CARNIVAL CORP
Form 10-Q
March 30, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 2017
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-9610	Commission file number: 001-15136
Carnival Corporation (Exact name of registrant as specified in its charter)	Carnival plc (Exact name of registrant as specified in its charter)
Republic of Panama (State or other jurisdiction of incorporation or organization)	England and Wales (State or other jurisdiction of incorporation or organization)
59-1562976 (I.R.S. Employer Identification No.)	98-0357772 (I.R.S. Employer Identification No.)
3655 N.W. 87th Avenue Miami, Florida 33178-2428 (Address of principal executive offices) (Zip Code)	Carnival House, 100 Harbour Parade, Southampton SO15 1ST, United Kingdom (Address of principal executive offices) (Zip Code)
(305) 599-2600 (Registrant's telephone number, including area code)	011 44 23 8065 5000 (Registrant's telephone number, including area code)
None (Former name, former address and former fiscal year, if changed since last report)	None (Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large accelerated filers 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

At March 24, 2017, Carnival Corporation had outstanding 536,614,851 shares of Common Stock, $0.01 par value.

At March 24, 2017, Carnival plc had outstanding 214,138,487 Ordinary Shares $1.66 par value, one Special Voting Share, GBP 1.00 par value and 536,614,851, Trust Shares of beneficial interest in the P&O Princess Special Voting Trust.

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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 February 28/29,	
	2017	2016
Revenues		
Cruise		
Passenger tickets	$2,804	$2,718
Onboard and other	978	923
Tour and other	9	10
	3,791	3,651
Operating Costs and Expenses		
Cruise		
Commissions, transportation and other	569	582
Onboard and other	125	117
Payroll and related	519	492
Fuel	297	187
Food	251	247
Other ship operating	661	604
Tour and other	13	14
	2,435	2,243
Selling and administrative	549	551
Depreciation and amortization	439	423
	3,423	3,217
Operating Income	368	434
Nonoperating Income (Expense)		
Interest income	2	2
Interest expense, net of capitalized interest	(51)	(52)
Gains (losses) on fuel derivatives, net	27	(236)
Other income (expense), net	8	(5)
	(14)	(291)
Income Before Income Taxes	354	143
Income Tax Expense, Net	(2)	(1)
Net Income	$352	$142
Earnings Per Share		
Basic	$0.48	$0.18
Diluted	$0.48	$0.18
Dividends Declared Per Share	$0.35	$0.30

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

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CARNIVAL CORPORATION & PLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(in millions)

	Three Months Ended February 28/29,	
	2017	2016
Net Income	$352	$142
Items Included in Other Comprehensive Income (Loss)		
Change in foreign currency translation adjustment	1	(208)
Other	14	6
Other Comprehensive Income (Loss)	15	(202)
Total Comprehensive Income (Loss)	$367	$(60)

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

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CARNIVAL CORPORATION & PLC
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in millions, except par values)

	February 28, 2017	November 30, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 437	$ 603
Trade and other receivables, net	307	298
Inventories	361	322
Prepaid expenses and other	492	466
Total current assets	1,597	1,689
Property and Equipment, Net	32,328	32,429
Goodwill	2,911	2,910
Other Intangibles	1,279	1,275
Other Assets	588	578
	$ 38,703	$ 38,881
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ 169	$ 457
Current portion of long-term debt	1,127	640
Accounts payable	669	713
Accrued liabilities and other	1,766	1,740
Customer deposits	3,734	3,522
Total current liabilities	7,465	7,072
Long-Term Debt	7,796	8,302
Other Long-Term Liabilities	782	910
Contingencies		
Shareholders' Equity		
Common stock of Carnival Corporation, $0.01 par value; 1,960 shares authorized; 655 shares at 2017 and 654 shares at 2016 issued	7	7
Ordinary shares of Carnival plc, $1.66 par value; 217 shares at 2017 and 2016 issued	358	358
Additional paid-in capital	8,660	8,632
Retained earnings	21,939	21,843
Accumulated other comprehensive loss	(2,440)	(2,454)
Treasury stock, 118 shares at 2017 and 2016 of Carnival Corporation and 28 shares at 2017 and 27 shares at 2016 of Carnival plc, at cost	(5,864)	(5,789)
Total shareholders' equity	22,660	22,597
	$ 38,703	$ 38,881

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

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CARNIVAL CORPORATION & PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in millions)

