

**July 1, 2016**

**RELEASE OF CARNIVAL CORPORATION & PLC QUARTERLY REPORT ON FORM 10-Q AND  
CARNIVAL PLC GROUP HALF-YEARLY FINANCIAL REPORT**

Carnival Corporation & plc announced its second quarter and six month results of operations in its earnings release issued on June 28, 2016. Carnival Corporation & plc is hereby announcing that today it has filed its joint Quarterly Report on Form 10-Q ("Form 10-Q") with the U.S. Securities and Exchange Commission ("SEC") containing the Carnival Corporation & plc 2016 second quarter and six month interim financial statements, which reported results are unchanged from those previously announced on June 28, 2016.

The information included in the attached Schedules A, B and C is extracted from the Form 10-Q and has been prepared in accordance with SEC rules and regulations. Schedules A and B contain the unaudited consolidated financial statements for Carnival Corporation & plc as of and for the three and six months ended May 31, 2016 together with management's discussion and analysis ("MD&A") of financial condition and results of operations. These Carnival Corporation & plc consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). Within the Carnival Corporation and Carnival plc dual listed company arrangement the Directors consider the most appropriate presentation of Carnival plc's results and financial position is by reference to the U.S. GAAP consolidated financial statements of Carnival Corporation & plc. Schedule C contains information on Carnival Corporation and Carnival plc's sales and purchases of their equity securities and use of proceeds from such sales.

In addition, the Directors are today presenting in the attached Schedule D the unaudited interim financial statements for the Carnival plc Group as of and for the six months ended May 31, 2016. The Carnival plc Group financial statements exclude the consolidated results of Carnival Corporation and are prepared under International Financial Reporting Standards as adopted by the European Union. All these schedules are presented together as Carnival plc's Group half-yearly financial report, in accordance with the requirements of the UK Disclosure and Transparency Rules.

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The Form 10-Q, including the portions extracted for this announcement, is available for viewing on the SEC website at [www.sec.gov](http://www.sec.gov) under Carnival Corporation or Carnival plc or the Carnival Corporation & plc website at [www.carnivalcorp.com](http://www.carnivalcorp.com) or [www.carnivalplc.com](http://www.carnivalplc.com). A copy of the Form 10-Q has been submitted to the National Storage Mechanism and will shortly be available for inspection at [www.morningstar.co.uk/uk/nsm](http://www.morningstar.co.uk/uk/nsm). Additional information can be obtained via Carnival Corporation & plc's website listed above or by writing to Carnival plc at Carnival House, 100 Harbour Parade, Southampton, SO15 1ST, United Kingdom.

Carnival Corporation & plc is the largest cruise company in the world, with a portfolio of 10 cruise brands in North America, Europe, Australia and Asia, comprised of Carnival Cruise Line, Fathom, Holland America Line, Princess Cruises, Seabourn, AIDA Cruises, Costa Cruises, Cunard, P&O Cruises (Australia) and P&O Cruises (UK).

Together, these brands operate 101 ships visiting over 700 ports around the world and totaling 225,000 lower berths with 15 new ships scheduled to be delivered between 2016 and 2020. Carnival Corporation & plc also operates Holland America Princess Alaska Tours, the leading tour companies in Alaska and the Canadian Yukon. Traded on both the New York and London Stock Exchanges, Carnival Corporation & plc is the only group in the world to be included in both the S&P 500 and the FTSE 100 indices. Additional information can be found on [www.carnival.com](http://www.carnival.com), [www.fathom.org](http://www.fathom.org), [www.hollandamerica.com](http://www.hollandamerica.com), [www.princess.com](http://www.princess.com), [www.seabourn.com](http://www.seabourn.com), [www.aida.de](http://www.aida.de), [www.costacruise.com](http://www.costacruise.com), [www.cunard.com](http://www.cunard.com), [www.pocruises.com.au](http://www.pocruises.com.au) and [www.pocruises.com](http://www.pocruises.com).

**SCHEDULE A**

**CARNIVAL CORPORATION & PLC**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

(in millions, except per share data)

	<b>Three Months Ended May 31,</b>		<b>Six Months Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Revenues</b>				
Cruise				
Passenger tickets	\$ 2,696	\$ 2,628	\$ 5,414	\$ 5,260
Onboard and other	978	927	1,901	1,816
Tour and other	31	35	42	44
	<u>3,705</u>	<u>3,590</u>	<u>7,357</u>	<u>7,120</u>
<b>Operating Costs and Expenses</b>				
Cruise				
Commissions, transportation and other	495	481	1,077	1,067
Onboard and other	123	114	240	225
Payroll and related	502	469	994	936
Fuel	196	333	383	650
Food	248	242	495	482
Other ship operating	667	734	1,271	1,332
Tour and other	27	31	41	47
	<u>2,258</u>	<u>2,404</u>	<u>4,501</u>	<u>4,739</u>
Selling and administrative	532	491	1,083	1,020
Depreciation and amortization	437	406	861	807
	<u>3,227</u>	<u>3,301</u>	<u>6,445</u>	<u>6,566</u>
<b>Operating Income</b>	<u>478</u>	<u>289</u>	<u>912</u>	<u>554</u>
<b>Nonoperating (Expense) Income</b>				
Interest income	2	2	3	4
Interest expense, net of capitalized interest	(57)	(57)	(108)	(114)
Gains (losses) on fuel derivatives, net	171	(13)	(65)	(181)
Other income, net	13	5	8	15
	<u>129</u>	<u>(63)</u>	<u>(162)</u>	<u>(276)</u>
<b>Income Before Income Taxes</b>	<u>607</u>	<u>226</u>	<u>750</u>	<u>278</u>
<b>Income Tax Expense, Net</b>	<u>(2)</u>	<u>(4)</u>	<u>(3)</u>	<u>(7)</u>
<b>Net Income</b>	<u>\$ 605</u>	<u>\$ 222</u>	<u>\$ 747</u>	<u>\$ 271</u>
<b>Earnings Per Share</b>				
Basic	<u>\$ 0.81</u>	<u>\$ 0.29</u>	<u>\$ 0.99</u>	<u>\$ 0.35</u>
Diluted	<u>\$ 0.80</u>	<u>\$ 0.29</u>	<u>\$ 0.98</u>	<u>\$ 0.35</u>
<b>Dividends Declared Per Share</b>	<u>\$ 0.35</u>	<u>\$ 0.25</u>	<u>\$ 0.65</u>	<u>\$ 0.50</u>

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

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

	<b>Three Months Ended May 31,</b>		<b>Six Months Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Net Income</b>	<u>\$ 605</u>	<u>\$ 222</u>	<u>\$ 747</u>	<u>\$ 271</u>
<b>Items Included in Other Comprehensive Income (Loss)</b>				
Change in foreign currency translation adjustment	280	(135)	72	(818)
Other	<u>15</u>	<u>(5)</u>	<u>21</u>	<u>(45)</u>
<b>Other Comprehensive Income (Loss)</b>	<u>295</u>	<u>(140)</u>	<u>93</u>	<u>(863)</u>
<b>Total Comprehensive Income (Loss)</b>	<u><u>\$ 900</u></u>	<u><u>\$ 82</u></u>	<u><u>\$ 840</u></u>	<u><u>\$ (592)</u></u>

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

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

	<u>May 31, 2016</u>	<u>November 30, 2015</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 519	\$ 1,395
Trade and other receivables, net	334	303
Insurance recoverables	108	109
Inventories	315	330
Prepaid expenses and other	324	314
Total current assets	<u>1,600</u>	<u>2,451</u>
<b>Property and Equipment, Net</b>	33,244	31,818
<b>Goodwill</b>	3,019	3,010
<b>Other Intangibles</b>	1,305	1,308
<b>Other Assets</b>	<u>683</u>	<u>650</u>
	<u>\$ 39,851</u>	<u>\$ 39,237</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Short-term borrowings	\$ 410	\$ 30
Current portion of long-term debt	836	1,344
Accounts payable	667	627
Accrued liabilities and other	1,653	1,683
Customer deposits	4,275	3,272
Total current liabilities	<u>7,841</u>	<u>6,956</u>
<b>Long-Term Debt</b>	8,183	7,413
<b>Other Long-Term Liabilities</b>	1,036	1,097
<b>Contingencies</b>		
<b>Shareholders' Equity</b>		
Common stock of Carnival Corporation, \$0.01 par value; 1,960 shares authorized; 654 shares at 2016 and 653 shares at 2015 issued	7	7
Ordinary shares of Carnival plc, \$1.66 par value; 216 shares at 2016 and 2015 issued	358	358
Additional paid-in capital	8,605	8,562
Retained earnings	20,320	20,060
Accumulated other comprehensive loss	(1,648)	(1,741)
Treasury stock, 99 shares at 2016 and 70 shares at 2015 of Carnival Corporation and 26 shares at 2016 and 27 shares at 2015 of Carnival plc, at cost	<u>(4,851)</u>	<u>(3,475)</u>
Total shareholders' equity	<u>22,791</u>	<u>23,771</u>
	<u>\$ 39,851</u>	<u>\$ 39,237</u>

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

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

	<b>Six Months Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 747	\$ 271
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	861	807
Losses on fuel derivatives	65	181
Share-based compensation	28	25
Other, net	22	12
	<u>1,723</u>	<u>1,296</u>
Changes in operating assets and liabilities		
Receivables	(40)	(85)
Inventories	16	11
Insurance recoverables, prepaid expenses and other	4	61
Accounts payable	36	39
Accrued and other liabilities	(84)	(5)
Customer deposits	1,026	969
Net cash provided by operating activities	<u>2,681</u>	<u>2,286</u>
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(1,966)	(1,381)
Proceeds from sales of ships	19	25
Payments of fuel derivative settlements	(170)	(95)
Collateral payments for fuel derivatives	(25)	(11)
Other, net	(31)	35
Net cash used in investing activities	<u>(2,173)</u>	<u>(1,427)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from (repayments of) short-term borrowings, net	379	(357)
Principal repayments of long-term debt	(869)	(584)
Proceeds from issuance of long-term debt	934	472
Dividends paid	(459)	(388)
Purchases of treasury stock	(1,401)	-
Sales of treasury stock	40	-
Other, net	(5)	(4)
Net cash used in financing activities	<u>(1,381)</u>	<u>(861)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(3)</u>	<u>(31)</u>
Net decrease in cash and cash equivalents	(876)	(33)
Cash and cash equivalents at beginning of period	1,395	331
Cash and cash equivalents at end of period	<u>\$ 519</u>	<u>\$ 298</u>

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

**CARNIVAL CORPORATION & PLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 - General**

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

***Basis of Presentation***

The Consolidated Balance Sheet at May 31, 2016, the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended May 31, 2016 and 2015 and the Consolidated Statements of Cash Flows for the six months ended May 31, 2016 and 2015 are unaudited and, in the opinion of our management, contain all adjustments necessary for a fair presentation. Our interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in the Carnival Corporation & plc 2015 joint Annual Report on Form 10-K ("Form 10-K") filed with the U.S. Securities and Exchange Commission on January 29, 2016. Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire year.

***Other***

Cruise passenger ticket revenues include fees, taxes and charges collected by us from our guests. The portion of these fees, taxes and charges included in passenger ticket revenues and commissions, transportation and other costs were \$123 million for the three months ended May 31, 2016 and 2015 and \$259 million and \$257 million for the six months ended May 31, 2016 and 2015, respectively.

