ended August 31, 2011 and 2010 where such impacts are 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 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 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**

The growth of our European and Australian cruise brands subjects us to an increasing level of 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 weakening of the U.S. dollar against these foreign currencies has the financial statement effect of increasing the U.S. dollar values reported for cruise revenues and cruise expenses in our accompanying Consolidated Statements of Income. Strengthening 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 in our accompanying Consolidated Statements of Income for 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 address our net investment currency exposures by denominating a portion of our debt and other obligations, including the effect of foreign currency forwards, in our foreign operations functional currencies, generally the euro or sterling. As of August 31, 2011 and November 30, 2010, we have designated $3.5 billion and $3.0 billion of our euro and sterling debt and other obligations, respectively, which debt matures through 2021, as nonderivative hedges of our net investments in foreign operations. Accordingly, we have included $(59) million and $183 million of cumulative foreign currency transaction (losses) and gains in the cumulative translation adjustment component of AOCI at August 31, 2011 and November 30, 2010, respectively, which offsets a portion of the gains and losses recorded in AOCI upon translating our foreign operations net assets into U.S. dollars. During the three and nine months ended August 31, 2011 and 2010, we recognized foreign currency transaction (losses) and gains of $(23) million ($(86) million in 2010) and $(242) million ($342 million in 2010), respectively, in the cumulative translation adjustment component of AOCI.

**Newbuild Currency Risks**

At August 31, 2011, 32% of our newbuild passenger capacity under euro-denominated contracts are exposed to currency risk, which is comprised of two Princess and one P&O Cruises (UK) newbuilds expected to be delivered in May 2013, May 2014 and February 2015. In the past, we have used foreign currency derivative contracts and nonderivative financial instruments to manage foreign currency exchange rate risk for some of these types of ship construction contracts. At August 31, 2011, none of our newbuild passenger capacity under contract that is exposed to currency risk is hedged. At August 31, 2011, 68% of our newbuild passenger capacity under contract is for our European and North American cruise brands that do not have significant currency risk because all of these ships are contracted for in euros or U.S. dollars, which are the functional currencies of these brands, or the non-functional currency new ship progress payments have already been made. The newbuild passenger capacity includes two AIDA ships, which are subject to customary closing conditions, including execution of shipbuilding contracts and financing.

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, 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.

The cost of shipbuilding orders that we may place in the future for our cruise brands that is denominated in a currency that is different than their functional currency is expected to be affected by foreign currency exchange rate fluctuations. Given the movement in the U.S. dollar and sterling relative to the euro over the past several years, the U.S. dollar and sterling cost to order new cruise ships has been volatile. If the U.S. dollar or sterling declines against the euro, this may affect our desire to order future new cruise ships for U.S. dollar or sterling functional currency brands.

**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, 2011, 65% and 35% (69% and 31% at November 30, 2010) of our debt bore fixed and floating interest rates, respectively, including the effect of interest rate swaps.

14

**Fuel Price Risks**

We do not use financial instruments to hedge our exposure to fuel price risks.

**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 derivative contracts and interest rate swap agreements that are in-the-money is the replacement cost, 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. Concentrations of credit risk associated with these receivables are considered minimal, primarily due to their short maturities and the large number of unrelated accounts within our customer base. We have experienced only minimal credit losses on our trade receivables. We do not normally require collateral or other security to support normal credit sales.

Finally, if the shipyard with which we have contracts to build our ships is unable to perform, we will be required to perform for any foreign currency derivatives that we may enter into related to these shipbuilding contracts. Accordingly, if the shipyard is unable to perform, we may have to discontinue accounting for these derivatives as hedges. However, based on the shipyards we typically contract with, we believe that the risk of shipyard nonperformance will be remote.

**NOTE 8 Shareholders Equity**

During August 2011, we repurchased 9.2 million shares of Carnival Corporation common stock for $281 million under the general repurchase authorization program ( Repurchase Program ). In addition, during August 2011 Carnival Investments Limited, a subsidiary of Carnival Corporation, also repurchased 240,000 ordinary shares of Carnival plc for $7 million under the Repurchase Program. At August 31, 2011, the remaining availability under the Repurchase Program was $499 million.

**NOTE 9 Impairment**

During the three months ended August 31, 2011, we recorded a $13 million impairment charge as a result of the sale of the 754-passenger capacity *Costa Marina,* which is expected to leave the fleet in November 2011. This impairment charge is included in other ship operating expenses in the accompanying Consolidated Statements of Income.

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 Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this joint Quarterly Report on Form 10-Q are forward-looking statements that involve risks, uncertainties and assumptions with respect to us, including some statements concerning future results, outlooks, plans, goals and other events which have not yet occurred. These statements are intended to qualify for the safe harbors from liability provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We have tried, whenever possible, to identify these statements by using words like will, may, could, should, would, believe, expect, anticipate, forecast, future, intend, plan, estimate and similar expressions of negative of such terms.

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

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

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

**Outlook for the 2011 Fourth Quarter and Full Year**

On September 20, 2011, we said that we expected our fully diluted earnings per share for the 2011 fourth quarter and full year would be in the ranges of $0.26 to $0.30 and $2.40 to $2.44, respectively. Our 2011 fourth quarter guidance was based on fuel prices of $686 per metric ton. In

addition, this 2011 fourth quarter guidance was based on currency rates of $1.36 to the euro, $1.58 to the sterling and $1.03 to the Australian dollar. The fuel and currency assumptions used in our guidance change daily and, accordingly, our forecasts change daily based on the changes in these assumptions.

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

**Critical Accounting Estimates**

For a discussion of our critical accounting estimates, see Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in Carnival Corporation & plc s 2010 joint Annual Report on Form 10-K.

**Seasonality and Expected Capacity Growth**

Our revenues from the sale of passenger tickets are seasonal. Historically, demand for cruises has been greatest during our third fiscal quarter, which includes the Northern Hemisphere summer months. This higher demand during the third quarter results in higher net revenue yields (see Key Performance Non-GAAP Financial Indicators ) 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. The seasonality of our results will continue to increase as we expand our Europe, Australia & Asia ( EAA ) brands, which tend to be more seasonal than our North America brands. Finally, our North America brands have recently been trending towards an increasing level of seasonality.

