CARNIVAL CORP
Form 10-Q
April 09, 2019

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, 2019
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<br>(Exact name of registrant as specified in its charter) | Carnival plc<br>(Exact name of registrant as specified in its charter) |
| Republic of Panama<br>(State or other jurisdiction of incorporation or organization) | England and Wales<br>(State or other jurisdiction of incorporation or organization) |
| 59-1562976<br>(I.R.S. Employer Identification No.) | 98-0357772<br>(I.R.S. Employer Identification No.) |
| 3655 N.W. 87th Avenue<br>Miami, Florida 33178-2428<br>(Address of principal executive offices)<br>(Zip Code) | Carnival House, 100 Harbour Parade,<br>Southampton SO15 1ST, United Kingdom<br>(Address of principal executive offices)<br>(Zip Code) |
| (305) 599-2600<br>(Registrant's telephone number, including area code) | 011 44 23 8065 5000<br>(Registrant's telephone number, including area code) |
| None<br>(Former name, former address and former fiscal year, if changed since last report) | None<br>(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 every Interactive Data File required to be submitted 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 such files). Yes No

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

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

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

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

| | |
|---|---|
| At April 1, 2019, Carnival Corporation had outstanding 526,957,537 shares of Common Stock, $0.01 par value. | At April 1, 2019, Carnival plc had outstanding 190,024,517 Ordinary Shares $1.66 par value, one Special Voting Share, GBP 1.00 par value and 526,957,537 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, | |
|---|---|---|
| | 2019 | 2018 |
| Revenues | | |
| Cruise | | |
| Passenger ticket | $3,199 | $3,148 |
| Onboard and other | 1,446 | 1,071 |
| Tour and other | 29 | 13 |
| | 4,673 | 4,232 |
| Operating Costs and Expenses | | |
| Cruise | | |
| Commissions, transportation and other | 709 | 663 |
| Onboard and other | 467 | 140 |
| Payroll and related | 557 | 558 |
| Fuel | 381 | 359 |
| Food | 268 | 264 |
| Other ship operating | 731 | 711 |
| Tour and other | 29 | 14 |
| | 3,142 | 2,709 |
| Selling and administrative | 629 | 616 |
| Depreciation and amortization | 516 | 488 |
| | 4,287 | 3,813 |
| Operating Income | 386 | 419 |
| Nonoperating Income (Expense) | | |
| Interest income | 4 | 3 |
| Interest expense, net of capitalized interest | (51) | (48) |
| Gains on fuel derivatives, net | — | 16 |
| Other (expense) income, net | (2) | 1 |
| | (49) | (28) |
| Income Before Income Taxes | 338 | 390 |
| Income Tax Expense, Net | (2) | — |
| Net Income | $336 | $391 |
| Earnings Per Share | | |
| Basic | $0.48 | $0.54 |
| Diluted | $0.48 | $0.54 |

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

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

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Net Income | $336 | $391 |
| Items Included in Other Comprehensive Income | | |
| Change in foreign currency translation adjustment | 79 | 292 |
| Other | — | 3 |
| Other Comprehensive Income | 79 | 295 |
| Total Comprehensive Income | $415 | $686 |

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, 2019 | November 30, 2018 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 649 | $ 982 |
| Trade and other receivables, net | 406 | 358 |
| Inventories | 444 | 450 |
| Prepaid expenses and other | 603 | 436 |
| Total current assets | 2,101 | 2,225 |
| Property and Equipment, Net | 37,005 | 35,336 |
| Goodwill | 2,943 | 2,925 |
| Other Intangibles | 1,181 | 1,176 |
| Other Assets | 700 | 738 |
| | $ 43,930 | $ 42,401 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Short-term borrowings | $ 768 | $ 848 |
| Current portion of long-term debt | 1,684 | 1,578 |
| Accounts payable | 798 | 730 |
| Accrued liabilities and other | 1,637 | 1,654 |
| Customer deposits | 4,755 | 4,395 |
| Total current liabilities | 9,642 | 9,204 |
| Long-Term Debt | 9,134 | 7,897 |
| Other Long-Term Liabilities | 912 | 856 |
| Contingencies | | |
| Shareholders' Equity | | |
| Common stock of Carnival Corporation, $0.01 par value; 1,960 shares authorized; 657 shares at 2019 and 656 shares at 2018 issued | 7 | 7 |
| Ordinary shares of Carnival plc, $1.66 par value; 217 shares at 2019 and 2018 issued | 358 | 358 |
| Additional paid-in capital | 8,776 | 8,756 |
| Retained earnings | 25,033 | 25,066 |
| Accumulated other comprehensive income (loss) ("AOCI") | (1,869) | (1,949) |
| Treasury stock, 130 shares at 2019 and 129 shares at 2018 of Carnival Corporation and 53 shares at 2019 and 48 shares at 2018 of Carnival plc, at cost | (8,063) | (7,795) |
| Total shareholders' equity | 24,241 | 24,443 |
| | $ 43,930 | $ 42,401 |

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, | |
|---|---|---|
| | 2019 | 2018 |
| OPERATING ACTIVITIES | | |
| Net income | $336 | $391 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 516 | 488 |
| Gains on fuel derivatives, net | — | (16) |
| Share-based compensation | 20 | 18 |
| Other, net | 12 | 24 |
| | 884 | 904 |
| Changes in operating assets and liabilities | | |
| Receivables | (50) | (30) |
| Inventories | 7 | 1 |
| Prepaid expenses and other | (154) | 98 |
| Accounts payable | 65 | 19 |
| Accrued liabilities and other | 5 | (198) |
| Customer deposits | 358 | 271 |
| Net cash provided by operating activities | 1,116 | 1,064 |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (2,129) | (574) |
| Payments of fuel derivative settlements | (6) | (21) |
| Other, net | 76 | 6 |
| Net cash used in investing activities | (2,059) | (588) |
| FINANCING ACTIVITIES | | |
| (Repayments of) proceeds from short-term borrowings, net | (81) | 611 |
| Principal repayments of long-term debt | (95) | (963) |
| Proceeds from issuance of long-term debt | 1,439 | 469 |
| Dividends paid | (348) | (323) |
| Purchases of treasury stock | (274) | (218) |
| Other, net | (29) | (4) |
| Net cash provided by (used in) financing activities | 612 | (428) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 1 | 12 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (331) | 60 |
| Cash, cash equivalents and restricted cash at beginning of period | 996 | 422 |
| Cash, cash equivalents and restricted cash at end of period | $665 | $482 |

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

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CARNIVAL CORPORATION & PLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)
(in millions)

| | Common stock | Ordinary shares | Additional paid-in capital | Retained earnings | AOCI | Treasury stock | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| At November 30, 2017 | $ 7 | $ 358 | $ 8,690 | $23,292 | $(1,782) | $(6,349) | $ 24,216 |
| Net income | — | — | — | 391 | — | — | 391 |
| Other comprehensive income | — | — | — | — | 295 | — | 295 |
| Cash dividends declared ($0.45 per share) | — | — | — | (322) | — | — | (322) |
| Purchases of treasury stock under the Repurchase Program and other | — | — | 18 | — | — | (216) | (198) |
| At February 28, 2018 | $ 7 | $ 358 | $ 8,708 | $23,360 | $(1,486) | $(6,565) | $ 24,382 |
| | | | | | | | |
| At November 30, 2018 | $ 7 | $ 358 | $ 8,756 | $25,066 | $(1,949) | $(7,795) | $ 24,443 |
| Changes in accounting principles (a) | — | — | — | (24) | — | — | (24) |
| Net income | — | — | — | 336 | — | — | 336 |
| Other comprehensive income | — | — | — | — | 79 | — | 79 |
| Cash dividends declared ($0.50 per share) | — | — | — | (345) | — | — | (345) |
| Purchases of treasury stock under the Repurchase Program and other | — | — | 20 | — | — | (268) | (248) |
| At February 28, 2019 | $ 7 | $ 358 | $ 8,776 | $25,033 | $(1,869) | $(8,063) | $ 24,241 |

(a) We adopted the provisions of Revenue from Contracts with Customers and Derivatives and Hedging on December 1, 2018.
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 Statements of Income, the Consolidated Statements of Comprehensive Income, the Consolidated Statements of Cash Flows and the Consolidated Statements of Shareholders’ Equity for the three months ended February 28, 2019 and 2018, and the Consolidated Balance Sheet at February 28, 2019 are unaudited and, in the opinion of our management, contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement. Our interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in the Carnival Corporation & plc 2018 joint Annual Report on Form 10-K (“Form 10-K”) filed with the U.S. Securities and Exchange Commission on January 28, 2019. 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 (the “FASB”) issued guidance, Revenue from Contracts with Customers (“ASC 606”), 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. On December 1, 2018, we adopted this guidance using the modified retrospective method to all contracts as of the adoption date. Results for reporting periods beginning after December 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under ASC 605.