***Accounting Pronouncements***

Amended guidance was issued by the Financial Accounting Standards Board ("FASB") regarding the accounting for *Service Concession Arrangements*. The new guidance defines a service concession as an arrangement between a public-sector grantor, such as a port authority, and a company that will operate and maintain the grantor's infrastructure for a specified period of time. In exchange, the company may be given a right to charge the public, such as our cruise guests, for the use of the infrastructure. This guidance required us to record certain of the infrastructure we had constructed to be used by us pursuant to a service concession arrangement outside of property and equipment. On December 1, 2015, we adopted this guidance and, accordingly, reclassified \$70 million from *Property and Equipment, Net* to *Other Intangibles* on our November 30, 2015 Consolidated Balance Sheet (see "Note 4 - Nonfinancial Instruments that are Measured at Fair Value on a Nonrecurring Basis").

The FASB issued amended guidance regarding accounting for *Interest - Imputation of Interest*, which simplifies the presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance is required to be adopted by us in the first quarter of fiscal 2017, and will be applied on a retrospective basis. The adoption of this guidance is not expected to have a significant impact on our Consolidated Balance Sheets.

The FASB issued amended guidance regarding accounting for *Intangibles - Goodwill and Other - Internal-Use Software*, which clarifies the accounting for fees paid in a cloud computing arrangement. The amendments provide guidance to customers about whether a cloud computing arrangement includes a software license or if the arrangement should be accounted for as a service contract. The amendments will impact the accounting for software licenses but will not change a customer's accounting for service contracts. This guidance is required to be adopted by us in the first quarter of fiscal 2017 on either a prospective or retrospective basis. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

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

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

## **NOTE 2 - Unsecured Debt**

At May 31, 2016, our short-term borrowings consisted of commercial paper of \$406 million and euro-denominated bank loans of \$4 million with an aggregate weighted-average floating interest rate of 0.8%.

In February 2016, we issued \$555 million of euro-denominated, publicly-traded notes, which bear interest at 1.625% and are due in February 2021. We are using the net proceeds for general corporate purposes.

In April 2016, we borrowed \$379 million under an export credit facility, the proceeds of which were used to pay for a portion of AIDA Cruises' ("AIDA") *AIDAprima* purchase price. Of this facility, a portion bears fixed and a portion bears floating interest rates. The facility is due in semi-annual installments through August 2027.

In May 2016, we entered into four export credit facilities that will provide us with the ability to borrow up to an aggregate of \$2.3 billion. Proceeds from these facilities will be used to pay for a portion of the purchase price of four cruise ships, which are expected to be delivered between February 2019 and September 2020. These borrowings will be due in semi-annual installments through September 2032.

In May 2016, Carnival Corporation, Carnival plc and certain of Carnival Corporation and Carnival plc's subsidiaries exercised their option to extend the termination date of their multi-currency revolving credit facility from June 2020 to June 2021. In addition, the total capacity of the revolving credit facility increased to \$2.7 billion (comprised of \$1.9 billion, €500 million and £169 million).

## **NOTE 3 - Contingencies**

### **Litigation**

The UK Maritime & Coastguard Agency and the U.S. Department of Justice are investigating allegations that *Caribbean Princess* breached international pollution laws. We are cooperating with the investigations, including conducting our own internal investigation into the matter. The ultimate outcome of this matter cannot be determined at this time; however, we do not expect it to have a material impact on our results of operations.

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

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

At May 31, 2016, we had estimated contingent obligations totaling \$362 million, excluding termination payments as discussed below, to participants in LILO transactions for two of our ships. At the inception of these leases, we paid the aggregate of the net present value of these obligations to a group of major financial institutions, who agreed to

act as payment undertakers and directly pay these obligations. As a result, these contingent obligations are considered extinguished and neither the funds nor the contingent obligations have been included in our Consolidated Balance Sheets.

In the event that we were to default on our contingent obligations and assuming performance by all other participants, we estimate that we would, as of May 31, 2016, be responsible for a termination payment of \$13 million. In January 2016, we elected to exercise our options to terminate, at no cost, the LILO transactions as of January 1, 2017 for one ship and as of January 1, 2018 for the second ship.

In advance of the termination dates, if the credit rating of one of the financial institutions who is directly paying the contingent obligations falls below AA-, or below A- for the other financial institution, then we will be required to replace the applicable financial institution with another financial institution whose credit rating is at least AA or meets other specified credit requirements. In such circumstances, we would incur additional costs, although we estimate that they would not be significant to our consolidated financial statements. The financial institution payment undertaker subject to the AA- credit rating threshold has a credit rating of AA, and the financial institution subject to the A- credit rating threshold has a credit rating of A+. If our credit rating, which is BBB+, falls below BBB, we will be required to provide a standby letter of credit for \$27 million, or, alternatively, provide mortgages for this aggregate amount on these two ships.

### **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 other changes in laws which increase our lender's costs. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business. There are no stated or notional amounts included in the indemnification clauses, and we are not able to estimate the maximum potential amount of future payments, if any, under these indemnification clauses. We have not been required to make any material payments under similar indemnification clauses in the past and we do not believe a request for material future indemnification payments is probable.

## **NOTE 4 - Fair Value Measurements, Derivative Instruments and Hedging Activities**

### **Fair Value Measurements**

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

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

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

The fair value measurement of a financial asset or financial liability reflects the nonperformance risk of both parties to the contract. Therefore, the fair value measurement of our financial instruments reflects the impact of our counterparty's creditworthiness for asset positions and our creditworthiness for liability positions. Creditworthiness did not have a significant impact on the fair values of our financial instruments at May 31, 2016 and November 30,



2015. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, certain estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

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

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

	May 31, 2016				November 30, 2015			
	Carrying Value	Fair Value			Carrying Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents (a)	\$ 285	\$ 285	\$ -	\$ -	\$ 647	\$ 647	\$ -	\$ -
Restricted cash (b)	53	53	-	-	7	7	-	-
Long-term other assets (c)	114	1	77	38	119	1	87	31
Total	<u>\$ 452</u>	<u>\$ 339</u>	<u>\$ 77</u>	<u>\$ 38</u>	<u>\$ 773</u>	<u>\$ 655</u>	<u>\$ 87</u>	<u>\$ 31</u>
Liabilities								
Fixed rate debt (d)	\$ 5,311	\$ -	\$ 5,627	\$ -	\$ 5,193	\$ -	\$ 5,450	\$ -
Floating rate debt (d)	4,118	-	4,063	-	3,594	-	3,589	-
Total	<u>\$ 9,429</u>	<u>\$ -</u>	<u>\$ 9,690</u>	<u>\$ -</u>	<u>\$ 8,787</u>	<u>\$ -</u>	<u>\$ 9,039</u>	<u>\$ -</u>

- (a) Cash and cash equivalents are comprised of cash on hand and at May 31, 2016 also included a money market deposit account and time deposits. Due to their short maturities, the carrying values approximate their fair values.
- (b) Restricted cash is comprised of funds held in escrow and a money market deposit account.
- (c) At May 31, 2016 and November 30, 2015, long-term other assets were substantially all comprised of notes and other receivables. The fair values of our Level 1 and Level 2 notes and other receivables were based on estimated future cash flows discounted at appropriate market interest rates. The fair values of our Level 3 notes receivable were estimated using risk-adjusted discount rates.
- (d) Debt does not include the impact of interest rate swaps. The net difference between the fair value of our fixed rate debt and its carrying value was due to the market interest rates in existence at May 31, 2016 and November 30, 2015 being lower than the fixed interest rates on these debt obligations, including the impact of any changes in our credit ratings. At May 31, 2016 and November 30, 2015, the net difference between the fair value of our floating rate debt and its carrying value was due to the market interest rates in existence at May 31, 2016 and November 30, 2015 being slightly higher than the floating interest rates on these debt obligations, including the impact of any changes in our credit ratings. The fair values of our publicly-traded notes were based on their unadjusted quoted market prices in markets that are not sufficiently active to be Level 1 and, accordingly, are considered Level 2. The fair values of our other debt were estimated based on appropriate market interest rates being applied to this debt.

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

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

	May 31, 2016			November 30, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Assets</b>						
Cash equivalents (a)	\$ 234	\$ -	\$ -	\$ 748	\$ -	\$ -
Restricted cash (b)	23	-	-	22	-	-
Marketable securities held in rabbi trusts (c)	98	6	-	105	8	-
Derivative financial instruments (d)	-	13	-	-	29	-
Long-term other asset (e)	-	-	21	-	-	21
<b>Total</b>	<u>\$ 355</u>	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 875</u>	<u>\$ 37</u>	<u>\$ 21</u>
<b>Liabilities</b>						
Derivative financial instruments (d)	\$ -	\$ 492	\$ -	\$ -	\$ 625	\$ -
<b>Total</b>	<u>\$ -</u>	<u>\$ 492</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 625</u>	<u>\$ -</u>

- (a) Cash equivalents are comprised of money market funds.
- (b) Restricted cash is principally comprised of money market funds.
- (c) At May 31, 2016 and November 30, 2015, marketable securities held in rabbi trusts were comprised of Level 1 bonds, frequently-priced mutual funds invested in common stocks and money market funds and Level 2 other investments. Their use is limited to funding certain deferred compensation and non-qualified U.S. pension plans.
- (d) See "Derivative Instruments and Hedging Activities" section below for detailed information regarding our derivative financial instruments.
- (e) The long-term other asset is an auction-rate security. The fair value was based on a broker quote in an inactive market. During the six months ended May 31, 2016, there were no purchases or sales pertaining to this auction rate security.

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

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

#### **Sale of Ship**

In March 2016, we entered into a bareboat charter/sale agreement under which the 1,546-passenger capacity *Pacific Pearl* will be chartered to an unrelated entity from April 2017 through April 2027. Under this agreement, ownership of *Pacific Pearl* will be transferred to the buyer in April 2027. This transaction will be accounted for as an operating lease whereby the charter revenue will be recognized over the term of the agreement.

## Valuation of Goodwill and Other Intangibles

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

	North America Segment	EAA (a) Segment	Total
Balance at November 30, 2015	\$ 1,898	\$ 1,112	\$ 3,010
Foreign currency translation adjustment	-	9	9
Balance at May 31, 2016	<u>\$ 1,898</u>	<u>\$ 1,121</u>	<u>\$ 3,019</u>

(a) Europe, Australia & Asia ("EAA")

At July 31, 2015, all of our cruise brands carried goodwill, except for Seabourn and Fathom. As of that date, we performed our annual goodwill impairment reviews and no goodwill was impaired.

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

	North America Segment	EAA Segment	Total
Balance at November 30, 2015	\$ 927	\$ 307	\$ 1,234
Foreign currency translation adjustment	-	(1)	(1)
Balance at May 31, 2016	<u>\$ 927</u>	<u>\$ 306</u>	<u>\$ 1,233</u>

At July 31, 2015, we performed our annual trademark impairment reviews for our trademarks with recorded value, which are AIDA, P&O Cruises (Australia), P&O Cruises (UK) and Princess. No trademarks indicated impairment.