The year-over-year percentage increase in our ALBD capacity for the 2011 fourth quarter is currently expected to be 5.8%. The year-over-year percentage increase in our annual ALBD capacity for fiscal 2011, 2012, 2013 and 2014 is currently expected to be 5.2%, 4.5%, 3.2% and 2.4%, respectively. The above percentage increases result primarily from contracted new ships entering service and exclude any unannounced future ship orders, acquisitions, retirements, charters and sales. Accordingly, the scheduled withdrawal from service of *Costa Marina* in November 2011 has been reflected in these percentages.

**Selected Cruise and Other Information**

Selected cruise and other information was as follows:

| | Three Months Ended August 31, | | Nine Months Ended August 31, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Passengers carried (in thousands) | 2,676 | 2,617 | 7,192 | 6,888 |
| Occupancy percentage (a) | 111.9% | 111.1% | 107.2% | 106.2% |
| Fuel consumption (metric tons in thousands) | 847 | 838 | 2,537 | 2,473 |
| Fuel cost per metric tons consumed | $ 686 | $ 473 | $ 635 | $ 489 |
| Currencies | | | | |
| U.S. dollar to 1 | $ 1.43 | $ 1.27 | $ 1.40 | $ 1.32 |
| U.S. dollar to £1 | $ 1.63 | $ 1.52 | $ 1.61 | $ 1.54 |
| U.S. dollar to Australian dollar | $ 1.06 | $ 0.88 | $ 1.03 | $ 0.89 |

(a) In accordance with cruise industry practice, occupancy is calculated using a denominator of 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.

Table of Contents

**Three Months Ended August 31, 2011 ( 2011 ) Compared to the Three Months Ended August 31, 2010 ( 2010 )**

**Revenues**

**Consolidated**

Approximately 77% of 2011 total revenues are comprised of cruise passenger ticket revenues. Cruise passenger ticket revenues increased by $429 million, or 12.3%, to $3.9 billion in 2011 from $3.5 billion in 2010. This increase was substantially due to a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $177 million, our 4.8% capacity increase in ALBDs, which accounted for $168 million, and a continuing recovery in overall cruise ticket pricing, which accounted for $69 million. Our cruise ticket pricing increase was affected by the close-in deployment changes resulting from the geo-political events in the Middle East and North Africa ( MENA ) (see Key Performance Non-GAAP Financial Indicators ).

The remaining 23% of 2011 total revenues is principally comprised of onboard and other cruise revenues, which increased by $89 million, or 10.5%, to $936 million in 2011 from $847 million in 2010. This increase was principally due to our 4.8% capacity increase in ALBDs, which accounted for $41 million, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $36 million. Onboard and other revenues included concession revenues of $337 million in 2011 and $288 million in 2010.

**North America Brands**

Approximately 79% of 2011 total revenues are comprised of cruise passenger ticket revenues. Cruise passenger ticket revenues increased by $185 million, or 9.1%, to $2.2 billion in 2011 from $2.0 billion in 2010. This increase was substantially due to higher overall cruise ticket pricing, which accounted for $104 million, driven by Alaska, Caribbean and Mexican Riviera itineraries, partially offset by the impact from MENA on European itineraries, and our 3.3% capacity increase in ALBDs, which accounted for $68 million.

The remaining 21% of 2011 total revenues is comprised of onboard and other cruise revenues, which increased by $40 million, or 7.2%, to $597 million in 2011 from $557 million in 2010. This increase was substantially due to our 3.3% capacity increase in ALBDs, which accounted for $19 million, and higher onboard spending by our guests. Onboard and other revenues included concession revenues of $214 million in 2011 and $190 million in 2010.

**EAA Brands**

Approximately 84% of 2011 total revenues are comprised of cruise passenger ticket revenues. Cruise passenger ticket revenues increased $244 million, or 16.9%, to $1.7 billion in 2011 from $1.4 billion in 2010. This increase was caused by a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $177 million, and our 7.2% capacity increase in ALBDs, which accounted for $104 million. Cruise ticket pricing for our EAA brands, which are principally cruising in Europe during the third quarter, declined as a result of the close-in MENA deployment changes.

The remaining 16% of 2011 total revenues is comprised of onboard and other cruise revenues, which increased $47 million, or 17.4%, to $319 million in 2011 from $272 million in 2010. This increase was caused by a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $36 million, and our 7.2% capacity increase in ALBDs, which accounted for $20 million. These increases were partially offset by lower onboard revenues in part due to lower shore excursion revenues resulting from the MENA deployment changes. Onboard and other revenues included concession revenues of $123 million in 2011 and $98 million in 2010.

**Costs and Expenses**

**Consolidated**

Operating costs and expenses increased $425 million, or 17.8%, to $2.8 billion in 2011 from $2.4 billion in 2010. This increase was substantially due to $181 million of higher fuel prices, our 4.8% capacity increase in ALBDs, which accounted for $109 million, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $97 million. In addition, the increase was due to inflationary pressures on crew travel, food, freight and other hotel operating expenses. Finally, we had several other items, such as the nonrecurrence of a litigation settlement gain recognized in 2010, which accounted for $17 million, and a $13 million impairment charge in 2011 related to the sale of *Costa Marina*. The impact of these other items on 2011 was fully offset by the nonrecurrence of a $41 million Merchant Navy Officers Pension Fund expense recorded in 2010.

Selling and administrative expenses increased $40 million, or 10.5%, to $421 million in 2011 from $381 million in 2010. This increase was substantially due to $18 million from our 4.8% capacity increase in ALBDs, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which also accounted for $18 million.

Depreciation and amortization expense increased $35 million, or 9.9%, to $390 million in 2011 from $355 million in 2010. This increase was substantially due to $17 million from our 4.8% capacity increase in ALBDs, principally through the addition of new ships, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which also accounted for $17 million.