The impact of the adoption of ASC 606 on our consolidated financial statements primarily relates to the gross presentation of prepaid travel agent commissions (Consolidated Balance Sheet), shore excursions and other onboard revenues and costs (Consolidated Statement of Income) which were historically presented net. As of December 1, 2018, we recorded a cumulative effect adjustment of $24 million to retained earnings related to the accounting for our loyalty programs.

The following table summarizes the impacts of ASC 606 adoption on our consolidated financial statements as of and for the three months ended February 28, 2019:

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| (in millions) | Prior to adoption of ASC 606 | Adjustments | As Reported |
|---|---|---|---|
| Consolidated Balance Sheet | | | |
| Prepaid expenses and other | $ 461 | $ 142 | $ 603 |
| Total current assets | $ 1,959 | $ 142 | $ 2,101 |
| Customer deposits | $ 4,613 | $ 142 | $ 4,755 |
| Total current liabilities | $ 9,501 | $ 142 | $ 9,642 |
| | | | |
| Consolidated Statement of Income | | | |
| Onboard and other (Revenues) | $ 1,123 | $ 323 | $ 1,446 |
| Revenues (Total) | $ 4,350 | $ 323 | $ 4,673 |
| Onboard and other (Operating Costs and Expenses) | $ 145 | $ 323 | $ 467 |
| Operating Costs and Expenses (Total) | $ 3,964 | $ 323 | $ 4,287 |
| Operating Income | $ 386 | $ — | $ 386 |
| Net Income | $ 336 | $ — | $ 336 |
| | | | |
| Consolidated Statement of Cash Flows | | | |
| Prepaid expenses and other | $ (12 ) | $ (142 ) | $ (154 ) |
| Customer deposits | $ 216 | $ 142 | $ 358 |
| Net cash provided by operating activities | $ 1,116 | $ — | $ 1,116 |

The FASB issued amended guidance, 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. On December 1, 2018, we adopted this guidance using the prospective transition method. The adoption of this guidance had no impact on our consolidated financial statements.

The FASB issued amended guidance, 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. On December 1, 2018, we adopted this guidance using the retrospective method for each period presented. The adoption of this guidance had no impact on our consolidated financial statements.

The FASB issued amended guidance, Statement of Cash Flows - Restricted Cash. On December 1, 2018, we adopted this guidance using the retrospective method for each period presented. As a result, we now present restricted cash with cash and cash equivalents in the statement of cash flows. The reclassified restricted cash balances from investing activities to changes in cash, cash equivalents and restricted cash was not material for the period presented.

The FASB issued amended guidance, Service Concession Arrangements, which clarifies that the grantor in a service arrangement should be considered the customer of the operating entity in all cases. On December 1, 2018, we adopted this guidance using the modified retrospective method. The adoption of this guidance had no impact on our consolidated financial statements.

The FASB issued amended guidance, Derivatives and Hedging, which targeted improvements to accounting for hedging activities such as hedging strategies, effectiveness assessments, and recognition of derivative gains or losses. On December 1, 2018, we early adopted this guidance using the modified retrospective approach, which did not have a material impact on our financial statements. At the time of adoption, we changed the method by which we assess effectiveness for outstanding net investment hedges from the forward method to the spot method. Under the spot method, the change in fair value of the hedging instrument attributable to hedge effectiveness remains in AOCI until the net investment is sold or liquidated, while the impact attributable to components excluded from the assessment of hedge effectiveness is recorded in interest expense, net of capitalized interest, on a systematic and rational basis. Previous gains or losses incurred under the forward method related to net investment hedges will remain in AOCI within the foreign currency translation adjustments component and will be reclassified to earnings when the net investment is sold or liquidated. As required by this guidance, we have also added certain disclosures about hedging activities and their effect on our consolidated financial statements.

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The FASB issued guidance, Leases, which requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. This guidance is required to be adopted by us in the first quarter of 2020 and must be applied using a modified retrospective approach which allows entities to either apply the new lease standard to the beginning of the earliest period presented or only to the current period consolidated financial statements. The initial adoption of this guidance is expected to increase both our total assets and total liabilities, reflecting the lease rights and obligations arising from our lease arrangements, and will require additional disclosures. We are evaluating certain contractual arrangements to determine if they contain an implicit right to use an asset that would qualify as a leasing arrangement under the new guidance.

The FASB issued amended guidance, Intangibles - Goodwill and Other - Internal-Use Software, which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance to determine which implementation costs to capitalize as assets or expense as incurred. The expense related to deferred implementation costs is required to be presented in the same income statement line item as the related hosting fees. Additionally, the payments for deferred implementation costs are required to be presented in the same line item in the statement of cash flows as payments for the related hosting fees. This guidance is required to be adopted by us in the first quarter of 2021 and must be applied using either a prospective or a retrospective approach. Early adoption is permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

NOTE 2 – Revenue and Expense Recognition

Guest cruise deposits represent unearned revenues, and are initially included in customer deposit liabilities when received. Customer deposits are subsequently recognized as cruise revenues, together with revenues from onboard and other activities, and all associated direct costs and expenses of a voyage are recognized as cruise costs and expenses, upon completion of voyages, with durations of ten nights or less and on a pro rata basis for voyages in excess of ten nights. The impact of recognizing these shorter duration cruise revenues and costs and expenses on a completed voyage basis versus on a pro rata basis is not significant. Certain of our product offerings are bundled and we allocate the value of the bundled services and goods between passenger ticket revenues, onboard and other revenues and tour and other revenues based upon the estimated standalone selling prices of those goods and services.

Future travel discount vouchers are included as a reduction of cruise passenger ticket revenues when such vouchers are utilized. Guest cancellation fees are recognized in cruise passenger ticket revenues at the time of cancellation.

Our sale to guests of air and other transportation to and from airports near the home ports of our ships are included in cruise passenger ticket revenues, and the related cost of purchasing these services are included in cruise transportation costs. The proceeds that we collect from the sales of third-party shore excursions are included in onboard and other revenues and the related costs are included in onboard and other costs. The amounts collected on behalf of our onboard concessionaires, net of the amounts remitted to them, are included in onboard and other cruise revenues as concession revenues. All of these amounts are recognized on a completed voyage or pro rata basis as discussed above.

Cruise passenger ticket revenues include fees, taxes and charges collected by us from our guests. A portion of these fees, taxes and charges vary with guest head counts and are directly imposed on a revenue-producing arrangement. This portion of the fees, taxes and charges is expensed in commissions, transportation and other costs when the corresponding revenues are recognized. For the three months ended February 28, the fees, taxes and charges included in passenger ticket revenues and commissions, transportation and other costs were $163 million in 2019 and $148 million in 2018. The remaining portion of fees, taxes and charges are also included in cruise passenger ticket revenues and are expensed in other ship operating expenses when the corresponding revenues are recognized.

Revenues and expenses from our hotel and transportation operations, which are included in our Tour and Other segment, are recognized at the time the services are performed or expenses are incurred. Revenues from the long-term leasing of ships, which are also included in our Tour and Other segment, are recognized ratably over the term of the agreement.

Customer Deposits

Our payment terms generally require an initial deposit to confirm a reservation, and the balance is received prior to the voyage. Cash received from guests in advance of the cruise is recorded in customer deposits and in other long-term liabilities on our Consolidated Balance Sheets. These amounts include refundable deposits. We had customer deposits of $4.9 billion and $4.7 billion as of February 28, 2019 and December 1, 2018. During the three months ended February 28, 2019, we recognized

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revenues of $3.0 billion related to our customer deposits as of December 1, 2018. Our customer deposits balance changes due to the seasonal nature of cash collections, the recognition of revenue and foreign currency translation.

Contract Receivables

Although we generally require full payment from our customers prior to or concurrently with their cruise, we grant credit terms to a relatively small portion of our revenue source. We also have receivables from credit card merchants for cruise ticket purchases and onboard revenue. These receivables are included within trade and other receivables, net.

Contract Assets

Contract assets are amounts paid prior to the start of a voyage, which we record as an asset within prepaid expenses and other and are subsequently recognized as commissions, transportation, and other at the time of revenue recognition. We have contract assets of $142 million and $151 million as of February 28, 2019 and December 1, 2018.

NOTE 3 – Unsecured Debt

At February 28, 2019, our short-term borrowings consisted of euro-denominated commercial paper of $768 million. For the three months ended February 28, 2019, there were no borrowings or repayments of commercial paper with original maturities greater than three months. For the three months ended February 28, 2018, we had borrowings of $2 million and repayments of $0 million of commercial paper with original maturities greater than three months.