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

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

	Cruise Support Segment	EAA Segment	Total
Balance at November 30, 2015 (See "Note 1 - General")	\$ 62	\$ 12	\$ 74
Amortization	(1)	-	(1)
Foreign currency translation adjustment	(1)	-	(1)
Balance at May 31, 2016	<u>\$ 60</u>	<u>\$ 12</u>	<u>\$ 72</u>

Port usage rights are stated at cost. Amortization is computed using the straight-line method over the shorter of the arrangement term or their expected useful lives.

## Derivative Instruments and Hedging Activities

We utilize derivative and non-derivative financial instruments, such as foreign currency forwards, options and swaps, foreign currency debt obligations and foreign currency cash balances, to manage our exposure to fluctuations in certain foreign currency exchange rates. We use interest rate swaps to manage our interest rate exposure to achieve a desired proportion of fixed and floating rate debt. In addition, we utilize our fuel derivatives program to

mitigate a portion of the risk to our future cash flows attributable to potential fuel price increases, which we define as our "economic risk." Our policy is to not use any financial instruments for trading or other speculative purposes.

All derivatives are recorded at fair value. The changes in fair value are recognized currently in earnings if the derivatives do not qualify as effective hedges, or if we do not seek to qualify for hedge accounting treatment, such as for our fuel derivatives. If a derivative is designated as a fair value hedge, then changes in the fair value of the derivative are offset against the changes in the fair value of the underlying hedged item. If a derivative is designated as a cash flow hedge, then the effective portion of the changes in the fair value of the derivative is recognized as a component of accumulated other comprehensive income ("AOCI") until the underlying hedged item is recognized in earnings or the forecasted transaction is no longer probable. If a derivative or a non-derivative financial instrument is designated as a hedge of our net investment in a foreign operation, then changes in the fair value of the financial instrument are recognized as a component of AOCI to offset a portion of the change in the translated value of the net investment being hedged, until the investment is sold or substantially liquidated. We formally document hedging relationships for all derivative and non-derivative hedges and the underlying hedged items, as well as our risk management objectives and strategies for undertaking the hedge transactions.

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

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

	<b>Balance Sheet Location</b>	<b>May 31, 2016</b>	<b>November 30, 2015</b>
<b><u>Derivative assets</u></b>			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Prepaid expenses and other	\$ 10	\$ 14
	Other assets - long-term	3	13
Interest rate swaps (b)	Prepaid expenses and other	-	2
Total derivative assets		<u>\$ 13</u>	<u>\$ 29</u>
<b><u>Derivative liabilities</u></b>			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Accrued liabilities and other	\$ 2	\$ -
	Other long-term liabilities	10	-
Interest rate swaps (b)	Accrued liabilities and other	11	11
	Other long-term liabilities	30	27
Foreign currency zero cost collars (c)	Accrued liabilities and other	7	-
	Other long-term liabilities	-	26
		<u>60</u>	<u>64</u>
Derivatives not designated as hedging instruments			
Fuel (d)	Accrued liabilities and other	171	227
	Other long-term liabilities	261	334
		<u>432</u>	<u>561</u>
Total derivative liabilities		<u>\$ 492</u>	<u>\$ 625</u>

- (a) We had foreign currency forwards totaling \$34 million at May 31, 2016 and \$43 million at November 30, 2015 that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At May 31, 2016, these foreign currency forwards settle through July 2017. We also had foreign currency swaps totaling \$406 million at May 31, 2016 and \$387 million at November 30, 2015 that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At May 31, 2016, these foreign currency swaps settle through September 2019.
- (b) We have euro interest rate swaps designated as cash flow hedges whereby we receive floating interest rate payments in exchange for making fixed interest rate payments. These interest rate swap agreements effectively changed \$560 million at May 31, 2016 and \$568 million at November 30, 2015 of EURIBOR-based floating rate euro debt to fixed rate euro debt. At May 31, 2016, these interest rate swaps settle through March 2025. In addition, at November 30, 2015, we had U.S. dollar interest rate swaps designated as fair value hedges whereby we receive fixed interest rate payments in exchange for making floating interest rate payments. At November 30, 2015, these interest rate swap agreements effectively changed \$500 million of fixed rate debt to U.S. dollar LIBOR-based floating rate debt. These interest rate swaps settled in February 2016.
- (c) At May 31, 2016 and November 30, 2015, we had foreign currency derivatives consisting of foreign currency zero cost collars that are designated as foreign currency cash flow hedges for a portion of our euro-denominated shipbuilding payments. See "Newbuild Currency Risks" below for additional information regarding these derivatives.
- (d) At May 31, 2016 and November 30, 2015, we had fuel derivatives consisting of zero cost collars on Brent crude oil ("Brent") to cover a portion of our estimated fuel consumption through 2018. See "Fuel Price Risks" below for additional information regarding these derivatives.

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

<b>May 31, 2016</b>					
	<b>Gross Amounts</b>	<b>Gross Amounts Offset in the Balance Sheet</b>	<b>Total Net Amounts Presented in the Balance Sheet</b>	<b>Gross Amounts not Offset in the Balance Sheet</b>	<b>Net Amounts</b>
Assets	\$ 21	\$ (8)	\$ 13	\$ (13)	\$ -
Liabilities	\$ 500	\$ (8)	\$ 492	\$ (13)	\$ 479

  

<b>November 30, 2015</b>					
	<b>Gross Amounts</b>	<b>Gross Amounts Offset in the Balance Sheet</b>	<b>Total Net Amounts Presented in the Balance Sheet</b>	<b>Gross Amounts not Offset in the Balance Sheet</b>	<b>Net Amounts</b>
Assets	\$ 73	\$ (44)	\$ 29	\$ (29)	\$ -
Liabilities	\$ 669	\$ (44)	\$ 625	\$ (29)	\$ 596

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

	<b>Three Months Ended May 31,</b>		<b>Six Months Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net investment hedges	\$ (4)	\$ 6	\$ (17)	\$ 46
Foreign currency zero cost collars - cash flow hedges	\$ 9	\$ (10)	\$ 19	\$ (48)
Interest rate swaps - cash flow hedges	\$ 6	\$ 5	\$ 3	\$ 3

There are no credit risk related contingent features in our derivative agreements, except for bilateral credit provisions within our fuel derivative counterparty agreements. These provisions require cash collateral to be posted or received to the extent the fuel derivative fair value payable to or receivable from an individual counterparty exceeds \$100 million. At May 31, 2016 and November 30, 2015, we had \$50 million and \$25 million, respectively, of collateral posted to one of our fuel derivative counterparties. At May 31, 2016 and November 30, 2015, no collateral was required to be received from our fuel derivative counterparties.

The amount of estimated cash flow hedges' unrealized gains and losses that are expected to be reclassified to earnings in the next twelve months is not significant. We have not provided additional disclosures of the impact that derivative instruments and hedging activities have on our consolidated financial statements as of May 31, 2016 and November 30, 2015 and for the three and six months ended May 31, 2016 and 2015 where such impacts were not significant.

### **Fuel Price Risks**

Substantially all of our exposure to market risk for changes in fuel prices relates to the consumption of fuel on our ships. We use our fuel derivatives program to mitigate a portion of our economic risk attributable to potential fuel price increases. We designed our fuel derivatives program to maximize operational flexibility by utilizing derivative markets with significant trading liquidity, and our program currently consists of zero cost collars on Brent.

All of our derivatives are based on Brent prices whereas the actual fuel used on our ships is marine fuel. Changes in the Brent prices may not show a high degree of correlation with changes in our underlying marine fuel prices. We will not realize any economic gain or loss upon the monthly maturities of our zero cost collars unless the average monthly price of Brent is above the ceiling price or below the floor price. We believe that these derivatives will act as economic hedges; however, hedge accounting is not applied. As part of our fuel derivatives program, we will continue to evaluate various derivative products and strategies.

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

	<b>Three Months Ended May 31,</b>		<b>Six Months Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Unrealized gains (losses) on fuel derivatives, net	\$ 242	\$ 34	\$ 96	\$ (78)
Realized losses on fuel derivatives	(71)	(47)	(161)	(103)
Gains (losses) on fuel derivatives, net	<u>\$ 171</u>	<u>\$ (13)</u>	<u>\$ (65)</u>	<u>\$ (181)</u>

At May 31, 2016, our outstanding fuel derivatives consisted of zero cost collars on Brent as follows:

<b>Maturities (a)</b>	<b>Transaction Dates</b>	<b>Barrels (in thousands)</b>	<b>Weighted- Average Floor Prices</b>	<b>Weighted- Average Ceiling Prices</b>
Fiscal 2016 (Q3 - Q4)				
	June 2012	1,782	\$ 75	\$ 108
	February 2013	1,080	\$ 80	\$ 120
	April 2013	<u>1,500</u>	\$ 75	\$ 115
		<u>4,362</u>		
Fiscal 2017				
	February 2013	3,276	\$ 80	\$ 115
	April 2013	2,028	\$ 75	\$ 110
	January 2014	1,800	\$ 75	\$ 114
	October 2014	<u>1,020</u>	\$ 80	\$ 113
		<u>8,124</u>		
Fiscal 2018				
	January 2014	2,700	\$ 75	\$ 110
	October 2014	<u>3,000</u>	\$ 80	\$ 114
		<u>5,700</u>		

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

## Foreign Currency Exchange Rate Risks

### Overall Strategy

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

## **Operational Currency Risks**

Our EAA segment operations generate significant revenues and incur significant expenses in their euro, sterling or Australian dollar functional currency, which subjects us to "foreign currency translational" risk related to these currencies. Accordingly, exchange rate fluctuations of the euro, sterling and Australian dollar against the U.S. dollar will affect our reported financial results since the reporting currency for our consolidated financial statements is the U.S. dollar. Any strengthening of the U.S. dollar against these foreign currencies has the financial statement effect of decreasing the U.S. dollar values reported for these segment's revenues and expenses. Any weakening of the U.S. dollar has the opposite effect.

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

## **Investment Currency Risks**

We consider our investments in foreign operations to be denominated in stable currencies. Our investments in foreign operations are of a long-term nature. We partially mitigate our net investment currency exposures by denominating a portion of our foreign currency intercompany payables in our foreign operations' functional currencies, substantially all sterling. We have designated \$2.8 billion as of May 31, 2016 and \$2.6 billion as of November 30, 2015 of our foreign currency intercompany payables as non-derivative hedges of our net investments in foreign operations. Accordingly, we have included \$578 million at May 31, 2016 and \$509 million at November 30, 2015 of cumulative foreign currency transaction non-derivative gains in the cumulative translation adjustment component of AOCI. These amounts have offset a portion of the losses recorded in AOCI upon translating our foreign operations' net assets into U.S. dollars. During the three and six months ended May 31, 2016 and 2015, we recognized foreign currency non-derivative transaction (losses) gains of \$(113) million (\$18 million in 2015) and \$69 million (\$90 million in 2015), respectively, in the cumulative translation adjustment component of AOCI.

## **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 and have used non-derivative financial instruments to manage foreign currency exchange rate risk for some of our ship construction payments.

In January 2015, we entered into foreign currency zero cost collars that are designated as cash flow hedges for a portion of *Majestic Princess*' and *Seabourn Encore*'s euro-denominated shipyard payments. The *Majestic Princess*' collars mature in March 2017 at a weighted-average ceiling of \$590 million and a weighted-average floor of \$504 million. The *Seabourn Encore*'s collars mature in November 2016 at a weighted-average ceiling of \$221 million and a weighted-average floor of \$185 million. If the spot rate is between the weighted-average ceiling and floor rates on the date of maturity, then we would not owe or receive any payments under these collars.