Our total costs and expenses as a percentage of revenues increased to 71.7% in 2011 from 69.0% in 2010.

**North America Brands**

Operating costs and expenses increased $178 million, or 12.7%, to $1.6 billion in 2011 from $1.4 billion in 2010. This increase was substantially due to higher fuel prices, which accounted for $112 million, and our 3.3% capacity increase in ALBDs, which accounted for $47 million.

Selling and administrative expenses increased $7 million, or 3.2%, to $228 million in 2011 from $221 million in 2010.

Depreciation and amortization expense increased $6 million, or 2.8%, to $220 million in 2011 from $214 million in 2010.

Our total costs and expenses as a percentage of total revenues increased to 71.8% in 2011 from 70.6% in 2010.

**EAA Brands**

Operating costs and expenses increased $230 million, or 26.3%, to $1.1 billion in 2011 from $873 million in 2010. The increase was caused by a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $97 million, higher fuel prices, which accounted for $69 million, and our 7.2% capacity increase in ALBDs, which accounted for $63 million.

Selling and administrative expenses increased $34 million, or 27.0%, to $160 million in 2011 from $126 million in 2010. The increase was principally due to a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $18 million, and our 7.2% capacity increase in ALBDs, which accounted for $9 million.

Depreciation and amortization expense increased $29 million, or 23.6%, to $152 million in 2011 from $123 million in 2010. The increase was substantially due to a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $17 million, and $9 million from our 7.2% capacity increase in ALBDs principally through the addition of new ships.

Our total costs and expenses as a percentage of total revenues increased to 70.6% in 2011 from 65.5% in 2010.

**Operating Income**

Our consolidated operating income of $1.4 billion increased slightly in 2011 compared to 2010. Our North America brands operating income increased $34 million, or 4.5%, to $796 million in 2011 from $762 million in 2010, and our EAA brands operating income decreased only $2 million, or 0.3%, to $589 million in 2011 from $591 million in 2010. These increases and decreases were primarily due to the reasons discussed above.

**Key Performance Non-GAAP Financial Indicators**

ALBDs is a standard measure of passenger capacity for the period, which we use to perform rate and capacity variance analyses to determine the main 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.

We use net cruise revenues per ALBD ( net revenue yields ), net cruise costs per ALBD and net cruise costs excluding fuel per ALBD as significant non-GAAP financial measures of our cruise segment financial performance. These measures enable us to separate the impact of predictable capacity changes from the more unpredictable rate changes that affect our business. We believe these non-GAAP measures provide an expanded insight to measure our revenue and cost performance in addition to the standard U.S. GAAP-based financial measures.

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 card fees. Substantially all of our remaining cruise costs are largely fixed, except for the impact of changing prices, once our ship capacity levels have been determined.

Table of Contents

Net passenger ticket revenues reflect gross cruise revenues, net of (1) onboard and other revenues, (2) commissions, transportation and other costs and (3) onboard and other cruise costs. Net onboard and other revenues reflect gross cruise revenues, net of (1) passenger ticket revenues, (2) commissions, transportation and other costs and (3) onboard and other cruise costs. Net passenger ticket revenue yields and net onboard and other revenue yields are computed by dividing net passenger ticket revenues and net onboard and other revenues by ALBDs.

Net cruise costs per ALBD and net cruise costs excluding fuel per ALBD are the most significant measures we use to monitor our ability to control our cruise segment costs rather than gross cruise costs per ALBD. We exclude the same variable costs that are included in the calculation of net cruise revenues to calculate net cruise costs with and without fuel to avoid duplicating these variable costs in our non-GAAP financial measures.

In addition, because our EAA cruise brands utilize the euro, sterling and Australian dollar to measure their results and financial condition, the translation of those operations to our U.S. dollar reporting currency results in increases in reported U.S. dollar revenues and expenses if the U.S. dollar weakens against these foreign currencies, and decreases in reported U.S. dollar revenues and expenses if the U.S. dollar strengthens against these foreign currencies. Accordingly, we also monitor and report our non-GAAP financial measures assuming the 2011 periods currency exchange rates have remained constant with the 2010 periods rates, or on a constant dollar basis, in order to remove the impact of changes in exchange rates on our non-U.S. dollar cruise operations. We believe that this is a useful measure since it facilitates a comparative view of the growth of our business in a fluctuating currency exchange rate environment.

There are no specific rules for determining our non-GAAP current and constant dollar financial measures and, accordingly, it is possible that they may not be exactly comparable to the like-kind information presented by other cruise companies, which is a potential risk associated with using these measures to compare us to other cruise companies.

Table of Contents

Consolidated gross and net revenue yields were computed by dividing the gross and net revenues, without rounding, by ALBDs as follows (dollars in millions, except yields):

| | Three Months Ended August 31, | | |
|---|---|---|---|
| | 2011 | 2011 Constant Dollar | 2010 |
| Passenger ticket revenues | $ 3,907 | $ 3,730 | $ 3,478 |
| Onboard and other revenues | 936 | 901 | 847 |
| **Gross cruise revenues** | 4,843 | 4,631 | 4,325 |
| Less cruise costs | | | |
| Commissions, transportation and other | (686) | (653) | (618) |
| Onboard and other | (137) | (132) | (131) |
| | (823) | (785) | (749) |
| Net passenger ticket revenues | 3,221 | 3,077 | 2,860 |
| Net onboard and other revenues | 799 | 769 | 716 |
| **Net cruise revenues** | $ 4,020 | $ 3,846 | $ 3,576 |
| **ALBDs** | 18,089,807 | 18,089,807 | 17,255,120 |
| **Gross revenue yields** | $ 267.70 | $ 255.96 | $ 250.67 |
| % increase vs. 2010 | 6.8% | 2.1% | |
| **Net revenue yields** | $ 222.21 | $ 212.57 | $ 207.23 |
| % increase vs. 2010 | 7.2% | 2.6% | |
| **Net passenger ticket revenue yields** | $ 178.06 | $ 170.07 | $ 165.73 |
| % increase vs. 2010 | 7.4% | 2.6% | |
| **Net onboard and other revenue yields** | $ 44.15 | $ 42.50 | $ 41.50 |
| % increase vs. 2010 | 6.4% | 2.4% | |