In December 2018, we borrowed $852 million under an export credit facility due in semi-annual installments through 2031.

In February 2019, we borrowed $587 million under a euro-denominated export credit facility due in semi-annual installments through 2031. We also entered into an $899 million export credit facility, which may be drawn in euro or U.S. dollars in 2023 and will be due in semi-annual installments through 2035. The interest rate on this export credit facility can be fixed or floating, at our discretion.

NOTE 4 – Contingencies

Litigation

In the normal course of our business, various claims and lawsuits have been filed or are pending against us. Most of these claims and lawsuits, or any settlement of 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, lawsuits, and settlements, as applicable, each and in the aggregate, will not have a material impact on our consolidated financial statements.

Contingent Obligations – Indemnifications

Some of the debt contracts we enter into include indemnification provisions obligating us to make payments to the counterparty if certain events occur. These contingencies generally relate to changes in taxes or changes in laws which increase our lender’s costs. There are no stated or notional amounts included in the indemnification clauses, and we are not able to estimate the maximum potential amount of future payments, if any, under these indemnification clauses.

NOTE 5 – Fair Value Measurements, Derivative Instruments and Hedging Activities and Financial Risks

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 at the measurement date and is measured using inputs in one of the following three categories:

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

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- Level 2 measurements are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or market data other than quoted prices that are observable for the assets or liabilities.
- Level 3 measurements are based on unobservable data that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

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

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

| | February 28, 2019 | | | | November 30, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fair Value | | | | Fair Value | | |
| (in millions) | Carrying Value | Level 1 | Level 2 | Level 3 | Carrying Value | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | | | |
| Long-term other assets (a) | $123 | $— | $31 | $ 91 | $127 | $— | $30 | $ 95 |
| Total | $123 | $— | $31 | $ 91 | $127 | $— | $30 | $ 95 |
| Liabilities | | | | | | | | |
| Fixed rate debt (b) | $6,875 | $— | $7,030 | $ — | $5,699 | $— | $5,799 | $ — |
| Floating rate debt (b) | 4,822 | — | 4,867 | — | 4,695 | — | 4,727 | — |
| Total | $11,697 | $— | $11,897 | $ — | $10,394 | $— | $10,526 | $ — |

(a) Long-term other assets are comprised of notes receivable. The fair values of our Level 2 notes receivable 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 current market interest rates being applied to this debt.

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

| | February 28, 2019 | | | November 30, 2018 | | |
|---|---|---|---|---|---|---|
| (in millions) | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Assets | | | | | | |
| Cash and cash equivalents | $649 | $ — | $ — | $982 | $ — | $ — |
| Restricted cash | 16 | — | — | 14 | — | — |
| Derivative financial instruments | — | 16 | — | — | — | — |
| Total | $665 | $ 16 | $ — | $996 | $ — | $ — |
| Liabilities | | | | | | |
| Derivative financial instruments | $— | $ 47 | $ — | $— | $ 29 | $ — |
| Total | $— | $ 47 | $ — | $— | $ 29 | $ — |

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Nonfinancial Instruments that are Measured at Fair Value on a Nonrecurring Basis
Valuation of Goodwill and Trademarks

| (in millions) | Goodwill NAA (a) Segment | EA (b) Segment | Total |
|---|---|---|---|
| At November 30, 2018 | $1,898 | $ 1,027 | $2,925 |
| Foreign currency translation adjustment | — | 18 | 18 |
| At February 28, 2019 | $1,898 | $ 1,044 | $2,943 |

(a) North America & Australia ("NAA")
(b) Europe & Asia ("EA")

| (in millions) | Trademarks NAA Segment | EA Segment | Total |
|---|---|---|---|
| At November 30, 2018 | $927 | $ 242 | $1,169 |
| Foreign currency translation adjustment | — | 5 | 5 |
| At February 28, 2019 | $927 | $ 247 | $1,174 |

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. Changes in the conditions or circumstances may result in a need to recognize an impairment charge.

Derivative Instruments and Hedging Activities

| (in millions) | Balance Sheet Location | February 28, 2019 | November 30, 2018 |
|---|---|---|---|
| Derivative assets | | | |
| Derivatives designated as hedging instruments | | | |
| Cross currency swaps (a) | Prepaid expenses and other | $ 16 | $ — |
| Total derivative assets | | $ 16 | $ — |
| Derivative liabilities | | | |
| Derivatives designated as hedging instruments | | | |
| Cross currency swaps (a) | Accrued liabilities and other | $ 6 | $ 5 |
| | Other long-term liabilities | 22 | — |
| Interest rate swaps (b) | Accrued liabilities and other | 7 | 8 |
| | Other long-term liabilities | 11 | 11 |
| | | 47 | 23 |
| Derivatives not designated as hedging instruments | | | |
| Fuel | Accrued liabilities and other | — | 6 |
| Total derivative liabilities | | $ 47 | $ 29 |

(a) At February 28, 2019 and November 30, 2018, we had cross currency swaps totaling $1.0 billion and $156 million, respectively, that are designated as hedges of our net investment in foreign operations with a euro-denominated functional currency. At February 28, 2019, these cross currency swaps settle through December 2030.

(b) We have interest rate swaps designated as cash flow hedges whereby we receive floating interest rate payments in exchange for making fixed interest rate payments. These interest rate swap agreements effectively changed $373 million at February 28, 2019 and $385 million at November 30, 2018 of EURIBOR-based floating rate euro debt to fixed rate euro debt. At February 28, 2019, these interest rate swaps settle through March 2025.

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Our derivative contracts include rights of offset with our counterparties. We have elected to net certain of our derivative assets and liabilities within counterparties.

| | February 28, 2019 | | | | |
|---|---|---|---|---|---|
| (in millions) | Gross Amounts | Gross Amounts Offset in the Balance Sheet | Total Net Amounts Presented in the Balance Sheet | Gross Amounts not Offset in the Balance Sheet | Net Amounts |
| Assets | $17 | $ (1 ) | $ 16 | $ (6 ) | $ 11 |
| Liabilities | $47 | $ (1 ) | $ 47 | $ (6 ) | $ 41 |

| | November 30, 2018 | | | | |
|---|---|---|---|---|---|
| (in millions) | Gross Amounts | Gross Amounts Offset in the Balance Sheet | Total Net Amounts Presented in the Balance Sheet | Gross Amounts not Offset in the Balance Sheet | Net Amounts |
| Assets | $— | $ — | $ — | $ | $ — |
| Liabilities | $29 | $ — | $ 29 | $ — | $ 29 |

The effect of our derivatives qualifying and designated as hedging instruments recognized in other comprehensive income and in income was as follows:

| | Three Months Ended February 28, | |
|---|---|---|
| (in millions) | 2019 | 2018 |
| (Losses) gains recognized in AOCI: | | |
| Cross currency swaps – net investment hedges | $(10) | $(6 ) |
| Foreign currency zero cost collars – cash flow hedges | $— | $1 |
| Interest rate swaps – cash flow hedges | $1 | $4 |
| Losses reclassified from AOCI – cash flow hedges: | | |
| Interest rate swaps – Interest expense, net of capitalized interest | $(2 ) | $(3 ) |
| Gains recognized on derivative instruments (amount excluded from effectiveness testing – net investment hedges) | | |
| Cross currency swaps – Interest expense, net of capitalized interest | $4 | $— |

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.

Financial Risks

Fuel Price Risks

We manage our exposure to fuel price risk by managing our consumption of fuel. Substantially all of our exposure to market risk for changes in fuel prices relates to the consumption of fuel on our ships. We manage fuel consumption through ship maintenance practices, modifying our itineraries and implementing innovative technologies. We are also adding new, more fuel efficient ships to our fleet and are strategically disposing of smaller, less fuel efficient ships.

Foreign Currency Exchange Rate Risks

Overall Strategy

We manage our exposure to fluctuations in foreign currency exchange rates through our normal operating and financing activities, including netting certain exposures to take advantage of any natural offsets and, when considered appropriate, through the use of derivative and non-derivative financial instruments. Our primary focus is to monitor our exposure to, and manage, the economic foreign currency exchange risks faced by our operations and realized if we exchange one currency for another. We currently only hedge certain of our ship commitments and net investments in foreign operations. The financial impacts of the hedging instruments we do employ generally offset the changes in the underlying exposures being hedged.

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Operational Currency Risks

Our operations primarily utilize the U.S. dollar, Australian dollar, euro or sterling as their functional currencies. Our operations also have revenue and expenses denominated in non-functional currencies. Movements in foreign currency exchange rates will affect our financial statements.