	Three Months Ended February 28/29,	
	2017	2016
OPERATING ACTIVITIES		
Net income	$352	$142
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	439	423
(Gains) losses on fuel derivatives, net	(27)	236
Share-based compensation	20	16
Other, net	20	9
	804	826
Changes in operating assets and liabilities		
Receivables	(2)	(18)
Inventories	(35)	(4)
Insurance recoverables, prepaid expenses and other	(10)	(12)
Accounts payable	(47)	(7)
Accrued and other liabilities	3	(75)
Customer deposits	219	88
Net cash provided by operating activities	932	798
INVESTING ACTIVITIES		
Additions to property and equipment	(412)	(330)
Payments of fuel derivative settlements	(52)	(88)
Collateral payments for fuel derivatives	—	(57)
Other, net	(10)	16
Net cash used in investing activities	(474)	(459)
FINANCING ACTIVITIES		
(Repayments of) proceeds from short-term borrowings, net	(289)	235
Principal repayments of long-term debt	(101)	(628)
Proceeds from issuance of long-term debt	100	555
Dividends paid	(254)	(232)
Purchases of treasury stock	(69)	(916)
Sales of treasury stock	—	40
Other, net	(2)	(1)
Net cash used in financing activities	(615)	(947)
Effect of exchange rate changes on cash and cash equivalents	(9)	(9)
Net decrease in cash and cash equivalents	(166)	(617)
Cash and cash equivalents at beginning of period	603	1,395
Cash and cash equivalents at end of period	$437	$778

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

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CARNIVAL CORPORATION & PLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
NOTE 1 – General

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

Basis of Presentation
The Consolidated Balance Sheet at February 28, 2017, and the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income (Loss) and the Consolidated Statements of Cash Flows for the three months ended February 28/29, 2017 and 2016 are unaudited and, in the opinion of our management, contain all adjustments necessary for a fair statement. Our interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in the Carnival Corporation & plc 2016 joint Annual Report on Form 10-K ("Form 10-K") filed with the U.S. Securities and Exchange Commission on January 30, 2017. Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire year.

Accounting Pronouncements

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

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

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

The FASB issued amended guidance regarding accounting for Derivatives and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is required to be adopted by us in the first quarter of 2018 and can be applied on either a prospective or modified retrospective basis. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

The FASB issued amended guidance regarding accounting for Derivatives and Hedging - Contingent Put and Call Options in Debt Instruments, which clarifies the requirements for assessing whether contingent call and put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts or whether the embedded call and put options should be bifurcated from the related debt instrument and accounted for separately as a derivative. This guidance is required to be adopted by us in the first quarter of 2018 and must be applied using a modified retrospective approach. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

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The FASB issued guidance regarding Presentation of Financial Statements - Going Concern, which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. This guidance is required to be adopted by us in the first quarter of 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

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

The FASB issued guidance regarding Business Combinations - Clarifying the Definition of a Business, which assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is required to be adopted by us in the first quarter of 2019 on a prospective basis. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

The FASB issued amended guidance regarding Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments, which clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are aimed at reducing the existing diversity in practice. The guidance is required to be adopted by us in the first quarter of 2019 and should be applied using a retrospective transition method for each period presented. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

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

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

The FASB issued guidance regarding Intangibles - Goodwill and Other - Simplifying the Accounting for Goodwill Impairment, which simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test requiring a hypothetical purchase price allocation. This guidance is required to be adopted by us in the first quarter of 2021 on a prospective basis. Early adoption is permitted for any impairment tests performed after January 1, 2017. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

Other

Cruise passenger ticket revenues include fees, taxes and charges collected by us from our guests. The portion of these fees, taxes and charges included in passenger ticket revenues and commissions, transportation and other costs were $143 million and $136 million for the three months ended February 28/29, 2017 and 2016, respectively.

NOTE 2 – Unsecured Debt

At February 28, 2017, our short-term borrowings consisted of euro-denominated commercial paper of $159 million and euro-denominated bank loans of $10 million with an aggregate weighted-average floating interest rate of (0.04)%.

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

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

For the three months ended February 28, 2017, we had borrowings of $111 million and repayments of $240 million of commercial paper with original maturities greater than three months.

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

NOTE 3 – Contingencies

Litigation

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

Contingent Obligations – Lease Out and Lease Back Type (“LILO”) Transactions

At February 28, 2017, we had estimated contingent obligations totaling $121 million. At the inception of the lease, we paid the aggregate of the net present value of the obligation to a group of major financial institutions, who agreed to act as payment undertakers and directly pay these obligations. As a result, these contingent obligations are considered extinguished and neither the funds nor the contingent obligations have been included in our Consolidated Balance Sheets. In January 2016, we exercised our option to terminate, at no cost, this transaction as of January 2, 2018.