At May 31, 2016, our remaining newbuild currency exchange rate risk relates to euro-denominated newbuild contract payments, which represent a total unhedged commitment of \$2.6 billion and relates to Carnival Cruise Line, Holland America Line, P&O Cruises (Australia), Princess and Seabourn newbuilds scheduled to be delivered through 2020.

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

## **Interest Rate Risks**

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



existing debt. At May 31, 2016, 62% and 38% (60% and 40% at November 30, 2015) of our debt bore fixed and floating interest rates, respectively, including the effect of interest rate swaps.

### **Concentrations of Credit Risk**

As part of our ongoing control procedures, we monitor concentrations of credit risk associated with financial and other institutions with which we conduct significant business. Our maximum exposure under foreign currency and fuel derivative contracts and interest rate swap agreements that are in-the-money is the replacement cost, net of any collateral received or contractually allowed offset, in the event of nonperformance by the counterparties to the contracts, all of which are currently our lending banks. At May 31, 2016, our exposures under such contracts were not material. 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 normally conducting business with large, well-established financial institutions, insurance companies and export credit agencies, and by diversifying our counterparties. In addition, we have guidelines regarding credit ratings and investment maturities that we follow to help safeguard liquidity and minimize risk. We normally require collateral and/or guarantees to support notes receivable on significant asset sales, long-term ship charters and new ship progress payments to shipyards. We currently believe the risk of nonperformance by any of these significant counterparties is remote.

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

### **NOTE 5 - Segment Information**

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

Our North America segment includes Carnival Cruise Line, Holland America Line, Princess and Seabourn. Our EAA segment includes AIDA, Costa, Cunard, P&O Cruises (Australia), P&O Cruises (UK) and ship operations of Fathom, our newest brand. The operations of these reporting units have been aggregated into two reportable segments based on the similarity of their economic and other characteristics, including types of customers, regulatory environment, maintenance requirements, supporting systems and processes and products and services they provide. Our Cruise Support segment represents certain of our port and related facilities and other services that are provided for the benefit of our cruise brands and Fathom's selling, general and administrative expenses.

Our Tour and Other segment represents the hotel and transportation operations of Holland America Princess Alaska Tours and three ships that we bareboat charter to unaffiliated entities.

Selected information for our segments was as follows (in millions):

Three Months Ended May 31,					
	Revenues	Operating costs and expenses	Selling and administrative	Depreciation and amortization	Operating income (loss)
<b>2016</b>					
North America (a)	\$ 2,320	\$ 1,386	\$ 292	\$ 263	\$ 379
EAA	1,339	853	178	151	157
Cruise Support	29	6	60	13	(50)
Tour and Other (a)	31	27	2	10	(8)
Intersegment elimination (a)	(14)	(14)	-	-	-
	<u>\$ 3,705</u>	<u>\$ 2,258</u>	<u>\$ 532</u>	<u>\$ 437</u>	<u>\$ 478</u>
<b>2015</b>					
North America (a)	\$ 2,266	\$ 1,534	\$ 271	\$ 251	\$ 210
EAA	1,279	849	171	138	121
Cruise Support	27	7	47	6	(33)
Tour and Other (a)	35	31	2	11	(9)
Intersegment elimination (a)	(17)	(17)	-	-	-
	<u>\$ 3,590</u>	<u>\$ 2,404</u>	<u>\$ 491</u>	<u>\$ 406</u>	<u>\$ 289</u>
Six Months Ended May 31,					
	Revenues	Operating costs and expenses	Selling and administrative	Depreciation and amortization	Operating income (loss)
<b>2016</b>					
North America (a)	\$ 4,538	\$ 2,700	\$ 603	\$ 519	\$ 716
EAA	2,728	1,763	352	299	314
Cruise Support	63	11	123	23	(94)
Tour and Other (a)	42	41	5	20	(24)
Intersegment elimination (a)	(14)	(14)	-	-	-
	<u>\$ 7,357</u>	<u>\$ 4,501</u>	<u>\$ 1,083</u>	<u>\$ 861</u>	<u>\$ 912</u>
<b>2015</b>					
North America (a)	\$ 4,459	\$ 2,911	\$ 558	\$ 497	\$ 493
EAA	2,582	1,792	349	276	165
Cruise Support	52	6	108	12	(74)
Tour and Other (a)	44	47	5	22	(30)
Intersegment elimination (a)	(17)	(17)	-	-	-
	<u>\$ 7,120</u>	<u>\$ 4,739</u>	<u>\$ 1,020</u>	<u>\$ 807</u>	<u>\$ 554</u>

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

## NOTE 6 - Earnings Per Share

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2016	2015	2016	2015
Net income for basic and diluted earnings per share	\$ 605	\$ 222	\$ 747	\$ 271
Weighted-average common and ordinary shares outstanding	751	778	758	777
Dilutive effect of equity plans	2	2	3	3
Diluted weighted-average shares outstanding	753	780	761	780
Basic earnings per share	\$ 0.81	\$ 0.29	\$ 0.99	\$ 0.35
Diluted earnings per share	\$ 0.80	\$ 0.29	\$ 0.98	\$ 0.35

## NOTE 7 - Shareholders' Equity

During the six months ended May 31, 2016, we repurchased 28.2 million shares of Carnival Corporation common stock for \$1.4 billion under our general repurchase authorization program ("Repurchase Program"). From June 1, 2016 through June 26, 2016, we repurchased 4.5 million shares of Carnival Corporation common stock for \$214 million under the Repurchase Program. On June 27, 2016, our Board of Directors increased the authorization under our Repurchase Program by \$1.0 billion. Accordingly, at June 27, 2016, the remaining availability under the Repurchase Program was \$1.1 billion.

During the six months ended May 31, 2016, Carnival Investments Limited ("CIL"), a subsidiary of Carnival Corporation, sold 891,000 of Carnival plc ordinary shares for net proceeds of \$40 million. Substantially all of the net proceeds from these sales were used to purchase 891,000 shares of Carnival Corporation common stock. Pursuant to our Stock Swap Program, Carnival Corporation sold these Carnival plc ordinary shares owned by CIL only to the extent it was able to repurchase shares of Carnival Corporation common stock in the U.S. on at least an equivalent basis.

During the three months ended May 31, 2016, our Board of Directors declared a 17% dividend increase to holders of Carnival Corporation common stock and Carnival plc ordinary shares from \$0.30 per share to \$0.35 per share, or \$39 million, which was paid in June 2016.

## SCHEDULE B

### Cautionary Note Concerning Factors That May Affect Future Results

Some of the statements, estimates or projections contained in this joint Quarterly Report on Form 10-Q are "forward-looking statements" that involve risks, uncertainties and assumptions with respect to us, including some statements concerning future results, outlooks, plans, goals and other events which have not yet occurred. These statements are intended to qualify for the safe harbors from liability provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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," "depends," "expect," "goal," "anticipate," "forecast," "project," "future," "intend," "plan," "estimate," "target," "indicate" and similar expressions of future intent or the negative of such terms.

Forward-looking statements include those statements that may impact our outlook including, among other things, the forecasting of our net revenue yields; booking levels; pricing; occupancy; operating, financing and tax costs, including fuel expenses; currency exchange rates; net cruise costs excluding fuel per available lower berth day; estimates of ship depreciable lives and residual values; liquidity; goodwill, ship and trademark fair values and 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 in this joint Quarterly Report on Form 10-Q. This note contains important cautionary statements of the known factors that we consider could materially affect the accuracy of our forward-looking statements and adversely affect our business, results of operations and financial position. It is not possible to predict or identify all such risks. There may be additional risks that we consider immaterial or which are unknown. These factors include, but are not limited to, the following:

- Incidents, such as ship incidents, security incidents, the spread of contagious diseases and threats thereof, adverse weather conditions or other natural disasters and the related adverse publicity affecting our reputation and the health, safety, security and satisfaction of guests and crew;
- Economic conditions and adverse world events affecting the safety and security of travel, such as civil unrest, armed conflicts and terrorist attacks;
- Changes in and compliance with laws and regulations relating to environment, health, safety, security, tax and anti-corruption under which we operate;
- Disruptions and other damages to our information technology and other networks and operations, and breaches in data security;
- Ability to recruit, develop and retain qualified personnel;
- Increases in fuel prices;
- Fluctuations in foreign currency exchange rates;
- Misallocation of capital among our ship, joint venture and other strategic investments;
- Future operating cash flow may not be sufficient to fund future obligations and we may be unable to obtain financing;
- Deterioration of our cruise brands' strengths and our inability to implement our strategies;
- Continuing financial viability of our travel agent distribution system, air service providers and other key vendors in our supply chain and reductions in the availability of, and increases in the prices for, the services and products provided by these vendors;
- Inability to implement our shipbuilding programs and ship repairs, maintenance and refurbishments on terms that are favorable or consistent with our expectations and increases to our repairs and maintenance expenses and refurbishment costs as our fleet ages;
- Failure to keep pace with developments in technology;
- Geographic regions in which we try to expand our business may be slow to develop and ultimately not develop how we expect and our international operations are subject to additional risks not generally applicable to our U.S. operations;
- Competition from and overcapacity in the cruise ship and land-based vacation industry;
- Economic, market and political factors that are beyond our control, which could increase our operating, financing and other costs;
- Changes in global consumer confidence and impacts to various foreign currency exchange rates as a result of the June 24, 2016 UK electorate vote to withdraw from the European Union ("EU");

- Friction in travel, changes to international tax treaties and changes to laws and regulations that could result from the exit of the UK from the EU;
- Litigation, enforcement actions, fines or penalties;
- Lack of continuing availability of attractive, convenient and safe port destinations on terms that are favorable or consistent with our expectations;
- Union disputes and other employee relationship issues;
- Decisions to self-insure against various risks or the inability to obtain insurance for certain risks at reasonable rates;
- Reliance on third-party providers of various services integral to the operations of our business;
- Business activities that involve our co-investment with third parties;
- Disruptions in the global financial markets or other events that may negatively affect the ability of our counterparties and others to perform their obligations to us;
- Our shareholders may be subject to the uncertainties of a foreign legal system since Carnival Corporation and Carnival plc are not U.S. corporations;
- Small group of shareholders may be able to effectively control the outcome of shareholder voting
- Provisions in Carnival Corporation's and Carnival plc's constitutional documents may prevent or discourage takeovers and business combinations that our shareholders might consider to be in their best interests and
- The DLC arrangement involves risks not associated with the more common ways of combining the operations of two companies.

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

## Outlook

On June 28, 2016, we said that we expected our adjusted diluted earnings per share for the 2016 third quarter to be in the range of \$1.83 to \$1.87 and 2016 full year to be in the range of \$3.25 to \$3.35 (see "Key Performance Non-GAAP Financial Indicators"). Our guidance was based on the following assumptions:

	<b><u>2016 Third Quarter</u></b>	<b><u>2016 Full Year</u></b>
Fuel cost per metric ton consumed	\$339	\$280
Currencies		
U.S. dollar to euro	\$1.10	\$1.10
U.S. dollar to sterling	\$1.32	\$1.38
U.S. dollar to Australian dollar	\$0.74	\$0.74
U.S. dollar to Canadian dollar	\$0.77	\$0.76

The fuel and currency assumptions used in our guidance change daily and, accordingly, our forecasts change daily based on the changes in these assumptions. We do not provide guidance on a U.S. GAAP basis because it would be too difficult to prepare without unreasonable effort.