Investment Currency Risks

We consider our investments in foreign operations to be denominated in stable currencies. Our investments in foreign operations are of a long-term nature. At February 28, 2019, we had $7.3 billion and $876 million of euro- and sterling-denominated debt, respectively, including the effect of cross currency swaps, which provide an economic offset for our operations with euro and sterling functional currency. We also partially mitigate our net investment currency exposures by denominating a portion of our foreign currency intercompany payables in our foreign operations' functional currencies.

Newbuild Currency Risks

Our shipbuilding contracts are typically denominated in euros. Our decision to hedge a non-functional currency ship commitment for our cruise brands is made on a case-by-case basis, considering the amount and duration of the exposure, market volatility, economic trends, our overall expected net cash flows by currency and other offsetting risks. We use foreign currency derivative contracts to manage foreign currency exchange rate risk for some of our ship construction payments. At February 28, 2019, for the following newbuild, we had foreign currency zero cost collars for a portion of our euro-denominated shipyard payments. These collars are designated as cash flow hedges.

| | Entered Into | Matures in | Weighted-Average Floor Rate | Weighted-Average Ceiling Rate |
|---|---|---|---|---|
| Carnival Panorama | 2019 | October 2019 | $ 1.05 | $ 1.28 |

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

At February 28, 2019, our remaining newbuild currency exchange rate risk primarily relates to euro-denominated newbuild contract payments to non-euro functional currency brands, which represent a total unhedged commitment of $9.3 billion for newbuilds scheduled to be delivered from 2019 through 2025.

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

Interest Rate Risks

We manage our exposure to fluctuations in interest rates through our debt portfolio management and investment strategies. We evaluate our debt portfolio to determine whether to make periodic adjustments to the mix of fixed and floating rate debt through the use of interest rate swaps, issuance of new debt, amendment of existing debt or early retirement of existing debt.

Concentrations of Credit Risk

As part of our ongoing control procedures, we monitor concentrations of credit risk associated with financial and other institutions with which we conduct significant business. We seek to minimize these credit risk exposures, including counterparty nonperformance primarily associated with our cash equivalents, investments, committed financing facilities, contingent obligations, derivative instruments, insurance contracts and new ship progress payment guarantees, by:

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

- Having guidelines regarding credit ratings and investment maturities that we follow to help safeguard liquidity and minimize risk
- Generally requiring collateral and/or guarantees to support notes receivable on significant asset sales, long-term ship charters and new ship progress payments to shipyards

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We believe the risk of nonperformance by any of our significant counterparties is remote. At February 28, 2019, our exposures under foreign currency contracts, cross currency swaps and interest rate swap agreements were not material. We also monitor the creditworthiness of travel agencies and tour operators in Asia, Australia and Europe, which includes charter-hire agreements in Asia and credit and debit card providers to which we extend credit in the normal course of our business. Our credit exposure also includes contingent obligations related to cash payments received directly by travel agents and tour operators for cash collected by them on cruise sales in Australia and most of Europe where we are obligated to honor our guests' cruise payments made by them to their travel agents and tour operators regardless of whether we have received these payments. Concentrations of credit risk associated with these trade receivables, charter-hire agreements and contingent obligations are not considered to be material, principally due to the large number of unrelated accounts, the nature of these contingent obligations and their short maturities. We have not experienced significant credit losses on our trade receivables, charter-hire agreements and contingent obligations. We do not normally require collateral or other security to support normal credit sales.

NOTE 6 – Segment Information

Our operating segments are reported on the same basis as the internally reported information that is provided to our chief operating decision maker ("CODM"), who is the President and Chief Executive Officer of Carnival Corporation and Carnival plc. The CODM assesses performance and makes decisions to allocate resources for Carnival Corporation & plc based upon review of the results across all of our segments. Our four reportable segments are comprised of (1) NAA cruise operations, (2) EA cruise operations, (3) Cruise Support and (4) Tour and Other.

The operating segments within each of our NAA and EA reportable segments have been aggregated based on the similarity of their economic and other characteristics, including geographic guest sourcing. Our Cruise Support segment includes our portfolio of leading port destinations and other services, all of which are operated for the benefit of our cruise brands. Our Tour and Other segment represents the hotel and transportation operations of Holland America Princess Alaska Tours and other operations.

| | Three Months Ended February 28, | | | | |
|---|---|---|---|---|---|
| (in millions) | Revenues | Operating costs and expenses | Selling and administrative | Depreciation and amortization | Operating income (loss) |
| 2019 | | | | | |
| NAA | $3,077 | $ 2,010 | $ 353 | $ 328 | $ 386 |
| EA | 1,526 | 1,075 | 205 | 152 | 93 |
| Cruise Support | 42 | 27 | 65 | 28 | (78) |
| Tour and Other | 29 | 29 | 6 | 9 | (15) |
| | $4,673 | $ 3,142 | $ 629 | $ 516 | $ 386 |
| 2018 | | | | | |
| NAA | $2,684 | $ 1,658 | $ 367 | $ 299 | $ 360 |
| EA | 1,503 | 1,005 | 188 | 157 | 154 |
| Cruise Support | 32 | 33 | 55 | 23 | (78) |
| Tour and Other | 13 | 14 | 6 | 10 | (17) |
| | $4,232 | $ 2,709 | $ 616 | $ 488 | $ 419 |

Revenue by geographic areas, which are based on where our guests are sourced, were as follows:

| (in millions) | Three Months Ended February 28, 2019 |
|---|---|
| North America | $ 2,520 |

| | |
|---|---|
| Europe | 1,399 |
| Australia and Asia | 584 |
| Other | 170 |
| | $ 4,673 |

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NOTE 7 – Earnings Per Share

| (in millions, except per share data) | Three Months Ended February 28, 2019 | 2018 |
|---|---|---|
| Net income for basic and diluted earnings per share | $336 | $391 |
| Weighted-average shares outstanding | 693 | 717 |
| Dilutive effect of equity plans | 2 | 2 |
| Diluted weighted-average shares outstanding | 695 | 719 |
| Basic earnings per share | $0.48 | $0.54 |
| Diluted earnings per share | $0.48 | $0.54 |

NOTE 8 – Supplemental Cash Flow Information

| (in millions) | February 28, 2019 | November 30, 2018 |
|---|---|---|
| Cash and cash equivalents (Consolidated Balance Sheets) | $ 649 | $ 982 |
| Restricted cash included in prepaid expenses and other and other assets | 16 | 14 |
| Total cash, cash equivalents and restricted cash (Consolidated Statements of Cash Flows) | $ 665 | $ 996 |

NOTE 9 – Subsequent Event

We have a minority interest in Grand Bahama Shipyard Ltd. (“Grand Bahama”), a ship repair and maintenance facility. On April 1, 2019, there was an incident at Grand Bahama which caused damage to one of the docks of the shipyard. An assessment of the extent of the damage and impact to operations is ongoing. We are evaluating the impact to our consolidated financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Note Concerning Factors That May Affect Future Results

Some of the statements, estimates or projections contained in this document are "forward-looking statements" that involve risks, uncertainties and assumptions with respect to us, including some statements concerning future results, outlooks, plans, goals and other events which have not yet occurred. These statements are intended to qualify for the safe harbors from liability provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts are statements that could be deemed forward-looking. These statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and the beliefs and assumptions of our management. We have tried, whenever possible, to identify these statements by using words like "will," "may," "could," "should," "would," "believe," "dep "expect," "goal," "anticipate," "forecast," "project," "future," "intend," "plan," "estimate," "target," "indicate," "outlook," and expressions of future intent or the negative of such terms.

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

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

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

- Adverse world events impacting the ability or desire of people to travel may lead to a decline in demand for cruises
- Incidents concerning our ships, guests or the cruise vacation industry as well as adverse weather conditions and other natural disasters may impact the satisfaction of our guests and crew and lead to reputational damage
- Changes in and non-compliance with laws and regulations under which we operate, such as those relating to health, environment, safety and security, data privacy and protection, anti-corruption, economic sanctions, trade protection and tax may lead to litigation, enforcement actions, fines, penalties and reputational damage
- Breaches in data security and lapses in data privacy as well as disruptions and other damages to our principal offices, information technology operations and system networks and failure to keep pace with developments in technology may adversely impact our business operations, the satisfaction of our guests and crew and lead to reputational damage
- Ability to recruit, develop and retain qualified shipboard personnel who live away from home for extended periods of time may adversely impact our business operations, guest services and satisfaction
- Increases in fuel prices and availability of fuel supply may adversely impact our scheduled itineraries and costs
- Fluctuations in foreign currency exchange rates may adversely impact our financial results
- Overcapacity and competition in the cruise and land-based vacation industry may lead to a decline in our cruise sales and pricing
- Geographic regions in which we try to expand our business may be slow to develop or ultimately not develop how we expect
- Inability to implement our shipbuilding programs and ship repairs, maintenance and refurbishments may adversely impact our business operations and the satisfaction of our guests

The ordering of the risk factors set forth above is not intended to reflect our indication of priority or likelihood. Forward-looking statements should not be relied upon as a prediction of actual results. Subject to any continuing obligations under applicable law or any relevant stock exchange rules, we expressly disclaim any obligation to disseminate, after the date of this document, any updates or revisions to any such forward-looking statements to reflect any change in expectations or events, conditions or circumstances on which any such statements are based.