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, without rounding, by ALBDs as follows (dollars in millions, except costs per ALBD):

| | Three Months Ended August 31, | | |
|---|---|---|---|
| | 2011 | 2011 Constant Dollar | 2010 |
| Cruise operating expenses | $ 2,671 | $ 2,574 | $ 2,261 |
| Cruise selling and administrative expenses | 413 | 396 | 373 |
| **Gross cruise costs** | 3,084 | 2,970 | 2,634 |
| Less cruise costs included in net cruise revenues | | | |
| Commissions, transportation and other | (686) | (653) | (618) |
| Onboard and other | (137) | (132) | (131) |
| **Net cruise costs** | 2,261 | 2,185 | 1,885 |
| Less fuel | (581) | (581) | (396) |

| | | | |
|---|---|---|---|
| **Net cruise costs excluding fuel** | $ 1,680 | $ 1,604 | $ 1,489 |
| | | | |
| **ALBDs** | 18,089,807 | 18,089,807 | 17,255,120 |
| | | | |
| **Gross cruise costs per ALBD** | $ 170.49 | $ 164.17 | $ 152.69 |
| % increase vs. 2010 | 11.7% | 7.5% | |
| **Net cruise costs per ALBD** | $ 125.00 | $ 120.78 | $ 109.24 |
| % increase vs. 2010 | 14.4% | 10.6% | |
| **Net cruise costs excluding fuel per ALBD** | $ 92.88 | $ 88.66 | $ 86.28 |
| % increase vs. 2010 | 7.6% | 2.8% | |

Table of Contents

Net cruise revenues increased $444 million, or 12.4%, to $4.0 billion in 2011 from $3.6 billion in 2010. This was caused by a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $174 million, a 4.8% capacity increase in ALBDs, which accounted for $173 million, and a 2.6% increase in constant dollar net revenue yields, which accounted for $97 million. The 2.6% increase in net revenue yields on a constant dollar basis was comprised of a 2.6% increase in net passenger ticket revenue yields and a 2.4% increase in net onboard and other revenue yields. The 2.6% increase in net passenger ticket revenue yields was driven by stronger North America brand yields in Alaska, Caribbean and Mexican Riviera itineraries, and were partially offset by lower EAA brand yields that declined as a result of the close-in MENA deployment changes. Net onboard and other revenue yields increased 2.4% on a constant dollar basis driven by higher onboard spending from our North America brands, partially offset by lower onboard revenues from our EAA brands in part due to lower shore excursion revenues resulting from the MENA deployment changes. Gross cruise revenues increased $518 million, or 12.0%, to $4.8 billion in 2011 from $4.3 billion in 2010 for principally the same reasons as discussed above.

Net cruise costs excluding fuel increased $191 million, or 12.8%, to $1.7 billion in 2011 from $1.5 billion in 2010. This was caused by a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $76 million, a 4.8% capacity increase in ALBDs, which accounted for $72 million, and a 2.8% increase in constant dollar net cruise costs excluding fuel per ALBD, which accounted for $43 million. The 2.8% increase in constant dollar net cruise costs excluding fuel per ALBD was driven by inflationary pressures on crew travel, food, freight and other hotel operating expenses.

Fuel costs increased $185 million, or 46.7%, to $581 million in 2011 from $396 million in 2010. This was caused by higher fuel prices, which accounted for $181 million, and a 4.8% capacity increase in ALBDs, which accounted for $19 million, partially offset by lower fuel consumption per ALBD.

Gross cruise costs increased $450 million, or 17.1%, to $3.1 billion in 2011 from $2.6 billion in 2010 for principally the same reasons as discussed above.

**Nine Months Ended August 31, 2011 ( 2011 ) Compared to the Nine Months Ended August 31, 2010 ( 2010 )**

**Revenues**

**Consolidated**

Approximately 77% of 2011 total revenues are comprised of cruise passenger ticket revenues. Cruise passenger ticket revenues increased by $918 million, or 10.9%, to $9.3 billion in 2011 from $8.4 billion in 2010. This increase was substantially due to our 4.9% capacity increase in ALBDs, which accounted for $416 million, a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $241 million, and a continuing recovery in overall cruise ticket pricing, which accounted for $207 million. Our cruise ticket pricing increase was affected by the close-in deployment changes resulting from the geo-political events in MENA, and to a lesser extent, the earthquake and resulting nuclear disaster in Japan (see Key Performance Non-GAAP Financial Indicators ).

The remaining 23% of 2011 total revenues is substantially all comprised of onboard and other cruise revenues, which increased by $198 million, or 8.6%, to $2.5 billion in 2011 from $2.3 billion in 2010. This increase was principally driven by our 4.9% capacity increase in ALBDs, which accounted for $114 million, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $54 million. Onboard and other revenues included concession revenues of $812 million in 2011 and $717 million in 2010.

**North America Brands**

Approximately 76% of 2011 total revenues are comprised of cruise passenger ticket revenues. Cruise passenger ticket revenues increased by $320 million, or 6.6%, to $5.2 billion in 2011 from $4.9 billion in 2010. This increase was substantially due to a continuing recovery in overall cruise ticket pricing, which accounted for $163 million, and our 2.7% capacity increase in ALBDs, which accounted for $130 million. Our cruise ticket pricing increase was primarily driven by the continuing recovery in pricing, particularly in our seasonally strong third quarter.

The remaining 24% of 2011 total revenues is comprised of onboard and other cruise revenues, which increased by $68 million, or 4.4%, to $1.6 billion in 2011 from $1.5 billion in 2010. This increase was caused by our 2.7% capacity increase in ALBDs, which accounted for $41 million, and higher onboard spending by our guests. Onboard and other revenues included concession revenues of $509 million in 2011 and $475 million in 2010.