Contingent Obligations – Indemnifications

Some of the debt contracts we enter into include indemnification provisions obligating us to make payments to the counterparty if certain events occur. These contingencies generally relate to changes in taxes or changes in laws which increase our lender’s costs. 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 we do not believe a request for material future indemnification payments is probable.

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

Fair Value Measurements

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

- Level 1 measurements are based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation of these items does not entail a significant amount of judgment.
- Level 2 measurements are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or market data other than quoted prices that are observable for the assets or liabilities.
- Level 3 measurements are based on unobservable data that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, certain estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

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

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

	February 28, 2017				November 30, 2016			
	Carrying Value	Fair Value Level 1	Level 2	Level 3	Carrying Value	Fair Value Level 1	Level 2	Level 3
Assets								
Long-term other assets (a)	$111	$—	$64	$ 46	$99	$1	$68	$ 31
Total	$111	$—	$64	$ 46	$99	$1	$68	$ 31
Liabilities								
Fixed rate debt (b)	$5,370	$—	$5,660	$ —	$5,436	$—	$5,727	$ —
Floating rate debt (b)	3,773	—	3,816	—	4,018	—	4,048	—
Total	$9,143	$—	$9,476	$ —	$9,454	$—	$9,775	$ —

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

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

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

Valuation of Goodwill and Other Intangibles

The reconciliation of the changes in the carrying amounts of our goodwill was as follows (in millions):

	North America Segment	EAA (a) Segment	Total
Balance at November 30, 2016	$ 1,898	$ 1,012	$2,910
Foreign currency translation adjustment	—	1	1
Balance at February 28, 2017	$ 1,898	$ 1,013	$2,911

(a) Europe, Australia & Asia (“EAA”)

At July 31, 2016, we performed our annual goodwill impairment reviews and no goodwill was impaired.

The reconciliation of the changes in the carrying amounts of our other intangible assets not subject to amortization, which represent trademarks, was as follows (in millions):

	North America Segment	EAA Segment	Total
Balance at November 30, 2016	$ 927	$ 279	$1,206
Foreign currency translation adjustment	—	1	1
Balance at February 28, 2017	$ 927	$ 280	$1,207

At July 31, 2016, our cruise brands that have significant trademarks recorded include AIDA, P&O Cruises (Australia), P&O Cruises (UK) and Princess. As of that date, we performed our annual trademark impairment reviews for these cruise brands and no trademarks were impaired.

The determination of our reporting unit goodwill and trademark fair values includes numerous assumptions that are subject to various risks and uncertainties. We believe that we have made reasonable estimates and judgments. If there is a change in the conditions, circumstances or strategy influencing fair values in the future, then we may need to recognize an impairment charge.

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The reconciliation of the changes in the net carrying amounts of our other intangible assets subject to amortization, which represent port usage rights and other amortizable intangibles, was as follows (in millions):

	Cruise Support Segment	EAA Segment	Tour and Other Segment	Total
Balance at November 30, 2016	$ 57	$ 12	$ —	$ 69
Additions	—	—	4	4
Amortization	(1)	—	—	(1)
Balance at February 28, 2017	$ 56	$ 12	$ 4	$ 72

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

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

	February 28, 2017			November 30, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Cash and cash equivalents (a)	$ 437	$ —	$ —	$ 603	$ —	$ —
Restricted cash	53	—	—	60	—	—
Short-term investments (b)	—	—	—	—	—	21
Marketable securities held in rabbi trusts (c)	94	3	—	93	4	—
Derivative financial instruments	—	13	—	—	15	—
Total	$ 584	$ 16	$ —	$ 756	$ 19	$ 21
Liabilities						
Derivative financial instruments	$ —	$ 321	$ —	$ —	$ 434	$ —
Total	$ —	$ 321	$ —	$ —	$ 434	$ —

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

(b) The fair value of the auction rate security included in short-term investments, as of November 30, 2016, was based on a broker quote in an inactive market, which is considered a Level 3 input. This auction-rate security was sold in December 2016.

(c) At February 28, 2017, marketable securities held in rabbi trusts were comprised of Level 1 bonds, frequently-priced mutual funds invested in common stocks and money market funds and Level 2 other investments. Their use is restricted to funding certain deferred compensation and non-qualified U.S. pension plans.

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Derivative Instruments and Hedging Activities

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

	Balance Sheet Location	February 28, 2017	November 30, 2016
Derivative assets			