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## New Accounting Pronouncements

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

## Critical Accounting Estimates

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

## Seasonality

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

## Statistical Information

| | Three Months Ended February 28, | |
|---|---|---|
| | 2019 | 2018 |
| Available Lower Berth Days (“ALBDs”) (in thousands) (a) (b) | 21,299 | 20,462 |
| Occupancy percentage (c) | 104.8 % | 104.7 % |
| Passengers carried (in thousands) | 2,937 | 2,860 |
| Fuel consumption in metric tons (in thousands) | 830 | 821 |
| Fuel consumption in metric tons per thousand ALBDs | 38.9 | 40.1 |
| Fuel cost per metric ton consumed | $459 | $437 |
| Currencies (USD to 1) | | |
| AUD | $0.72 | $0.78 |
| CAD | $0.75 | $0.79 |
| EUR | $1.14 | $1.21 |
| GBP | $1.28 | $1.37 |
| RMB | $0.15 | $0.15 |

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

(b) For the three months ended February 28, 2019 compared to the three months ended February 28, 2018, we had a 4.1% capacity increase in ALBDs comprised of a 5.0% capacity increase in our NAA segment and a 2.5% capacity increase in our EA segment.

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Our NAA segment's capacity increase was caused by:
- Full quarter impact from one Carnival Cruise Line 3,960-passenger capacity ship that entered into service in April 2018
- Full quarter impact from one Seabourn 600-passenger capacity ship that entered into service in May 2018
- Partial period impact from one Holland America Line 2,670-passenger capacity ship that entered into service in December 2018

Our EA segment's capacity increase was caused by:
- Partial period impact from one AIDA 5,230-passenger capacity ship that entered into service in December 2018

The increase in our EA segment's capacity was partially offset by:
- Full quarter impact from one P&O Cruises (UK) 700-passenger capacity ship removed from service in March 2018
- Full quarter impact from one Costa Cruises 1,300-passenger capacity ship removed from service in April 2018

(c) In accordance with cruise industry practice, occupancy is calculated using a denominator of ALBDs, which assumes two passengers per cabin even though some cabins can accommodate three or more passengers. Percentages in excess of 100% indicate that on average more than two passengers occupied some cabins.

Three Months Ended February 28, 2019 ("2019") Compared to Three Months Ended February 28, 2018 ("2018")

Revenues

Consolidated

Cruise passenger ticket revenues made up 68% of our 2019 total revenues. Cruise passenger ticket revenues increased by $51 million, or 1.6%, to $3.2 billion in 2019 from $3.1 billion in 2018.

This increase was caused by:
- $129 million - 4.1% capacity increase in ALBDs
- $34 million - increase in air transportation revenues

These increases were partially offset by:
- $90 million - net unfavorable foreign currency translational impact
- $18 million - decrease in cruise ticket revenues caused by net unfavorable foreign currency transactional impact

The remaining 32% of 2019 total revenues were substantially all comprised of onboard and other cruise revenues, which increased by $375 million, or 35%, to $1.4 billion in 2019 from $1.1 billion in 2018.

This increase was caused by:
- $323 million - related to the gross presentation of shore excursions and other onboard revenues as a result of the adoption of new revenue accounting guidance
- $44 million - 4.1% capacity increase in ALBDs
- $33 million - higher onboard spending by our guests

These increases were partially offset by net unfavorable foreign currency translational impact of $26 million.

Concession revenues, which are included in onboard and other revenues, increased by $8 million, or 3.1%, to $255 million in 2019 from $247 million in 2018.

NAA Segment

Cruise passenger ticket revenues made up 65% of our NAA segment’s 2019 total revenues. Cruise passenger ticket revenues increased by $97 million, or 5.1%, to $2.0 billion in 2019 compared to $1.9 billion in 2018.

This increase was caused by:
- $97 million - 5.0% capacity increase in ALBDs
- $19 million - increase in air transportation revenues

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The remaining 35% of our NAA segment's 2019 total revenues were comprised of onboard and other cruise revenues, which increased by $296 million, or 39%, to $1.1 billion in 2019 from $0.8 billion in 2018.

This increase was driven by:
- $253 million - related to the gross presentation of shore excursions and other onboard revenues as a result of the adoption of new revenue accounting guidance
- $39 million - 5.0% capacity increase in ALBDs

Concession revenues, which are included in onboard and other revenues, increased by $10 million, or 6.0%, to $182 million in 2019 from $171 million in 2018.

EA Segment

Cruise passenger ticket revenues made up 78% of our EA segment's 2019 total revenues. Cruise passenger ticket revenues decreased by $41 million, or 3.3%, to $1.2 billion in 2019 compared to $1.2 billion in 2018.

This decrease was caused by:
- $82 million - net unfavorable foreign currency translational impact

This decrease was partially offset by:
- $31 million - 2.5% capacity increase in ALBDs
- $18 million - increase in air transportation revenues

The remaining 22% of our EA segment's 2019 total revenues were comprised of onboard and other cruise revenues, which increased by $64 million, or 24%, to $329 million in 2019 from $265 million in 2018.

This increase was caused by:
- $63 million - related to the gross presentation of shore excursions and other onboard revenues as a result of the adoption of new revenue accounting guidance
- $17 million - higher onboard spending by our guests

These increases were partially offset by net unfavorable foreign currency translational impact of $22 million.

Concession revenues, which are included in onboard and other revenues, decreased by $3 million, or 3.4%, to $73 million in 2019 from $76 million in 2018.

Costs and Expenses

Consolidated

Operating costs and expenses increased by $432 million, or 16%, to $3.1 billion in 2019 from $2.7 billion in 2018.

This increase was caused by:
- $323 million - related to the gross presentation of shore excursions and other onboard revenues as a result of the adoption of new revenue accounting guidance
- $110 million - 4.1% capacity increase in ALBD
- $43 million - higher commissions, transportation and other expenses
- $18 million - higher fuel prices

These increases were partially offset by net favorable foreign currency translational impact of $72 million.

Selling and administrative expenses increased by $13 million, or 2.1%, to $629 million in 2019 from $616 million in 2018.

Depreciation and amortization expenses increased by $28 million, or 5.7%, to $516 million in 2019 from $488 million in 2018.

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NAA Segment

Operating costs and expenses increased by $352 million, or 21%, to $2.0 billion in 2019 from $1.7 billion in 2018.

This increase was caused by:
- $253 million - related to the gross presentation of shore excursions and other onboard revenues as a result of the adoption of new revenue accounting guidance
- $84 million - 5.0% capacity increase in ALBDs
- $29 million - higher commissions, transportation and other expenses
- $18 million - increase in various other costs
- $12 million - higher fuel prices

These increases were partially offset by lower cruise payroll and related expense of $22 million.

Selling and administrative expenses decreased by $14 million, or 3.8%, to $353 million in 2019 from $367 million in 2018.

Depreciation and amortization expenses increased by $28 million, or 9.5%, to $328 million in 2019 from $299 million in 2018.

EA Segment

Operating costs and expenses increased by $71 million, or 7.0%, to $1.1 billion in 2019 from $1.0 billion in 2018.

This increase was caused by:
- $63 million - related to the gross presentation of shore excursions and other onboard revenues as a result of the adoption of new revenue accounting guidance
- $25 million - 2.5% capacity increase in ALBDs
- $19 million - higher commissions, transportation and other expenses

These decreases were partially offset by net favorable foreign currency translational impact of $65 million.

Selling and administrative expenses increased by $18 million, or 9.5%, to $205 million in 2019 from $188 million in 2018.

Depreciation and amortization expenses decreased by $5 million, or 3.2%, to $152 million in 2019 from $157 million in 2018.

Operating Income

Our consolidated operating income decreased by $32 million, or 7.7%, to $386 million in 2019 from $419 million in 2018. Our NAA segment's operating income increased by $27 million, or 7.5%, to $386 million in 2019 from $360 million in 2018, and our EA segment's operating income decreased by $61 million, or 39%, to $93 million in 2019 from $154 million in 2018. These changes were primarily due to the reasons discussed above.