The above forward-looking statements involve risks, uncertainties and assumptions with respect to us. There are many factors that could cause our actual results to differ materially from those expressed above. You should read the above forward-looking statements together with the discussion of the risks under "Cautionary Note Concerning Factors That May Affect Future Results."

## 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 2015 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 May 31,		Six Months Ended May 31,	
	2016	2015	2016	2015
Available lower berth days ("ALBDs") (in thousands) (a)				
(b)	19,693	19,307	38,983	37,891
Occupancy percentage (c)	104.1%	102.8%	104.1%	102.9%
Passengers carried (in thousands)	2,781	2,608	5,340	5,071
Fuel consumption in metric tons (in thousands)	808	810	1,623	1,593
Fuel consumption in metric tons per thousand ALBDs	41.0	41.9	41.6	42.0
Fuel cost per metric ton consumed	\$ 243	\$ 411	\$ 236	\$ 408
Currencies				
U.S. dollar to euro	\$ 1.13	\$ 1.10	\$ 1.11	\$ 1.13
U.S. dollar to sterling	\$ 1.44	\$ 1.52	\$ 1.44	\$ 1.53
U.S. dollar to Australian dollar	\$ 0.75	\$ 0.78	\$ 0.73	\$ 0.79
U.S. dollar to Canadian dollar	\$ 0.78	\$ 0.81	\$ 0.75	\$ 0.81

- (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 May 31, 2016 compared to the three months ended May 31, 2015, we had a 2.0% capacity increase in ALBDs comprised of a 5.1% capacity increase in our EAA segment while capacity in our North America segment remained the same.

Our EAA segment's capacity increase was caused by:

- full quarter impact from the transfer of two Holland America Line 1,260-passenger capacity ships to P&O Cruises (Australia) in 2015;
- partial quarter impact from one AIDA 3,286-passenger capacity ship delivered in 2016;
- partial quarter impact from one P&O Cruises (UK) 3,647-passenger capacity ship delivered in 2015 and
- fewer ship dry-dock days in 2016 compared to 2015.

Our North America segment's capacity was driven by the full quarter impact from the transfer of two Holland America Line 1,260-passenger capacity ships to P&O Cruises (Australia) in 2015, which was offset by:

- partial quarter impact from one Holland America Line 2,650-passenger capacity ship delivered in 2016;
- partial quarter impact from one Carnival Cruise Line 3,934-passenger capacity ship delivered in 2016 and
- fewer ship dry-dock days in 2016 compared to 2015.

For the six months ended May 31, 2016 compared to the six months ended May 31, 2015, we had a 2.9% capacity increase in ALBDs comprised of an 8.7% capacity increase in our EAA segment and a slight capacity decrease in our North America segment.

Our EAA segment's capacity increase was caused by:

- full period impact from the transfer of two Holland America Line 1,260-passenger capacity ships to P&O Cruises (Australia) in 2015;
- partial period impact from one P&O Cruises (UK) 3,647-passenger capacity ship delivered in 2015;
- partial period impact from one AIDA 3,286-passenger capacity ship delivered in 2016 and
- fewer ship dry-dock days in 2016 compared to 2015.

Our North America segment's capacity decrease was caused by the full period impact from the transfer of two Holland America Line 1,260-passenger capacity ships to P&O Cruises (Australia) in 2015.

This decrease was partially offset by:

- partial period impact from one Holland America Line 2,650-passenger capacity ship delivered in 2016;
- partial period impact from one Carnival Cruise Line 3,934-passenger capacity ship delivered in 2016 and
- fewer ship dry-dock days in 2016 compared to 2015.

- (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 May 31, 2016 ("2016") Compared to Three Months Ended May 31, 2015 ("2015")**

#### **Revenues**

##### **Consolidated**

Cruise passenger ticket revenues made up 73% of our 2016 total revenues. Cruise passenger ticket revenues increased by \$68 million, or 2.6%, to \$2.7 billion in 2016 from \$2.6 billion in 2015.

This increase was caused by:

- \$53 million - 2.0% capacity increase in ALBDs;
- \$34 million - 1.3 percentage point increase in occupancy and
- \$32 million - an accounting reclassification in our EAA segment, which has no impact on our operating income as the increase in passenger ticket revenues is fully offset by an increase in operating expenses ("accounting reclassification").

These increases were partially offset by a decrease in cruise ticket prices, which accounted for \$60 million. Price increases to guests were more than offset by unfavorable foreign currency transactional movements.

The remaining 27% of 2016 total revenues were substantially all comprised of onboard and other cruise revenues, which increased by \$51 million, or 5.5% to \$978 million in 2016 from \$927 million in 2015.

This increase was caused by:

- \$20 million - higher onboard spending by our guests;
- \$19 million - 2.0% capacity increase in ALBDs and
- \$12 million - 1.3 percentage point increase in occupancy.

Onboard and other revenues included concession revenues that decreased to \$240 million in 2016 from \$253 million in 2015.

### **North America Segment**

Cruise passenger ticket revenues made up 71% of our North America segment's 2016 total revenues. Cruise passenger ticket revenues increased by \$36 million, or 2.3% and remained at \$1.6 billion in both 2016 and 2015.

The increase was driven by:

- \$13 million - increase in cruise ticket pricing, partially offset by unfavorable foreign currency transactional impacts and
- \$10 million - increase in air transportation revenues from guests who purchased their tickets from us.

The remaining 29% of our North America segment's 2016 total revenues were comprised of onboard and other cruise revenues, which increased by \$21 million, or 3.1%, to \$677 million in 2016 from \$656 million in 2015. This increase was principally due to higher onboard spending by our guests, which accounted for \$16 million.

Onboard and other revenues included concession revenues of \$162 million in 2016 from \$177 million in 2015.

### **EAA Segment**

Cruise passenger ticket revenues made up 81% of our EAA segment's 2016 total revenues. Cruise passenger ticket revenues increased by \$39 million, or 3.7%, to \$1.1 billion in 2016 from \$1.0 billion in 2015.

This increase was caused by:

- \$54 million - 5.1% capacity increase in ALBDs;
- \$32 million - 3.0 percentage point increase in occupancy and
- \$32 million - the accounting reclassification.

These increases were partially offset by:

- \$72 million - decrease in cruise ticket pricing driven by unfavorable foreign currency impacts and
- \$12 million - decrease in air transportation revenues from guests who purchased their tickets from us.

The remaining 19% of our EAA segment's 2016 total revenues were comprised of onboard and other cruise revenues, which increased by \$22 million, or 9.1%, to \$260 million in 2016 from \$238 million in 2015. The majority of the increase was caused by a 5.1% capacity increase in ALBDs, which accounted for \$12 million.

Onboard and other revenues included concession revenues that increased to \$78 million in 2016 from \$76 million in 2015.

### **Costs and Expenses**

#### **Consolidated**

Operating costs and expenses decreased by \$147 million, or 6.1%, to \$2.3 billion in 2016 from \$2.4 billion in 2015.

This decrease was caused by:

- \$136 million - lower fuel prices;
- \$78 million - lower dry-dock expenses and other ship repair and maintenance expenses and
- \$24 million - quarterly timing of various other operating expenses, net.



These decreases were partially offset by:

- \$48 million - 2.0% capacity increase in ALBDs;
- \$32 million - the accounting reclassification and
- \$11 million - 1.3 percentage point increase in occupancy.

Selling and administrative expenses increased by \$42 million, or 8.5% to \$532 million in 2016 from \$491 million in 2015.

This increase was caused by:

- \$32 million - various selling and administrative initiatives and
- \$10 million - 2.0% capacity increase in ALBDs.

Depreciation and amortization expenses increased by \$31 million, or 7.6%, to \$437 million in 2016 from \$406 million in 2015. This increase was due to changes in capacity and improvements to existing ships and shoreside assets.

Total costs and expenses as a percentage of revenues decreased to 87% in 2016 from 92% in 2015. The 5 percentage point decrease in our total costs and expenses as a percentage of revenues was principally due to lower fuel prices in 2016 compared to 2015.

### **North America Segment**

Operating costs and expenses decreased by \$146 million, or 9.6%, to \$1.4 billion in 2016 from \$1.5 billion in 2015.

This decrease was caused by:

- \$84 million - lower fuel prices and
- \$70 million - lower dry-dock expenses and other ship repair and maintenance expenses.

Selling and administrative expenses increased by \$21 million, or 7.8% to \$292 million in 2016 from \$271 million in 2015. This increase was caused by various selling and administrative initiatives.

Depreciation and amortization expenses increased by \$13 million, or 5.1%, to \$263 million in 2016 from \$251 million in 2015. This increase was caused by changes in capacity and improvements to existing ships and shoreside assets.

Total costs and expenses as a percentage of revenues decreased to 84% in 2016 from 91% in 2015. Lower fuel prices in 2016 compared to 2015 caused approximately half of the 7 percentage point decrease in our total costs and expenses as a percentage of revenues.

### **EAA Segment**

Operating costs and expenses slightly increased by \$4 million to \$853 million in 2016 from \$849 million in 2015.

This slight increase was caused by:

- \$44 million - 5.1% capacity increase in ALBDs;
- \$32 million - the accounting reclassification and
- \$10 million - 3.0 percentage point increase in occupancy.

These increases were partially offset by:

- \$51 million - lower fuel prices;
- \$16 million - lower air costs and
- \$15 million - various other operating expenses, net.

Depreciation and amortization expenses increased by \$13 million, or 9.1%, to \$151 million in 2016 from \$138 million in 2015. This increase was due to changes in capacity and improvements to existing ships and shoreside assets.

Total costs and expenses as a percentage of revenues decreased to 88% in 2016 from 91% in 2015. Lower fuel prices in 2016 compared to 2015 caused a four percentage point decrease in our total costs and expenses as a percentage of revenues.

### Operating Income

Our consolidated operating income increased by \$189 million, or 66%, to \$478 million in 2016 from \$289 million in 2015. Our North America segment's operating income increased by \$168 million, or 80%, to \$379 million in 2016 from \$210 million in 2015, and our EAA segment's operating income increased by \$36 million, or 30% to \$157 million in 2016 from \$121 million in 2015. These changes were primarily due to the reasons discussed above.

### Nonoperating Expense

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

	Three Months Ended May 31,	
	2016	2015
Unrealized gains on fuel derivatives, net	\$ 242	\$ 34
Realized losses on fuel derivatives	(71)	(47)
Gains (losses) on fuel derivatives, net	<u>\$ 171</u>	<u>\$ (13)</u>

### Key Performance Non-GAAP Financial Indicators

We use net cruise revenues per ALBD ("net revenue yields"), net cruise costs per ALBD and net cruise costs excluding fuel per ALBD as significant non-GAAP financial measures of our cruise segments' financial performance. These measures enable us to separate the impact of predictable capacity changes from the more unpredictable rate changes that affect our business; gains and losses on ship sales and ship impairments, net; and restructuring and other expenses that are not part of our core operating 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.

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

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 passenger ticket revenue yields and net onboard and other revenue yields are computed by dividing net passenger ticket revenues and net onboard and other revenues by ALBDs.