**EAA Brands**

Approximately 83% of 2011 total revenues are comprised of cruise passenger ticket revenues. Cruise passenger ticket revenues increased $600 million, or 16.9%, to $4.1 billion in 2011 from $3.5 billion in 2010. This increase was substantially due to our 8.8% capacity increase in ALBDs, which accounted for $310 million, a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $241 million, and slightly higher cruise ticket pricing, which accounted for $33 million. Our cruise ticket pricing was impacted by the close-in MENA deployment changes.

**Table of Contents**

The remaining 17% of 2011 total revenues is comprised of onboard and other cruise revenues, which increased $126 million, or 17.9%, to $831 million in 2011 from $705 million in 2010. The increase was caused by our 8.8% capacity increase in ALBDs, which accounted for $62 million, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $54 million. Onboard and other revenues included concession revenues of $303 million in 2011 and $242 million in 2010.

**Costs and Expenses**

**Consolidated**

Operating costs and expenses increased $994 million, or 14.8%, to $7.7 billion in 2011 from $6.7 billion in 2010. The increase was substantially due to higher fuel prices, which accounted for $370 million, our 4.9% capacity increase in ALBDs, which accounted for $324 million, a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $134 million, and inflationary pressures on crew travel, food, freight and other hotel operating expenses. In addition, the increase was due to the nonrecurrence of the 2010 gain recognized from the sale of P&O Cruises (UK) s *Artemis*, which accounted for $44 million.

Selling and administrative expenses increased $101 million, or 8.6%, to $1.3 billion in 2011 from $1.2 billion in 2010. The increase was principally driven by our 4.9% capacity increase in ALBDs, which accounted for $57 million, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $27 million.

Depreciation and amortization expense increased $88 million, or 8.4%, to $1.1 billion in 2011 from $1.0 billion in 2010. The increase was principally driven by $50 million from our 4.9% capacity increase in ALBDs principally through the addition of new ships, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $24 million.

Our total costs and expenses as a percentage of revenues increased to 83.9% in 2011 from 81.7 % in 2010.

**North America Brands**

Operating costs and expenses increased $415 million, or 10.5%, to $4.3 billion in 2011 from $3.9 billion in 2010. This increase was principally driven by higher fuel prices, which accounted for $224 million, and our 2.7% capacity increase in ALBDs, which accounted for $105 million.

Selling and administrative expenses increased $27 million, or 4.0%, to $700 million in 2011 from $673 million in 2010.

Depreciation and amortization expense increased $22 million, or 3.5%, to $649 million in 2011 from $627 million in 2010.

Our total costs and expenses as a percentage of total revenues increased to 83.7% in 2011 from 81.5% in 2010.

**EAA Brands**

Operating costs and expenses increased $579 million, or 22.0%, to $3.2 billion in 2011 from $2.6 billion in 2010. The increase was substantially due to our 8.8% capacity increase in ALBDs, which accounted for $231 million, higher fuel prices, which accounted for $146 million, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $134 million. In addition, the increase was due to the nonrecurrence of the 2010 gain recognized from the sale of P&O Cruises (UK) s *Artemis*, which accounted for $44 million.

Selling and administrative expenses increased $72 million, or 17.4%, to $485 million in 2011 from $413 million in 2010. The increase was substantially due to our 8.8% capacity increase in ALBDs, which accounted for $36 million, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $27 million.

Depreciation and amortization expense increased $60 million, or 16.1%, to $432 million in 2011 from $372 million in 2010. The increase was substantially due to $33 million from our 8.8% capacity increase in ALBDs principally through the addition of new ships and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $24 million.

Our total costs and expenses as a percentage of total revenues increased to 83.1% in 2011 from 80.5% in 2010.

**Operating Income**

Our consolidated operating income decreased $59 million, or 2.9%, to $1.9 billion in 2011 from $2.0 billion in 2010. Our North America brands operating income decreased $76 million, or 6.4%, to $1.1 billion in 2011 from $1.2 billion in 2010, and our EAA brands operating income increased $15 million, or 1.8%, to $843 million in 2011 from $828 million in 2010. These decreases and increases were primarily due to the reasons discussed above.

Table of Contents

**Key Performance Non-GAAP Financial Indicators**

Consolidated gross and net revenue yields were computed by dividing the gross and net revenues, without rounding, by ALBDs as follows (dollars in millions, except yields):

| | Nine Months Ended August 31, | | |
|---|---|---|---|
| | 2011 | 2011 Constant Dollar | 2010 |
| Passenger ticket revenues | $ 9,336 | $ 9,096 | $ 8,418 |
| Onboard and other revenues | 2,511 | 2,457 | 2,313 |
| **Gross cruise revenues** | 11,847 | 11,553 | 10,731 |
| Less cruise costs | | | |
| Commissions, transportation and other | (1,911) | (1,874) | (1,711) |
| Onboard and other | (379) | (369) | (350) |
| | (2,290) | (2,243) | (2,061) |
| Net passenger ticket revenues | 7,425 | 7,222 | 6,707 |
| Net onboard and other revenues | 2,132 | 2,088 | 1,963 |
| **Net cruise revenues** | $ 9,557 | $ 9,310 | $ 8,670 |
| **ALBDs** | 52,178,866 | 52,178,866 | 49,720,444 |
| **Gross revenue yields** | $ 227.05 | $ 221.40 | $ 215.83 |
| % increase vs. 2010 | 5.2% | 2.6% | |
| **Net revenue yields** | $ 183.17 | $ 178.42 | $ 174.37 |
| % increase vs. 2010 | 5.0% | 2.3% | |
| **Net passenger ticket revenue yields** | $ 142.30 | $ 138.40 | $ 134.90 |
| % increase vs. 2010 | 5.5% | 2.6% | |
| **Net onboard and other revenue yields** | $ 40.86 | $ 40.02 | $ 39.48 |
| % increase vs. 2010 | 3.5% | 1.4% | |