Nonoperating Income (Expense)

| (in millions) | Three Months |
|---|---|

| | Ended February 28, 2018 |
|---|---|
| Unrealized gains on fuel derivatives, net | $ 32 |
| Realized losses on fuel derivatives, net | (16 ) |
| Gains on fuel derivatives, net | $ 16 |

There were no unrealized or realized gains or losses on fuel derivatives for the three months ended February 28, 2019.

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Explanations of Non-GAAP Financial Measures

Non-GAAP Financial Measures

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

Net revenue yields and net cruise costs excluding fuel per ALBD enable us to separate the impact of predictable capacity or ALBD changes from price and other changes that affect our business. We believe these non-GAAP measures provide useful information to investors and expanded insight to measure our revenue and cost performance as a supplement to our U.S. GAAP consolidated financial statements.

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

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

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

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

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

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

Net cruise costs excluding fuel per ALBD is the measure we use to monitor our ability to control our cruise segments' costs rather than gross cruise costs per ALBD. We exclude the same variable costs that are included in the calculation of net cruise revenues as well as fuel expense to calculate net cruise costs without fuel to avoid duplicating these variable costs in our non-GAAP financial measures. Substantially all of our net cruise costs excluding fuel are largely fixed, except for the impact of changing prices, once the number of ALBDs has been determined.

Reconciliation of Forecasted Data

We have not provided a reconciliation of forecasted gross cruise revenues to forecasted net cruise revenues or forecasted gross cruise costs to forecasted net cruise costs without fuel or forecasted U.S. GAAP net income to forecasted adjusted net income or forecasted U.S. GAAP earnings per share to forecasted adjusted earnings per share because preparation of meaningful U.S. GAAP forecasts of gross cruise revenues, gross cruise costs, net income and earnings per share would require unreasonable effort. We are unable to predict, without unreasonable effort, the future movement of foreign exchange rates and fuel prices. We are unable to determine the future impact of gains or losses on ships sales, restructuring expenses and other non-core gains and charges.

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Constant Dollar and Constant Currency

Our operations primarily utilize the U.S. dollar, Australian dollar, euro and sterling as functional currencies to measure results and financial condition. Functional currencies other than the U.S. dollar subject us to foreign currency translational risk. Our operations also have revenues and expenses that are in currencies other than their functional currency, which subject us to foreign currency transactional risk.

We report net revenue yields, net passenger revenue yields, net onboard and other revenue yields and net cruise costs excluding fuel per ALBD on a “constant dollar” and “constant currency” basis assuming the 2019 periods’ currency exchange rates have remained constant with the 2018 periods’ rates. These metrics facilitate a comparative view for the changes in our business in an environment with fluctuating exchange rates.

Constant dollar reporting removes only the impact of changes in exchange rates on the translation of our operations.

Constant currency reporting removes the impact of changes in exchange rates on the translation of our operations (as in constant dollar) plus the transactional impact of changes in exchange rates from revenues and expenses that are denominated in a currency other than the functional currency.

Examples:

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

- Our operations have revenue and expense transactions in currencies other than their functional currency. If their functional currency strengthens against these other currencies, it reduces the functional currency revenues and expenses. If the functional currency weakens against these other currencies, it increases the functional currency revenues and expenses.

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Consolidated gross and net revenue yields were computed by dividing the gross and net cruise revenues by ALBDs as follows:

| | Three Months Ended February 28, | | |
|---|---|---|---|
| (dollars in millions, except yields) | 2019 | 2019 Constant Dollar | 2018 |
| Passenger ticket revenues | $3,199 | $3,289 | $ 3,148 |
| Onboard and other revenues | 1,446 | 1,472 | 1,071 |
| Gross cruise revenues | 4,645 | 4,760 | 4,219 |
| Less cruise costs | | | |
| Commissions, transportation and other | (709) | (734) | (663) |
| Onboard and other | (467) | (475) | (140) |
| | (1,177) | (1,209) | (803) |
| Net passenger ticket revenues | 2,490 | 2,555 | 2,485 |
| Net onboard and other revenues | 978 | 996 | 931 |
| Net cruise revenues | $3,468 | $3,551 | $ 3,416 |
| ALBDs | 21,299,196 | 21,299,196 | 20,461,582 |
| | | | |
| Gross revenue yields | $218.06 | $223.51 | $ 206.20 |
| % increase | 5.8 % | 8.4 % | |
| Net revenue yields | $162.82 | $166.73 | $ 166.95 |
| % decrease | (2.5)% | (0.1)% | |
| Net passenger ticket revenue yields | $116.90 | $119.95 | $ 121.46 |
| % decrease | (3.8)% | (1.2)% | |
| Net onboard and other revenue yields | $45.92 | $46.78 | $ 45.50 |
| % increase | 0.9 % | 2.8 % | |

| | Three Months Ended February 28, | | |
|---|---|---|---|
| (dollars in millions, except yields) | 2019 | 2019 Constant Currency | 2018 |
| Net passenger ticket revenues | $2,490 | $2,576 | $ 2,485 |
| Net onboard and other revenues | 978 | 999 | 931 |
| Net cruise revenues | $3,468 | $3,575 | $ 3,416 |
| ALBDs | 21,299,196 | 21,299,196 | 20,461,582 |
| | | | |
| Net revenue yields | $162.82 | $167.86 | $ 166.95 |
| % (decrease) increase | (2.5)% | 0.5 % | |
| Net passenger ticket revenue yields | $116.90 | $120.96 | $ 121.46 |
| % decrease | (3.8)% | (0.4)% | |
| Net onboard and other revenue yields | $45.92 | $46.90 | $ 45.50 |
| % increase | 0.9 % | 3.1 % | |

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Consolidated gross and net cruise costs and net cruise costs excluding fuel per ALBD were computed by dividing the gross and net cruise costs and net cruise costs excluding fuel by ALBDs as follows:

| | Three Months Ended February 28, | | |
|---|---|---|---|
| (dollars in millions, except costs per ALBD) | 2019 | 2019 Constant Dollar | 2018 |
| Cruise operating expenses | $3,113 | $3,185 | $ 2,695 |
| Cruise selling and administrative expenses | 623 | 638 | 610 |
| Gross cruise costs | 3,736 | 3,822 | 3,305 |
| Less cruise costs included above | | | |
| Commissions, transportation and other | (709) | (734) | (663) |
| Onboard and other | (467) | (475) | (140) |
| Gains (losses) on ship sales and impairments | (2) | (2) | (16) |
| Restructuring expenses | — | — | — |
| Other | — | — | — |
| Net cruise costs | 2,558 | 2,611 | 2,485 |
| Less fuel | (381) | (381) | (359) |
| Net cruise costs excluding fuel | $2,177 | $2,231 | $ 2,127 |
| ALBDs | 21,299,196 | 21,299,196 | 20,461,582 |
| | | | |
| Gross cruise costs per ALBD | $175.40 | $179.46 | $ 161.51 |
| % increase | 8.6 % | 11.1 % | |
| Net cruise costs excluding fuel per ALBD | $102.21 | $104.73 | $ 103.92 |
| % (decrease) increase | (1.6 )% | 0.8 % | |

| | Three Months Ended February 28, | | |
|---|---|---|---|
| (dollars in millions, except costs per ALBD) | 2019 | 2019 Constant Currency | 2018 |
| Net cruise costs excluding fuel | $2,177 | $2,233 | $ 2,127 |
| ALBDs | 21,299,196 | 21,299,196 | 20,461,582 |
| | | | |
| Net cruise costs excluding fuel per ALBD | $102.21 | $104.84 | $ 103.92 |
| % (decrease) increase | (1.6 )% | 0.9 % | |

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Adjusted fully diluted earnings per share was computed as follows:

| (in millions, except per share data) | Three Months Ended February 28, 2019 | 2018 |
|---|---|---|
| Net income | | |
| U.S. GAAP net income | $336 | $391 |
| Unrealized (gains) losses on fuel derivatives, net | — | (32 ) |
| (Gains) losses on ship sales and impairments | 2 | 16 |
| Restructuring expenses | — | — |
| Other | — | — |
| Adjusted net income | $338 | $375 |
| Weighted-average shares outstanding | 695 | 719 |
| | | |
| Earnings per share | | |
| U.S. GAAP earnings per share | $0.48 | $0.54 |
| Unrealized (gains) losses on fuel derivatives, net | — | (0.05 ) |
| (Gains) losses on ship sales and impairments | — | 0.02 |
| Restructuring expenses | — | — |
| Other | — | — |
| Adjusted earnings per share | $0.49 | $0.52 |

Net cruise revenues increased by $52 million, or 1.5%, to $3.5 billion in 2019 from $3.4 billion in 2018.
The increase was caused by:
- $140 million - 4.1% capacity increase in ALBDs
- $19 million - 0.5% increase in constant currency net revenue yields

These increases were partially offset by net unfavorable foreign currency impacts (including both the foreign currency translational and transactional impacts) of $107 million.
The 0.5% increase in net revenue yields on a constant currency basis was due to a 3.1% increase in net onboard and other revenue yields and offset by 0.4% decrease in net passenger ticket revenue yields.
This 0.4% decrease in net passenger ticket revenue yields was comprised of a 0.1% decrease from our NAA segment and a 0.7% decrease from our EA segment.
The 3.1% increase in net onboard and other revenue yields was caused by similar increases in our NAA and EA segments.
Net cruise costs excluding fuel increased by $50 million, or 2.4%, to $2.2 billion in 2019 from $2.1 billion in 2018.
The increase was caused by:
- $87 million - 4.1% capacity increase in ALBDs
- $20 million - 0.9% increase in constant currency net cruise costs excluding fuel

These increases were partially offset by net favorable foreign currency impacts (including both the foreign currency translational and transactional impacts) of $56 million.
Fuel costs increased by $22 million, or 6.1%, to $381 million in 2019 from $359 million in 2018.
This increase was caused by:
- $18 million - higher fuel prices
- $15 million - 4.1% capacity increase in ALBDs

These increases were partially offset by lower fuel consumption per ALBD of $11 million.