Net cruise costs per ALBD and net cruise costs excluding fuel per ALBD are the most significant measures we use to monitor our ability to control our cruise 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 to calculate net cruise costs with and without fuel to avoid duplicating these variable costs in our non-GAAP financial measures. In addition, we exclude gains and losses on ship sales and ship impairments, net and restructuring and other expenses from our calculation of net cruise costs with and without fuel as they are not considered part of our core operating business and, therefore, are not an indication of our future earnings performance. As such, we also believe it is more meaningful for gains and losses on ship sales and ship impairments, net and restructuring and other expenses 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.

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

We report non-GAAP financial measures on a "constant dollar" and "constant currency" basis assuming the 2016 periods' currency exchange rates have remained constant with the 2015 periods' rates. These metrics facilitate a comparative view for the changes in our business in an environment with fluctuating exchange rates.

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

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

Examples:

- The translation of our EAA segment operations to our U.S. dollar reporting currency results in decreases in reported U.S. dollar revenues and expenses if the U.S. dollar strengthens against these foreign currencies and increases in reported U.S. dollar revenues and expenses if the U.S. dollar weakens against these foreign currencies.
- Our North America segment operations have a U.S. dollar functional currency but also have revenue and expense transactions in currencies other than the U.S. dollar. If the U.S. dollar strengthens against these other currencies, it reduces the U.S. dollar revenues and expenses. If the U.S. dollar weakens against these other currencies, it increases the U.S. dollar revenues and expenses.
- Our EAA segment operations have euro, sterling and Australian dollar functional currencies but also have revenue and expense transactions in currencies other than their functional currency. If their functional currency strengthens against these other currencies, it reduces the functional currency revenues and expenses. If the functional currency weakens against these other currencies, it increases the functional currency revenues and expenses.

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

While we forecast realized gains and losses on fuel derivatives by applying current Brent prices to the derivatives that settle in the forecast period, we do not forecast the impact of unrealized gains and losses on fuel derivatives because we do not believe they are an indication of our future earnings performance. Accordingly, our earnings guidance is presented on an adjusted basis only.

Our consolidated financial statements are prepared in accordance with U.S. GAAP. We have not provided a reconciliation between forecasted adjusted earnings per share guidance and forecasted U.S. GAAP earnings per share guidance because it would be too difficult to prepare reliable U.S. GAAP guidance without unreasonable effort. 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.

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

Three Months Ended May 31,			
	2016	2016 Constant Dollar	2015
Passenger ticket revenues	\$ 2,696	\$ 2,699	\$ 2,628
Onboard and other revenues	978	979	927
<b>Gross cruise revenues</b>	<b>\$ 3,674</b>	<b>\$ 3,678</b>	<b>\$ 3,555</b>
Less cruise costs			
Commissions, transportation and other	(495)	(493)	(481)
Onboard and other	(123)	(123)	(114)
	(618)	(616)	(595)
Net passenger ticket revenues	2,201	2,206	2,147
Net onboard and other revenues	855	856	813
<b>Net cruise revenues</b>	<b>\$ 3,056</b>	<b>\$ 3,062</b>	<b>\$ 2,960</b>
<b>ALBDs</b>	<b>19,693,362</b>	<b>19,693,362</b>	<b>19,306,832</b>
<b>Gross revenue yields</b>	<b>\$ 186.55</b>	<b>\$ 186.78</b>	<b>\$ 184.15</b>
% increase vs. 2015	1.3%	1.4%	
<b>Net revenue yields</b>	<b>\$ 155.21</b>	<b>\$ 155.50</b>	<b>\$ 153.29</b>
% increase vs. 2015	1.2%	1.4%	
<b>Net passenger ticket revenue yields</b>	<b>\$ 111.78</b>	<b>\$ 112.03</b>	<b>\$ 111.20</b>
% increase vs. 2015	0.5%	0.7%	
<b>Net onboard and other revenue yields</b>	<b>\$ 43.43</b>	<b>\$ 43.48</b>	<b>\$ 42.09</b>
% increase vs. 2015	3.2%	3.3%	

Three Months Ended May 31,			
	2016	2016 Constant Currency	2015
Net passenger ticket revenues	\$ 2,201	\$ 2,267	\$ 2,147
Net onboard and other revenues	855	860	813
<b>Net cruise revenues</b>	<b>3,056</b>	<b>3,127</b>	<b>2,960</b>
<b>ALBDs</b>	<b>19,693,362</b>	<b>19,693,362</b>	<b>19,306,832</b>
<b>Net revenue yields</b>	<b>\$ 155.21</b>	<b>\$ 158.80</b>	<b>\$ 153.29</b>
% increase vs. 2015	1.2%	3.6%	
<b>Net passenger ticket revenue yields</b>	<b>\$ 111.78</b>	<b>\$ 115.12</b>	<b>\$ 111.20</b>
% increase vs. 2015	0.5%	3.5%	
<b>Net onboard and other revenue yields</b>	<b>\$ 43.43</b>	<b>\$ 43.68</b>	<b>\$ 42.09</b>
% increase vs. 2015	3.2%	3.8%	

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

Three Months Ended May 31,			
	2016	2016 Constant Dollar	2015
Cruise operating expenses	\$ 2,231	\$ 2,232	\$ 2,373
Cruise selling and administrative expenses	530	530	489
<b>Gross cruise costs</b>	<b>2,761</b>	<b>2,762</b>	<b>2,862</b>
Less cruise costs included above			
Commissions, transportation and other	(495)	(493)	(481)
Onboard and other	(123)	(123)	(114)
Gain on ship sale	-	-	2
Restructuring expenses	(2)	(2)	(7)
Other (a)	(5)	(5)	-
<b>Net cruise costs</b>	<b>2,136</b>	<b>2,139</b>	<b>2,262</b>
Less fuel	(196)	(196)	(333)
<b>Net cruise costs excluding fuel</b>	<b>\$ 1,940</b>	<b>\$ 1,943</b>	<b>\$ 1,929</b>
<b>ALBDs</b>	<b>19,693,362</b>	<b>19,693,362</b>	<b>19,306,832</b>
<b>Gross cruise costs per ALBD</b>	<b>\$ 140.18</b>	<b>\$ 140.28</b>	<b>\$ 148.22</b>
% decrease vs. 2015	(5.4)%	(5.4)%	
<b>Net cruise costs per ALBD</b>	<b>\$ 108.46</b>	<b>\$ 108.63</b>	<b>\$ 117.11</b>
% decrease vs. 2015	(7.4)%	(7.2)%	
<b>Net cruise costs excluding fuel per ALBD</b>	<b>\$ 98.49</b>	<b>\$ 98.67</b>	<b>\$ 99.88</b>
% decrease vs. 2015	(1.4)%	(1.2)%	

(a) Insignificant costs were included in the income statement in previous periods.

Three Months Ended May 31,			
	2016	2016 Constant Currency	2015
<b>Net cruise costs excluding fuel</b>	<b>\$ 1,940</b>	<b>\$ 1,930</b>	<b>\$ 1,929</b>
<b>ALBDs</b>	<b>19,693,362</b>	<b>19,693,362</b>	<b>19,306,832</b>
<b>Net cruise costs excluding fuel per ALBD</b>	<b>\$ 98.49</b>	<b>\$ 98.01</b>	<b>\$ 99.88</b>
% decrease vs. 2015	(1.4)%	(1.9)%	

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

	Three Months Ended	
	May 31,	
	2016	2015
<b>Net income</b>		
<b>U.S. GAAP net income</b>	\$ 605	\$ 222
Unrealized gains on fuel derivatives, net	(242)	(34)
Gain on ship sale	-	(2)
Restructuring expenses	2	7
Other (a)	5	-
<b>Adjusted net income</b>	<u>\$ 370</u>	<u>\$ 193</u>
<b>Weighted-average shares outstanding</b>	<u>753</u>	<u>780</u>
<b>Earnings per share</b>		
<b>U.S. GAAP earnings per share</b>	\$ 0.80	\$ 0.29
Unrealized (gains) on fuel derivatives, net	(0.32)	(0.05)
Gain on ship sale	-	-
Restructuring expenses	-	0.01
Other (a)	0.01	-
<b>Adjusted earnings per share</b>	<u>\$ 0.49</u>	<u>\$ 0.25</u>

(a) Insignificant costs were included in the income statement in previous periods.

Net cruise revenues increased by \$97 million, or 3.3% to \$3.1 billion in 2016 from \$3.0 billion in 2015.

The increase in net cruise revenues was caused by:

- \$109 million - 3.6% increase in constant currency net revenue yields and
- \$59 million - 2.0% capacity increase in ALBDs.

These increases were partially offset by foreign currency impacts (including both the foreign currency translational and transactional impacts), which accounted for \$71 million.

The 3.6% increase in net revenue yields on a constant currency basis was due to a 3.5% increase in net passenger ticket revenue yields and a 3.8% increase in net onboard and other revenue yields.

The 3.5% increase in net passenger ticket revenue yields was driven primarily by improvements in our Caribbean and Alaskan programs for our North America segment and 1.2 percentage points of this yield increase resulted from the accounting reclassification. This 3.5% increase in net passenger ticket revenue yields was comprised of a 5.4% increase from our North America segment and a 1.6% increase from our EAA segment.

The 3.8% increase in net onboard and other revenue yields was caused by a 3.6% increase from our North America segment and a 5.1% increase from our EAA segment.

Gross cruise revenues increased by \$118 million, or 3.3%, to \$3.7 billion in 2016 from \$3.6 billion in 2015 for largely the same reasons as discussed above.

Net cruise costs excluding fuel slightly increased by \$6 million and remained at \$1.9 billion in both 2016 and 2015.

The increase in net cruise costs excluding fuel was caused by a 2.0% capacity increase in ALBDs, which accounted for \$39 million, partially offset by a 1.9% decrease in constant currency net cruise costs excluding fuel, which accounted for \$37 million.

The 1.9% decrease in constant currency net cruise costs excluding fuel per ALBD was principally due to lower repair and maintenance and dry-dock expenses, partially offset by a 1.3 percentage point increase that resulted from the accounting reclassification.

Fuel costs decreased by \$136 million, or 41%, to \$196 million in 2016 from \$333 million in 2015. This was caused by lower fuel prices, which accounted for \$136 million.

Gross cruise costs decreased by \$101 million, or 3.5%, to \$2.8 billion in 2016 from \$2.9 billion in 2015 for principally the same reasons as discussed above.

## **Six Months Ended May 31, 2016 ("2016") Compared to Six Months Ended May 31, 2015 ("2015")**

### **Revenues**

#### **Consolidated**

Cruise passenger ticket revenues made up 74% of our 2016 total revenues. Cruise passenger ticket revenues increased by \$154 million, or 2.9%, to \$5.4 billion in 2016 from \$5.3 billion in 2015.

This increase was caused by:

- \$152 million - 2.9% capacity increase in ALBDs;
- \$63 million - the accounting reclassification;
- \$58 million - 1.1 percentage point increase in occupancy.

These increases were partially offset by:

- \$82 million - foreign currency translational impact and
- \$39 million - decrease in cruise ticket pricing; price increases to guests were more than offset by unfavorable foreign currency transactional movements.

The remaining 26% of 2016 total revenues were substantially all comprised of onboard and other cruise revenues, which increased by \$85 million, or 4.7%, to \$1.9 billion in 2016 from \$1.8 billion in 2015.