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, without rounding, by ALBDs as follows (dollars in millions, except costs per ALBD):

| | Nine Months Ended August 31, | | |
|---|---|---|---|
| | 2011 | 2011 Constant Dollar | 2010 |
| Cruise operating expenses | $ 7,551 | $ 7,417 | $ 6,562 |
| Cruise selling and administrative expenses | 1,264 | 1,236 | 1,158 |
| **Gross cruise costs** | 8,815 | 8,653 | 7,720 |
| Less cruise costs included in net cruise revenues | | | |
| Commissions, transportation and other | (1,911) | (1,874) | (1,711) |
| Onboard and other | (379) | (369) | (350) |
| **Net cruise costs** | 6,525 | 6,410 | 5,659 |

| | | | |
|---|---|---|---|
| Less fuel | (1,611) | (1,611) | (1,209) |
| **Net cruise costs excluding fuel** | $ 4,914 | $ 4,799 | $ 4,450 |
| **ALBDs** | 52,178,866 | 52,178,866 | 49,720,444 |
| **Gross cruise costs per ALBD** | $ 168.93 | $ 165.84 | $ 155.27 |
| % increase vs. 2010 | 8.8% | 6.8% | |
| **Net cruise costs per ALBD** | $ 125.05 | $ 122.86 | $ 113.82 |
| % increase vs. 2010 | 9.9% | 7.9% | |
| **Net cruise costs excluding fuel per ALBD** | $ 94.18 | $ 91.99 | $ 89.50 |
| % increase vs. 2010 | 5.2% | 2.8% | |

Table of Contents

Net cruise revenues increased $887 million, or 10.2%, to $9.6 billion in 2011 from $8.7 billion in 2010. This was caused by a 4.9% capacity increase in ALBDs, which accounted for $429 million, a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $248 million, and a 2.3% increase in constant dollar net revenue yields, which accounted for $210 million. The 2.3% increase in net revenue yields on a constant dollar basis was comprised of a 2.6% increase in net passenger ticket revenue yields and a 1.4% increase in net onboard and other revenue yields. The 2.6% increase in net passenger ticket revenue yields was driven by the continuing recovery in pricing, particularly in our North America brands during the seasonally strong third quarter, partially offset by EAA brand yields that were impacted by the close-in MENA deployment changes. The 1.4% increase in net onboard and other revenue yields results from overall higher onboard spending by our guests. Our net onboard and other revenue yields were impacted by lower onboard revenues from our EAA brands in part due to lower shore excursion revenues resulting from the MENA deployment changes and the nonrecurrence of minimum concessionaire guarantees and a litigation settlement gain that were recognized in 2010. Gross cruise revenues increased $1.1 billion, or 10.4%, to $11.8 billion in 2011 from $10.7 billion in 2010 for principally the same reasons as discussed above.

Net cruise costs excluding fuel increased $464 million, or 10.4%, to $4.9 billion in 2011 from $4.5 billion in 2010. This was caused by our 4.9% capacity increase in ALBDs, which accounted for $220 million, a 2.8% increase in constant dollar net cruise costs excluding fuel per ALBD, which accounted for $130 million, and a weaker U.S. dollar against the euro, sterling and Australian dollar, which accounted for $114 million. The 2.8% increase in constant dollar net cruise costs excluding fuel per ALBD was principally due to inflationary pressures on crew travel, food, freight and other hotel operating expenses and the nonrecurrence of the 2010 gain recognized from the sale of P&O Cruises (UK) s *Artemis*, which accounted for $44 million. On a constant dollar basis, net cruise costs excluding fuel and the gain recognized from the sale of P&O Cruises (UK) s *Artemis* per ALBD were up 1.8% compared to 2010.

Fuel costs increased $402 million, or 33.3%, to $1.6 billion in 2011 from $1.2 billion in 2010. This was caused by higher fuel prices, which accounted for $370 million, and a 4.9% capacity increase in ALBDs, which accounted for $60 million, partially offset by lower fuel consumption per ALBD.

Gross cruise costs increased $1.1 billion, or 14.2%, to $8.8 billion in 2011 from $7.7 billion in 2010 for principally the same reasons as discussed above.

**Liquidity, Financial Condition and Capital Resources**

As discussed under Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2010 joint Annual Report on Form 10-K, we believe maintenance of a strong balance sheet, which enhances our financial flexibility and allows us to return free cash flow to shareholders, is the primary objective of our capital structure policy. Our current intention is to have an average of two to three new cruise ships enter service annually in 2012 and beyond. Since we have slowed down the pace of our newbuilding program, we currently believe this will lead to increasing free cash flows in 2012 and beyond. Other objectives of our capital structure policy are to maintain an acceptable 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 that is spread out over a number of years.

We continue to generate substantial cash from operations and have investment grade credit ratings, which provide us with the ability in most financial credit market environments to obtain debt funding, as required. If our long-term credit rating were to be downgraded or assigned a negative outlook, our access to, and cost of, financing may be negatively impacted. Based on our historical results, current forecast and financial condition, we believe that our existing liquidity and cash flow from future operations will be sufficient to fund all of our expected capital projects (including shipbuilding commitments), debt service requirements, working capital needs, other firm commitments and dividends over the next several years. Our forecasted cash flow from operations and access to the capital markets can be adversely impacted by numerous factors outside our control including, but not limited to, those noted under Cautionary Note Concerning Factors That May Affect Future Results.

At November 30, 2010, the U.S. dollar was $1.56 to sterling, $1.32 to the euro and $0.96 to the Australian dollar. Had these November 30, 2010 currency exchange rates been used to translate our August 31, 2011 non-U.S. dollar functional currency operations assets and liabilities instead of the August 31, 2011 U.S. dollar exchange rates of $1.64 to sterling, $1.45 to the euro and $1.07 to the Australian dollar, our total assets and liabilities would have been lower by $1.3 billion and $430 million, respectively.

**Sources and Uses of Cash**

Our business provided $3.0 billion of net cash from operations during the nine months ended August 31, 2011, a decrease of $68 million, or 2.2%, compared to $3.1 billion for the same period in fiscal 2010. This decrease was primarily caused by more cash being used for our working capital needs, partially offset by more cash being generated by our operations.