Liquidity, Financial Condition and Capital Resources

Our primary financial goals are to profitably grow our cruise business and sustain and grow our double-digit return on invested capital ("ROIC"), while maintaining a strong balance sheet and strong investment grade credit ratings. (We define ROIC as the

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twelve-month adjusted earnings before interest divided by the monthly average of debt plus equity minus construction-in-progress.) Our ability to generate significant operating cash flow allows us to internally fund our capital improvements, debt maturities and dividend payments. We have $11.0 billion of committed export credit facilities available to fund the vast majority of our new ship growth capital. Other objectives of our capital structure policy are to maintain a sufficient level of liquidity through our available cash and cash equivalents and committed financings for immediate and future liquidity needs and to maintain a reasonable debt maturity profile.

Based on our historical results, projections and financial condition, we believe that our future operating cash flows and liquidity will be sufficient to fund all of our expected capital improvements, new ship growth capital, debt maturities and dividend payments. We believe that our ability to generate significant operating cash flows and our strong balance sheet, as evidenced by our strong investment grade credit ratings, provide us with the ability, in most financial credit market environments, to obtain debt financing.

We had a working capital deficit of $7.5 billion as of February 28, 2019 compared to a working capital deficit of $7.0 billion as of November 30, 2018. The increase in working capital deficit was caused by a decrease in our cash and cash equivalents and an increase in customer deposits. We operate with a substantial working capital deficit. This deficit is mainly attributable to the fact that, under our business model, substantially all of our passenger ticket receipts are collected in advance of the applicable sailing date. These advance passenger receipts remain a current liability until the sailing date. The cash generated from these advance receipts is used interchangeably with cash on hand from other sources, such as our borrowings and other cash from operations. The cash received as advanced receipts can be used to fund operating expenses, pay down our debt, make long term investments or any other use of cash. Included within our working capital deficit are $4.8 billion and $4.4 billion of customer deposits as of February 28, 2019 and November 30, 2018, respectively. In addition, we have a relatively low-level of accounts receivable and limited investment in inventories. We generate substantial cash flows from operations and our business model has historically allowed us to maintain this working capital deficit and still meet our operating, investing and financing needs. We expect that we will continue to have working capital deficits in the future.

Sources and Uses of Cash

Operating Activities

Our business provided $1.1 billion of net cash from operations during the three months ended February 28, 2019, an increase of $51 million, or 4.8%, compared to $1.1 billion for the same period in 2018.

Investing Activities

During the three months ended February 28, 2019, net cash used in investing activities was $2.1 billion. This was caused by the following:

- Capital expenditures of $1.7 billion for our ongoing new shipbuilding program
- Capital expenditures of $428 million for ship improvements and replacements, information technology and buildings and improvements

During the three months ended February 28, 2018, net cash used in investing activities was $588 million. This was caused by the following:

- Capital expenditures of $97 million for our ongoing new shipbuilding program
- Capital expenditures of $477 million for ship improvements and replacements, information technology and buildings and improvements
- Payments of $21 million for fuel derivative settlements

Financing Activities

During the three months ended February 28, 2019, net cash provided by financing activities of $612 million was caused by the following:

- Net repayments of short-term borrowings of $81 million in connection with our availability of, and needs for, cash at various times throughout the period
- Repayments of $95 million of long-term debt
- Issuances of $1.4 billion of long-term debt
- Payments of cash dividends of $348 million
- Purchases of $274 million of Carnival Corporation common stock and Carnival plc ordinary shares in open market transactions under our Repurchase Program

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During the three months ended February 28, 2018, net cash used in financing activities of $428 million was substantially due to the following:

- Net proceeds of short-term borrowings of $611 million in connection with our availability of, and needs for, cash at various times throughout the period
- Repayments of $963 million of long-term debt
- Issuances of $469 million of long-term debt under a term loan
- Payments of cash dividends of $323 million
- Purchases of $218 million of Carnival Corporation common stock and Carnival plc ordinary shares in open market transactions under our Repurchase Program

Capital Expenditure and Capacity Forecast

Our annual capital expenditure forecast consists of contracted new ship growth capital, estimated payments for planned new ship growth capital and capital improvements.

| (in billions) | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Annual capital expenditure forecast | $6.7 | $5.7 | $5.9 | $5.3 |

Our annual capacity forecast consists of contracted new ships and announced dispositions.

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Annual capacity increase | 4.6% | 6.4% | 6.6% | 4.8% |

Funding Sources

At February 28, 2019, we had liquidity of $13.5 billion. Our liquidity consisted of $324 million of cash and cash equivalents, which excludes $325 million of cash used for current operations, $2.2 billion available for borrowing under our revolving credit facilities, net of our outstanding commercial paper borrowings, and $11.0 billion under our committed future financings, which are comprised of ship export credit facilities. These commitments are from numerous large and well-established banks and export credit agencies, which we believe will honor their contractual agreements with us.

| (in billions) | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Availability of committed future financing at February 28, 2019 | $2.0 | $2.9 | $2.8 | $2.4 | $0.9 |

At February 28, 2019, all of our revolving credit facilities are scheduled to mature in 2021, except for $394 million that matures in 2020.

Substantially all of our debt agreements contain financial covenants as described in Note 5 - “Unsecured Debt” in the annual consolidated financial statements, which are included within our Form 10-K. At February 28, 2019, we were in compliance with our debt covenants. In addition, based on, among other things, our forecasted operating results, financial condition and cash flows, we expect to be in compliance with our debt covenants for the foreseeable future. Generally, if an event of default under any debt agreement occurs, then pursuant to cross default acceleration clauses, substantially all of our outstanding debt and derivative contract payables could become due, and all debt and derivative contracts could be terminated.

Off-Balance Sheet Arrangements

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Operational Currency Risks

Our operations primarily utilize the U.S. dollar, Australian dollar, euro or sterling as their functional currencies. Our operations also have revenue and expenses denominated in non-functional currencies. Movements in foreign currency exchange rates will affect our financial statements.

Based on a 10% change in all currency exchange rates that were used in our March 26, 2019 guidance, we estimate that our adjusted diluted earnings per share guidance would change by the following:

- $0.20 per share for the remaining three quarters of 2019
- $(0.01) per share for the second quarter of 2019

Interest Rate Risks

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

| | February 28, 2019 | |
|---|---|---|
| Fixed rate | 26 | % |
| EUR fixed rate | 36 | % |
| Floating rate | 5 | % |
| EUR floating rate | 26 | % |
| GBP floating rate | 7 | % |

Fuel Price Risks

Based on a 10% change in fuel prices versus the current spot price that was used to calculate fuel expense in our March 26, 2019 guidance, we estimate that our adjusted diluted earnings per share guidance would change by the following:

- $0.18 per share for the remaining three quarters of 2019
- $0.06 per share for the second quarter of 2019

Item 4. Controls and Procedures.

A. Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal

financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.
Our President and Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer have evaluated our disclosure controls and procedures and have concluded, as of February 28, 2019, that they are effective at a reasonable level of assurance, as described above.

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B. Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended February 28, 2019 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

As previously disclosed, on May 15, 2018, the Marseilles, France Public Prosecutor alleged that Carnival plc and the captain of P&O Cruises' Azura breached the French Environmental Code governing the sulfur content of fuel used during the vessel's passage through French territorial waters. On November 26, 2018, the Tribunal de Grande Instance imposed a fine, costs and damages against Carnival plc and the captain for an aggregate of €118,000. We believe that we have a meritorious defense to this claim and have appealed the judgment. We also believe that the ultimate outcome of the proceedings will not have a material impact on our consolidated financial statements.