This increase was caused by:

- \$52 million - 2.9% capacity increase in ALBDs;
- \$31 million - higher onboard spending by our guests and
- \$20 million - 1.1 percentage point increase in occupancy.

These increases were partially offset by the foreign currency translational impact, which accounted for \$20 million.

Onboard and other revenues included concession revenues that decreased to \$467 million in 2016 from \$489 million in 2015.

#### **North America Segment**

Cruise passenger ticket revenues made up 71% of our North America segment's 2016 total revenues. Cruise passenger ticket revenues increased by \$51 million, or 1.6% and remained at \$3.2 billion in both 2016 and 2015.

The increase was caused by:

- \$35 million - 1.2 percentage point increase in occupancy;
- \$19 million - increase in cruise ticket pricing, partially offset by unfavorable foreign currency transactional impacts and
- \$9 million - increase in air transportation revenues from guests who purchased their tickets from us.

These increases were partially offset by a slight capacity decrease, which accounted for \$23 million.

The remaining 29% of our North America segment's 2016 total revenues were comprised of onboard and other cruise revenues, which increased by \$31 million, or 2.4% and remained at \$1.3 billion in both 2016 and 2015. This increase was driven by higher onboard spending by our guests, which accounted for \$23 million.

Onboard and other revenues included concession revenues that decreased to \$313 million in 2016 from \$339 million in 2015.

### **EAA Segment**

Cruise passenger ticket revenues made up 81% of our EAA segment's 2016 total revenues. Cruise passenger ticket revenues increased by \$112 million, or 5.3%, to \$2.2 billion in 2016 from \$2.1 billion in 2015.

This increase was caused by:

- \$183 million - 8.7% capacity increase in ALBDs;
- \$63 million - the accounting reclassification and
- \$30 million - 1.4 percentage point increase in occupancy.

These increases were partially offset by:

- \$82 million - foreign currency translational impact;
- \$51 million - decrease in cruise ticket pricing, driven by unfavorable foreign currency impacts and
- \$36 million - decrease in air transportation revenues from guests who purchased their tickets from us.

The remaining 19% of our EAA segment's 2016 total revenues were comprised of onboard and other cruise revenues, which increased by \$34 million, or 7.1%, to \$514 million in 2016 from \$480 million in 2015.

This increase was caused by an 8.7% capacity increase in ALBDs, which accounted for \$42 million, partially offset by the foreign currency translational impact, which accounted for \$20 million.

Onboard and other revenues included concession revenues that increased to \$154 million in 2016 from \$150 million in 2015.

### **Costs and Expenses**

#### **Consolidated**

Operating costs and expenses decreased by \$233 million, or 5.0%, to \$4.5 billion in 2016 from \$4.7 billion in 2015.

This decrease was caused by:

- \$280 million - lower fuel prices;
- \$94 million - lower dry-dock expenses and other ship repair and maintenance expenses;
- \$62 million - foreign currency translational impact and
- \$24 million - decrease in air transportation costs related to guests who purchased their tickets from us.

These decreases were partially offset by:

- \$135 million - 2.9% capacity increase in ALBDs;
- \$63 million - the accounting reclassification;
- \$20 million - 1.1 percentage point increase in occupancy and
- \$20 million - nonrecurrence of a gain on a litigation settlement in 2015.

Selling and administrative expenses increased by \$64 million, or 6.2% to \$1.1 billion in 2016 from \$1.0 billion in 2015.

This increase was caused by:

- \$47 million - various selling and administrative initiatives and
- \$29 million - 2.9% capacity increase in ALBDs.

These increases were partially offset by the foreign currency translational impact, which accounted for \$13 million.



Depreciation and amortization expenses increased by \$54 million, or 6.6% to \$861 million in 2016 from \$807 million in 2015. This increase was due to changes in capacity and improvements to existing ships and shoreside assets, partially offset by the foreign currency translational impact, which accounted for \$11 million.

Total costs and expenses as a percentage of revenues decreased to 88% in 2016 from 92% in 2015. Lower fuel prices in 2016 compared to 2015 caused the four percentage point decrease in our total costs and expenses as a percentage of revenues.

### **North America Segment**

Operating costs and expenses decreased by \$208 million, or 7.2%, to \$2.7 billion in 2016 from \$2.9 billion in 2015.

This decrease was caused by:

- \$176 million - lower fuel prices;
- \$36 million - lower dry-dock expenses and other ship repair and maintenance expenses and
- \$21 million - slight capacity decrease in ALBDs.

These decreases were partially offset by the nonrecurrence of a gain on a litigation settlement in 2015, which accounted for \$19 million.

Selling and administrative expenses increased by \$46 million, or 8.2% to \$603 million in 2016 from \$558 million in 2015. This was caused by various selling and administrative initiatives, which accounted for \$50 million.

Depreciation and amortization expenses increased by \$22 million, or 4.5%, to \$519 million in 2016 from \$497 million in 2015. This increase was due to changes in capacity and improvements to existing ships and shoreside assets.

Total costs and expenses as a percentage of revenues decreased to 84% in 2016 from 89% in 2015. The five percentage point decrease in our total costs and expenses as a percentage of revenues was principally due to lower fuel prices in 2016 compared to 2015.

### **EAA Segment**

Operating costs and expenses decreased by \$29 million, or 1.6%, and remained at \$1.8 billion in both 2016 and 2015.

This decrease was caused by:

- \$103 million - lower fuel prices;
- \$62 million - foreign currency translational impact;
- \$51 million - lower dry-dock expenses and
- \$46 million - decrease in air transportation costs related to guests who purchased their tickets from us.

These decreases were partially offset by:

- \$156 million - 8.7% capacity increase in ALBDs and
- \$63 million - the accounting reclassification.

Selling and administrative expenses slightly increased by \$3 million to \$352 million in 2016 from \$349 million in 2015.

Depreciation and amortization expenses increased by \$22 million, or 8.0%, to \$299 million in 2016 from \$276 million in 2015.

This increase was caused by:

- \$24 million - 8.7% capacity increase in ALBDs and
- \$10 million - increase due to improvements to existing ships and shoreside assets.

These increases were partially offset by the foreign currency translational impact, which accounted for \$11 million.

Total costs and expenses as a percentage of revenues decreased to 89% in 2016 from 94% in 2015. The five percentage point decrease in our total costs and expenses as a percentage of revenues was principally due to lower fuel prices in 2016 compared to 2015.

### **Operating Income**

Our consolidated operating income increased by \$358 million, or 65%, to \$912 million in 2016 from \$554 million in 2015. Our North America segment's operating income increased by \$222 million, or 45%, to \$716 million in 2016 from \$493 million in 2015, and our EAA segment's operating income increased by \$150 million, or 91%, to \$314 million in 2016 from \$165 million in 2015. These changes were primarily due to the reasons discussed above.

### **Nonoperating Expense**

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

	<b>Six Months Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>
Unrealized gains (losses) on fuel derivatives, net	\$ 96	\$ (78)
Realized losses on fuel derivatives	(161)	(103)
Losses on fuel derivatives, net	<u>\$ (65)</u>	<u>\$ (181)</u>

## Key Performance Non-GAAP Financial Indicators

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

	Six Months Ended May 31,		
	2016	2016 Constant Dollar	2015
Passenger ticket revenues	\$ 5,414	\$ 5,496	\$ 5,260
Onboard and other revenues	1,901	1,921	1,816
<b>Gross cruise revenues</b>	<b>7,315</b>	<b>7,417</b>	<b>7,076</b>
Less cruise costs			
Commissions, transportation and other	(1,077)	(1,097)	(1,067)
Onboard and other	(240)	(243)	(225)
	(1,317)	(1,340)	(1,292)
Net passenger ticket revenues	4,337	4,399	4,193
Net onboard and other revenues	1,661	1,678	1,591
<b>Net cruise revenues</b>	<b>\$ 5,998</b>	<b>\$ 6,077</b>	<b>\$ 5,784</b>
<b>ALBDs</b>	<b>38,983,272</b>	<b>38,983,272</b>	<b>37,890,712</b>
<b>Gross revenue yields</b>	<b>\$ 187.65</b>	<b>\$ 190.27</b>	<b>\$ 186.76</b>
% increase vs. 2015	0.5%	1.9%	
<b>Net revenue yields</b>	<b>\$ 153.87</b>	<b>\$ 155.90</b>	<b>\$ 152.65</b>
% increase vs. 2015	0.8%	2.1%	
<b>Net passenger ticket revenue yields</b>	<b>\$ 111.25</b>	<b>\$ 112.85</b>	<b>\$ 110.66</b>
% increase vs. 2015	0.5%	2.0%	
<b>Net onboard and other revenue yields</b>	<b>\$ 42.61</b>	<b>\$ 43.05</b>	<b>\$ 41.99</b>
% increase vs. 2015	1.5%	2.5%	

	Six Months Ended May 31,		
	2016	2016 Constant Currency	2015
Net passenger ticket revenues	\$ 4,337	\$ 4,532	\$ 4,193
Net onboard and other revenues	1,661	1,691	1,591
<b>Net cruise revenues</b>	<b>\$ 5,998</b>	<b>\$ 6,223</b>	<b>\$ 5,784</b>
<b>ALBDs</b>	<b>38,983,272</b>	<b>38,983,272</b>	<b>37,890,712</b>
<b>Net revenue yields</b>	<b>\$ 153.87</b>	<b>\$ 159.63</b>	<b>\$ 152.65</b>
% increase vs. 2015	0.8%	4.6%	
<b>Net passenger ticket revenue yields</b>	<b>\$ 111.25</b>	<b>\$ 116.26</b>	<b>\$ 110.66</b>
% increase vs. 2015	0.5%	5.1%	
<b>Net onboard and other revenue yields</b>	<b>\$ 42.61</b>	<b>\$ 43.37</b>	<b>\$ 41.99</b>
% increase vs. 2015	1.5%	3.3%	

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

Six Months Ended May 31,			
	2016	2016 Constant Dollar	2015
Cruise operating expenses	\$ 4,460	\$ 4,522	\$ 4,692
Cruise selling and administrative expenses	1,079	1,092	1,016
<b>Gross cruise costs</b>	<b>5,539</b>	<b>5,614</b>	<b>5,708</b>
Less cruise costs included above			
Commissions, transportation and other	(1,077)	(1,097)	(1,067)
Onboard and other	(240)	(243)	(225)
Gain on ship sale	2	2	4
Restructuring expenses	(2)	(2)	(7)
Other (a)	(21)	(21)	-
<b>Net cruise costs</b>	<b>4,201</b>	<b>4,253</b>	<b>4,413</b>
Less fuel	(383)	(383)	(650)
<b>Net cruise costs excluding fuel</b>	<b>\$ 3,818</b>	<b>\$ 3,870</b>	<b>\$ 3,763</b>
<b>ALBDs</b>	<b>38,983,272</b>	<b>38,983,272</b>	<b>37,890,712</b>
<b>Gross cruise costs per ALBD</b>	<b>\$ 142.08</b>	<b>\$ 144.01</b>	<b>\$ 150.64</b>
% decrease vs. 2015	(5.7)%	(4.4)%	
<b>Net cruise costs per ALBD</b>	<b>\$ 107.75</b>	<b>\$ 109.10</b>	<b>\$ 116.45</b>
% decrease vs. 2015	(7.5)%	(6.3)%	
<b>Net cruise costs excluding fuel per ALBD</b>	<b>\$ 97.93</b>	<b>\$ 99.27</b>	<b>\$ 99.28</b>
% decrease vs. 2015	(1.4)%	- %	

(a) Insignificant costs were included in the income statement in previous periods.