At August 31, 2011, we had a working capital deficit of $5.5 billion. This deficit included $3.1 billion of customer deposits, which represent the passenger revenues we collect in advance of sailing dates and, accordingly, are substantially more like deferred revenue transactions rather than actual current cash liabilities. We use our long-term ship assets to realize a portion of this deferred revenue in addition to consuming current assets. In addition, our August 31, 2011 working capital deficit included $2.1 billion of current debt

obligations, which included $659 million outstanding under our commercial paper programs and $1.4 billion outstanding under our export credit facilities, bank loans and other debt. We continue to generate substantial cash from operations and have a strong balance sheet. This strong balance sheet provides us with the ability to meet our current debt obligations as they become due in most financial credit market environments. We also have our principal revolver available to provide long-term rollover financing should the need arise, or we choose to do so. After excluding customer deposits and current debt obligations from our August 31, 2011 working capital deficit balance, our non-GAAP adjusted working capital deficit was only $235 million. Our business model allows us to operate with an adjusted working capital deficit and, accordingly, we believe we will continue to have an adjusted working capital deficit for the foreseeable future.

During the nine months ended August 31, 2011, our expenditures for capital projects were $2.4 billion, of which $2.1 billion was spent on our ongoing new shipbuilding program, including $1.8 billion for the final delivery payments for *AIDAsol, Carnival Magic, Costa Favolosa* and *Seabourn Quest*. In addition to our new shipbuilding program, we had capital expenditures of $212 million for ship improvements and replacements and $123 million for information technology, buildings and other assets.

During the nine months ended August 31, 2011, we borrowed a net $165 million of short-term borrowings in connection with our availability of, and needs for, cash at various times throughout the period. Also, we repaid $1.0 billion of other long-term debt substantially for scheduled payments on export credit facilities and the early repayment of two floating rate bank loans and a portion of one export credit facility. In addition, we borrowed $990 million of new other long-term debt under two export credit facilities. Finally, we paid cash dividends of $474 million and purchased $288 million of Carnival Corporation common stock and Carnival plc ordinary shares in open market transactions during the nine months ended August 31, 2011.

**Future Commitments and Funding Sources**

Our contractual cash obligations as of August 31, 2011 have changed compared to November 30, 2010, as a result of our debt borrowings and repayments and ship delivery and progress payments as noted above under Sources and Uses of Cash. In addition, during the nine months ended August 31, 2011, we entered into agreements with two shipbuilders for the construction of four ships for three of our EAA brands. At August 31, 2011, these newbuilds have an all-in euro-denominated aggregate cost of $3.0 billion and are expected to be delivered from October 2014 through March 2016. Of this $3.0 billion, $1.3 billion is related to two of the four ships, which are subject to customary closing conditions, including execution of shipbuilding contracts and financing.

At August 31, 2011, we had liquidity of $6.0 billion. Our liquidity consisted of $129 million of cash and cash equivalents, excluding cash on hand of $301 million used for current operations, $2.0 billion available for borrowing under our revolving credit facilities, net of commercial paper borrowings, and $3.9 billion under committed ship financings. Of this $3.9 billion of committed ship financings, $218 million, $984 million, $933 million, $1.2 billion and $604 million are scheduled to be funded in the 2011 fourth quarter and in fiscal 2012, 2013, 2014 and 2015, respectively. Substantially all of our revolving credit facilities are scheduled to mature in 2016. We rely on, and have banking relationships with, numerous large, well-established banks, which we believe will assist us in accessing multiple sources of funding in the event that some lenders are unwilling or unable to lend to us. However, we believe that our revolving credit facilities and committed financings will be honored as required pursuant to their contractual terms.

Substantially all of our debt agreements contain financial covenants as described in Note 5 to the consolidated financial statements, which is included within Exhibit 13 to our 2010 joint Annual Report on Form 10-K. At August 31, 2011, we believe we were in compliance with all of our 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 over the next several years. 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.**

At August 31, 2011, 55%, 42% and 3% (60%, 37% and 3% at November 30, 2010) of our debt was U.S. dollar, euro and sterling-denominated, respectively, including the effect of foreign currency forwards.

For a further discussion of our market risks, see Note 7 in the accompanying consolidated financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations within Exhibit 13 to our joint 2010 Annual Report on Form 10-K.

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, 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 Chief Executive Officer, Chief Operating Officer and Chief Financial Officer have evaluated our disclosure controls and procedures and have concluded, as of August 31, 2011, that they are effective 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, 2011 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II - OTHER INFORMATION**

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

**A. Repurchase Authorizations**

In June 2006, the Boards of Directors authorized the repurchase of up to an aggregate of $1 billion of Carnival Corporation common stock and Carnival plc ordinary shares subject to certain restrictions. On September 19, 2007, the Boards of Directors increased the remaining $578 million general repurchase authorization back to $1 billion under the Repurchase Program. The Repurchase Program does not have an expiration date and may be discontinued by our Boards of Directors at any time.

During the three months ended August 31, 2011, purchases of Carnival Corporation common stock pursuant to the Repurchase Program were as follows:

| Period | Total Number of Carnival Corporation Common Stock Purchased (a) | Average Price Paid per Share of Carnival Corporation Common Stock | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Repurchase Program (b) (in millions) |
|---|---|---|---|
| June 1, 2011 through June 30, 2011 | | | $ 787 |
| July 1, 2011 through July 31, 2011 | | | $ 787 |
| August 1, 2011 through August 31, 2011 | 9,175,000 | $ 30.61 | $ 499 |
| Total | 9,175,000 | $ 30.61 | |

(a) No shares of Carnival Corporation common stock were purchased outside of publicly announced plans or programs.

(b) In addition, during August 2011 Carnival Investments Limited, a subsidiary of Carnival Corporation, purchased 240,000 ordinary shares of Carnival plc at an average price of $30.20 under the Repurchase Program. Carnival plc ordinary shares are listed on the London Stock Exchange.

In addition to the Repurchase Program, the Boards of Directors have authorized the repurchase of up to 19.2 million Carnival plc ordinary shares and up to 31.5 million shares of Carnival Corporation common stock under the Stock Swap programs described below.