As previously disclosed, on August 24, 2018, a proposed class-action lawsuit was filed by James Wolfe and others against Carnival Corporation relating to the marketing and sales of Carnival Cruise Line's Vacation Protection product. On January 3, 2019, the U.S. District Court for the Southern District of Florida granted Carnival Corporation's motion to stay proceedings and compel arbitration. The plaintiffs filed a notice of appeal in the U.S. Court of Appeals for the Eleventh Circuit. Carnival Corporation has moved to dismiss the appeal. We believe we have meritorious defenses to the claim and that any liability which may arise as a result of this action will not have a material impact on our consolidated financial statements.

As previously disclosed, Princess Cruises entered into a plea agreement in December 2016 with the U.S. Department of Justice with respect to violations of federal laws related to illegal discharges of oily bilge water for incidents occurring in 2013 and prior. The U.S. District Court for the Southern District of Florida accepted the plea agreement in April 2017, and ordered that Princess Cruises pay a fine and complete a five-year term of probation. Carnival Corporation was further required to adopt a five-year court-supervised environmental compliance plan. The probation officer has filed a petition seeking to revoke the probation based on alleged violations of the conditions of probation, including violations of the terms of the environmental compliance plan. If the petition is successful, the impact could range from organizational changes relating to environmental compliance, further fines or action against Princess Cruises and Carnival Corporation. The court has not yet scheduled a hearing on the allegations in the petition and we are in discussions with the U.S. Department of Justice.

Item 1A. Risk Factors.

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

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

A. Repurchase Program

Under a share repurchase program effective 2004, we are authorized to repurchase Carnival Corporation common stock and Carnival plc ordinary shares (the “Repurchase Program”). Effective August 27, 2018, the company approved a modification of the general authorization under the Repurchase Program, which replenished the remaining authorized repurchases at the time of the approval to $1.0 billion. The Repurchase Program does not have an expiration date and may be discontinued by our Boards of Directors at any time.

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During the three months ended February 28, 2019, repurchases of Carnival Corporation common stock pursuant to the Repurchase Program were as follows:

| Period | Total Number of Shares of Carnival Corporation Common Stock Purchased (in millions) | Average Price Paid per Share of Carnival Corporation Common Stock | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Repurchase Program (in millions) |
|---|---|---|---|
| December 1, 2018 through December 31, 2018 | 0.5 | $ 46.53 | $ 618 |
| January 1, 2019 through January 31, 2019 | — | $ 47.99 | $ 494 |
| February 1, 2019 through February 28, 2019 | — | $ — | $ 460 |
| Total | 0.6 | $ 46.54 | |

During the three months ended February 28, 2019, repurchases of Carnival plc ordinary shares pursuant to the Repurchase Program were as follows:

| Period | Total Number of Shares of Carnival plc Purchased (in millions) | Average Price Paid per Share of Carnival plc | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Repurchase Program (in millions) |
|---|---|---|---|
| December 1, 2018 through December 31, 2018 | 1.6 | $ 52.43 | $ 618 |
| January 1, 2019 through January 31, 2019 | 2.4 | $ 51.60 | $ 494 |
| February 1, 2019 through February 28, 2019 | 0.6 | $ 56.16 | $ 460 |
| Total | 4.6 | $ 52.48 | |

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

B. Stock Swap Programs

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

- In the event Carnival Corporation common stock trades at a premium to Carnival plc ordinary shares, we may elect to sell shares of Carnival Corporation common stock, at prevailing market prices in ordinary brokers’ transactions and repurchase an equivalent number of Carnival plc ordinary shares in the UK market.

- In the event Carnival plc ordinary shares trade at a premium to Carnival Corporation common stock, we may elect to sell ordinary shares of Carnival plc, at prevailing market prices in ordinary brokers’ transactions and repurchase an equivalent number of shares of Carnival Corporation common stock in the U.S. market.

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

- In 2017, to sell up to 22.0 million shares of Carnival Corporation common stock in the U.S. market and repurchase up to 22.0 million of Carnival plc ordinary shares in the UK market. We had 22.0 million shares remaining under this authorization at February 28, 2019.

- In 2016, to sell up to 26.9 million of existing shares of Carnival plc in the UK market and repurchase up to 26.9 million shares of Carnival Corporation common stock in the U.S. market. We had 26.0 million shares remaining under this authorization at February 28, 2019.

Any sales of Carnival Corporation shares and Carnival plc ordinary shares have been or will be registered under the Securities Act of 1933. During the three months ended February 28, 2019, no Carnival Corporation common stock or Carnival plc ordinary shares were sold or repurchased under the Stock Swap Programs.

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C. Carnival plc Shareholder Approvals

Carnival plc ordinary share repurchases under both the Repurchase Program and the Stock Swap Programs require annual shareholder approval. The existing shareholder approval is limited to a maximum of 20.9 million ordinary shares and is valid until the earlier of the conclusion of the Carnival plc 2019 annual general meeting or July 10, 2019.

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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 | 4/17/2003 | |
| 3.2 | Third Amended and Restated By-Laws of Carnival Corporation | 8-K | 3.1 | 4/20/2009 | |
| 3.3 | Articles of Association of Carnival plc | 8-K | 3.3 | 4/20/2009 | |
| Material contracts | | | | | |
| 10.1 | Form of Management Incentive Plan Tied Restricted Stock Unit Agreement for the Carnival Corporation 2011 Stock Plan | | | | X |
| 10.2 | Form of Management Incentive Plan Tied Restricted Share Unit Agreement for the Carnival plc 2014 Employee Share Plan | | | | X |
| 10.3 | Form of Performance-Based Restricted Stock Unit Agreement for the Carnival Corporation 2011 Stock Plan | | | | X |
| 10.4 | Form of Performance-Based Restricted Share Unit Agreement for the Carnival plc 2014 Employee Share Plan | | | | X |
| 10.5 | Form of Shareholder Equity Alignment Restricted Stock Unit Agreement for the Carnival Corporation 2011 Stock Plan | | | | X |
| Rule 13a-14(a)/15d-14(a) certifications | | | | | |
| 31.1 | Certification of President and Chief Executive Officer of Carnival Corporation pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 31.2 | Certification of Chief Financial Officer and Chief Accounting Officer of Carnival Corporation pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 31.3 | Certification of President and Chief Executive Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 31.4 | Certification of Chief Financial Officer and Chief Accounting Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| Section 1350 certifications | | | | | |
| 32.1* | Certification of President and Chief Executive Officer of Carnival Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 32.2* | Certification of Chief Financial Officer and Chief Accounting Officer of Carnival Corporation pursuant to 18 U.S.C. Section 1350, as | | | | X |

| | | |
|---|---|---|
| | adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | |
| 32.3* | Certification of President and Chief Executive Officer of Carnival plc pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X |
| 32.4* | Certification of Chief Financial Officer and Chief Accounting Officer of Carnival plc pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X |

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INDEX TO EXHIBITS

| Exhibit Number | Exhibit Description | Incorporated by Reference Form | Exhibit | Filing Date | Filed/ Furnished Herewith |
|---|---|---|---|---|---|
| | Interactive Data File | | | | |
| 101 | The consolidated financial statements from Carnival Corporation & plc’s joint Quarterly Report on Form 10-Q for the quarter ended February 28, 2019, as filed with the Securities and Exchange Commission on April 9, 2019, formatted in XBRL, are as follows: | | | | |
| | (i) the Consolidated Statements of Income for the three months ended February 28, 2019 and 2018; | | | | X |
| | (ii) the Consolidated Statements of Comprehensive Income for the three months ended February 28, 2019 and 2018; | | | | X |
| | (iii) the Consolidated Balance Sheets at February 28, 2019 and November 30, 2018; | | | | X |
| | (iv) the Consolidated Statements of Cash Flows for the three months ended February 28, 2019 and 2018; | | | | X |
| | (v) the Consolidated Statements of Shareholders’ Equity for the three months ended February 28, 2019 and 2018 and | | | | |
| | (vi) the notes to the consolidated financial statements, tagged in summary and detail. | | | | X |

*These items are furnished and not filed.

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## 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 | CARNIVAL PLC |
|---|---|
| By: /s/ Arnold W. Donald<br>Arnold W. Donald<br>President and Chief Executive Officer | By: /s/ Arnold W. Donald<br>Arnold W. Donald<br>President and Chief Executive Officer |
| By: /s/ David Bernstein<br>David Bernstein<br>Chief Financial Officer and Chief Accounting Officer | By: /s/ David Bernstein<br>David Bernstein<br>Chief Financial Officer and Chief Accounting Officer |
| Date: April 9, 2019 | Date: April 9, 2019 |