From September 1, 2011 to September 28, 2011, we repurchased 3.9 million shares of Carnival Corporation common stock and 1.1 million ordinary shares of Carnival plc. At September 28, 2011, the remaining availability under the Repurchase Program was $343 million and the remaining availability under the Stock Swap program repurchase authorizations were 18.1 million Carnival plc ordinary shares and 31.5 million Carnival Corporation shares. Carnival plc ordinary share repurchases under both the Repurchase Program and the Stock Swap authorizations require annual shareholder approval. The existing shareholder approval is limited to a maximum of 21.4 million ordinary shares and is valid until the earlier of the conclusion of the Carnival plc 2012 annual general meeting or October 12, 2012.

**B. Stock Swap Programs**

We use the Stock Swap programs in situations where we can obtain an economic benefit because either Carnival Corporation common stock or Carnival plc ordinary shares are trading at a price that is at a premium or discount to the price of Carnival plc ordinary shares or Carnival Corporation common stock, as the case may be. This economic benefit is used for general corporate purposes, which could include repurchasing additional treasury stock under the Repurchase Program.

In the event Carnival Corporation common stock trades at a premium to Carnival plc ordinary shares, we may elect to issue and sell Carnival Corporation common stock through a sales agent, and use the sale proceeds to repurchase Carnival plc ordinary shares in the UK market on at least an equivalent basis. Carnival Corporation may issue and sell up to 19.2 million of its common stock in the U.S. market, which shares are to be sold from time to time at prevailing market prices in ordinary brokers transactions. Any sales of Carnival Corporation shares have been or will be registered under the Securities Act.

In the event Carnival Corporation common stock trades at a discount to Carnival plc ordinary shares, we may elect to sell existing ordinary shares of Carnival plc, with such sales made by Carnival Corporation or Carnival Investments Limited, a subsidiary of Carnival Corporation, and with a sales agent, from time to time in at the market transactions, and use the sale proceeds to repurchase Carnival Corporation common stock in the U.S. market on at least an equivalent basis. Carnival Corporation or Carnival Investments Limited may sell up to 31.5 million Carnival plc ordinary shares in the UK market, which shares are to be sold from time to time at prevailing market prices in ordinary brokers transactions. Any sales of Carnival plc shares have been or will be registered under the Securities Act.

During the nine months ended August 31, 2011, no Carnival Corporation common stock or Carnival plc ordinary shares were sold or repurchased under the Stock Swap programs.

**Table of Contents**

**Item 6. Exhibits.**
**INDEX TO EXHIBITS**

| Exhibit Number | Exhibit Description | Incorporated by Reference Form | Exhibit | Filing Date | Filed/ Furnished Herewith |
|---|---|---|---|---|---|
| **Articles of incorporation and by-laws** | | | | | |
| 3.1 | Third Amended and Restated Articles of Incorporation of Carnival Corporation. | 8-K | 3.1 | 4/17/03 | |
| 3.2 | Third Amended and Restated By-Laws of Carnival Corporation. | 8-K | 3.1 | 4/20/09 | |
| 3.3 | Articles of Association of Carnival plc. | 8-K | 3.3 | 4/20/09 | |
| 3.4 | Memorandum of Association of Carnival plc. | 8-K | 3.2 | 4/20/09 | |
| **Statement regarding computations of ratios** | | | | | |
| 12 | Ratio of Earnings to Fixed Charges. | | | | X |
| **Rule 13a 14(a)/15d-14(a) Certifications** | | | | | |
| 31.1 | Certification of 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. | | | | X |
| 31.2 | Certification of Chief Operating Officer of Carnival Corporation pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 31.3 | Certification of Senior Vice President and Chief Financial Officer of Carnival Corporation pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 31.4 | Certification of 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. | | | | X |
| 31.5 | Certification of Chief Operating Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| 31.6 | Certification of Senior Vice President and Chief Financial Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | | | | X |
| **Section 1350 Certifications** | | | | | |
| 32.1* | Certification of 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. | | | | X |
| 32.2* | Certification of Chief Operating 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. | | | | X |

**Item 6. Exhibits.**

**INDEX TO EXHIBITS**

| Exhibit Number | Exhibit Description | Incorporated by Reference Form | Exhibit | Filing Date | Filed/ Furnished Herewith |
|---|---|---|---|---|---|
| 32.3* | Certification of Senior Vice President and Chief Financial 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. | | | | X |
| 32.4* | Certification of 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. | | | | X |
| 32.5* | Certification of Chief Operating 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. | | | | X |
| 32.6* | Certification of Senior Vice President and Chief Financial 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. | | | | X |
| **Interactive Data File** | | | | | |
| 101* | The financial statements from Carnival Corporation & plc s joint Quarterly Report on Form 10-Q for the quarter ended August 31, 2011, as filed with the SEC on September 30, 2011 formatted in XBRL, as follows: | | | | |
| | (i) the Consolidated Statements of Income for the three and nine months ended August 31, 2011 and 2010; | | | | X |
| | (ii) the Consolidated Balance Sheets at August 31, 2011 and November 30, 2010; | | | | X |
| | (iii) the Consolidated Statements of Cash Flows for the nine months ended August 31, 2011 and 2010; and | | | | X |
| | (iv) 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/ Micky Arison
Micky Arison
Chairman of the Board of Directors

and Chief Executive Officer

By:/s/ Howard S. Frank
Howard S. Frank
Vice Chairman of the Board of

Directors and Chief Operating Officer

By:/s/ David Bernstein
David Bernstein
Senior Vice President and

Chief Financial Officer

Date: September 30, 2011

**CARNIVAL PLC**

By:/s/ Micky Arison
Micky Arison
Chairman of the Board of Directors

and Chief Executive Officer

By:/s/ Howard S. Frank
Howard S. Frank
Vice Chairman of the Board of

Directors and Chief Operating Officer

By:/s/ David Bernstein
David Bernstein
Senior Vice President and

Chief Financial Officer

Date: September 30, 2011