Six Months Ended May 31,			
	2016	2016 Constant Currency	2015
<b>Net cruise costs excluding fuel</b>	<b>\$ 3,818</b>	<b>\$ 3,864</b>	<b>\$ 3,763</b>
<b>ALBDs</b>	<b>38,983,272</b>	<b>38,983,272</b>	<b>37,890,712</b>
<b>Net cruise costs excluding fuel per ALBD</b>	<b>\$ 97.93</b>	<b>\$ 99.12</b>	<b>\$ 99.28</b>
% decrease vs. 2015	(1.4)%	(0.2)%	

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

	Six Months Ended	
	May 31,	
	2016	2015
<b>Net income</b>		
<b>U.S. GAAP net income</b>	\$ 747	\$ 271
Unrealized (gains) losses on fuel derivatives, net	(96)	78
Gain on ship sale	(2)	(4)
Restructuring expenses	2	7
Other (a)	21	-
<b>Adjusted net income</b>	<u>\$ 672</u>	<u>\$ 352</u>
<b>Weighted-average shares outstanding</b>	<u>761</u>	<u>780</u>
<b>Earnings per share</b>		
<b>U.S. GAAP earnings per share</b>	\$ 0.98	\$ 0.35
Unrealized (gains) losses on fuel derivatives, net	(0.13)	0.10
Gain on ship sale	-	(0.01)
Restructuring expenses	-	0.01
Other	0.03	-
<b>Adjusted earnings per share</b>	<u>\$ 0.88</u>	<u>\$ 0.45</u>

(a) Insignificant costs were included in the income statement in previous periods.

Net cruise revenues increased by \$214 million, or 3.7%, to \$6.0 billion in 2016 from \$5.8 billion in 2015.

The increase in net cruise revenues was caused by:

- \$272 million - 4.6% increase in constant currency net revenue yields and
- \$167 million - 2.9% capacity increase in ALBDs.

These increases were partially offset by foreign currency impacts (including both the foreign currency translational and transactional impacts), which accounted for \$224 million.

The 4.6% increase in net revenue yields on a constant currency basis was due to a 5.1% increase in net passenger ticket revenue yields and a 3.3% increase in net onboard and other revenue yields.

The 5.1% increase in net passenger ticket revenue yields was driven primarily by improvements in our Caribbean and Alaskan programs for our North America segment and 1.2 percentage points of this yield increase resulted from the accounting reclassification. This 5.1% increase in net passenger ticket revenue yields was comprised of a 6.3% increase from our North America segment and a 4.1% increase from our EAA segment.

The 3.3% increase in net onboard and other revenue yields was caused by a 4.1% increase from our North America segment and a 2.9% increase from our EAA segment.

Gross cruise revenues increased by \$239 million, or 3.4%, to \$7.3 billion in 2016 from \$7.1 billion in 2015 for largely the same reasons as discussed above.

Net cruise costs excluding fuel increased by \$56 million, or 1.5% and remained at \$3.8 billion in both 2016 and 2015.

The increase in net cruise costs excluding fuel was caused by a 2.9% capacity increase in ALBDs, which accounted for \$108 million, partially offset by foreign currency impacts (including both the foreign currency translational and transactional impacts), which accounted for \$46 million.

The slight decrease in constant currency net cruise costs excluding fuel per ALBD was principally due to repair and maintenance and dry-dock partially offset by a 1.3 percentage point increase that resulted from the accounting reclassification.

Fuel costs decreased by \$268 million, or 41%, to \$383 million in 2016 from \$650 million in 2015. This was caused by lower fuel prices, which accounted for \$280 million, partially offset by a 2.9% capacity increase in ALBDs, which accounted for \$19 million.

Gross cruise costs decreased by \$169 million, or 3.0%, to \$5.5 billion in 2016 from \$5.7 billion in 2015 for principally the same reasons as discussed above.

### **Liquidity, Financial Condition and Capital Resources**

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

Based on our historical results, projections and financial condition, we believe that our future operating cash flows and liquidity will be sufficient to fund all of our expected capital projects including shipbuilding commitments, ship improvements, debt service requirements, working capital needs and other firm commitments over the next several years. We believe that our ability to generate significant operating cash flows and our strong balance sheet as evidenced by our investment grade credit ratings provide us with the ability, in most financial credit market environments, to obtain debt financing. Our future operating cash flows and our ability to issue debt can be adversely impacted by numerous factors outside our control including, but not limited to, some of those noted under "Cautionary Note Concerning Factors That May Affect Future Results." If our long-term senior unsecured credit ratings were to be downgraded or assigned a negative outlook, our access to and cost of debt financing may be negatively impacted.

At May 31, 2016, we had a working capital deficit of \$6.2 billion. This deficit included \$4.3 billion of current customer deposits, which represent the passenger revenues already collected for cruises departing over the next twelve months and, accordingly, are substantially more like deferred revenue balances rather than actual current cash liabilities. Our May 31, 2016 working capital deficit also included \$1.2 billion of current debt obligations. We continue to generate significant cash from operations and have a strong balance sheet. This strong balance sheet provides us with the ability to refinance our current debt obligations before, or as they become due, in most financial credit market environments. We also have our revolving credit facilities available to provide long-term rollover financing should the need arise, or if we choose to do so. After excluding current customer deposits and current debt obligations from our May 31, 2016 working capital deficit balance, our adjusted working capital deficit was \$720 million. Our business model, along with our strong balance sheet and unsecured revolving credit facilities, allows us to operate with a working capital deficit and still meet our operating, investing and financing needs. We believe we will continue to have working capital deficits for the foreseeable future.

At November 30, 2015, the U.S. dollar was \$1.50 to sterling, \$1.06 to the euro and \$0.72 to the Australian dollar. Had these November 30, 2015 currency exchange rates been used to translate our May 31, 2016 non-U.S. dollar functional currency operations' assets and liabilities instead of the May 31, 2016 U.S. dollar exchange rates of \$1.46 to sterling, \$1.11 to the euro and \$0.72 to the Australian dollar, our total assets would have been lower by \$314 million and our total liabilities would have been lower by \$285 million.

## Sources and Uses of Cash

### *Operating Activities*

Our business provided \$2.7 billion of net cash from operations during the six months ended May 31, 2016, an increase of \$395 million, or 17%, compared to \$2.3 billion for the same period in 2015. This increase was caused by more cash being provided from our operating results.

### *Investing Activities*

During the six months ended May 31, 2016, net cash used in investing activities was \$2.2 billion. This was comprised of our expenditures for capital projects, of which \$1.4 billion was spent on our ongoing new shipbuilding program, substantially for *AIDAprima*, net of liquidated damages, and Holland America Line's *Koningsdam* and *Carnival Vista*. In addition to our new shipbuilding program, we had capital expenditures of \$440 million for ship improvements and replacements and \$150 million for information technology, buildings and improvements and other assets. Finally, we paid \$170 million of fuel derivative settlements and posted \$25 million of collateral to one of our fuel derivative counterparties.

During the six months ended May 31, 2015, net cash used in investing activities was \$1.4 billion. This was caused by our expenditures for capital projects, of which \$685 million was spent on our ongoing new shipbuilding program, primarily for P&O Cruises (UK)'s *Britannia*. In addition to our new shipbuilding program, we had capital expenditures of \$585 million for ship improvements and replacements and \$110 million for information technology, buildings and improvements and other assets. Furthermore, during the six months ended May 31, 2015, we received cash installments of \$25 million from the sales of *Ocean Princess*, *Seabourn Legend* and *Seabourn Spirit*. Finally, we paid \$95 million of fuel derivative settlements and posted \$11 million of collateral to one of our fuel derivative counterparties.

### *Financing Activities*

During the six months ended May 31, 2016, net cash used in financing activities of \$1.4 billion was substantially due to the following:

- borrowed a net \$379 million of short-term borrowings in connection with our availability of, and needs for, cash at various times throughout the period;
- repaid \$869 million of long-term debt;
- issued \$555 million of euro-denominated publicly-traded notes, which net proceeds are being used for general corporate purposes;
- borrowed \$379 million of long-term debt under an export credit facility;
- paid cash dividends of \$459 million;
- purchased \$1.4 billion of shares of Carnival Corporation common stock in open market transactions of which \$1.4 billion were repurchased under our Repurchase Program and \$39 million were repurchased under our Stock Swap and
- sold \$40 million of treasury stock under our Stock Swap program.

During the six months ended May 31, 2015, net cash used in financing activities of \$861 million was substantially due to the following:

- repaid a net \$357 million of short-term borrowings in connection with our availability of, and needs for, cash at various times throughout the period;
- repaid \$584 million of long-term debt;
- borrowed \$472 million of long-term debt under an export credit facility and
- paid cash dividends of \$388 million.

### **Future Commitments and Funding Sources**

Our contractual cash obligations as of May 31, 2016 have changed compared to November 30, 2015 primarily as a result of our debt borrowings and repayments and new ship payments as noted above under "Sources and Uses of Cash." In addition, during the six months ended May 31, 2016, we finalized the agreement with Italian shipbuilder, Fincantieri S.p.A, for the construction of Princess Cruises 3,560-passenger capacity Royal-class vessel to be delivered in 2020.

As of May 31, 2016, our total annual capital expenditures consist of ships under contract for construction, including ship construction contracts entered into through June 24, 2016, and estimated improvements to existing ships and shoreside assets and are expected to be \$2.0 billion for the remainder of 2016, \$3.0 billion in 2017, \$4.0 billion in 2018, \$4.6 billion in 2019 and \$4.5 billion in 2020.

The year-over-year percentage increase in our capacity is currently expected to be 3.9% for the 2016 third quarter and 4.5% for the 2016 fourth quarter. The year-over-year percentage increase in our annual capacity is currently expected to be 3.6% in 2016, 2.4% in 2017, 3.1% in 2018, 5.3% in 2019 and 7.7% in 2020. These percentage increases are expected to result primarily from contracted new ships entering service and exclude any unannounced future ship orders, acquisitions, retirements, charters or sales.

At May 31, 2016, we had liquidity of \$10.7 billion. Our liquidity consisted of \$290 million of cash and cash equivalents, which excludes \$229 million of cash on hand, \$2.6 billion available for borrowing under our revolving credit facilities, net of our outstanding commercial paper borrowings, and \$7.8 billion under our committed future financings, which are comprised of ship export credit facilities. Of this \$7.8 billion, \$0.2 billion is available for funding in 2016, \$0.9 billion in 2017, \$1.9 billion in 2018, \$2.5 billion in 2019 and \$2.3 billion in 2020. At May 31, 2016, all of our revolving credit facilities are scheduled to mature in 2021, except for \$400 million that matures in 2020. These commitments are from numerous large and well-established banks and export credit agencies, which we believe will honor their contractual agreements with us.

Substantially all of our debt agreements contain financial covenants as described in Note 6 - "Unsecured Debt" in the annual consolidated financial statements, which is included within our 2015 Form 10-K. At May 31, 2016, 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, 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.

### **Quantitative and Qualitative Disclosures About Market Risk**

For a discussion of our hedging strategies and market risks, see the discussion below and Note 4 - "Fair Value Measurements, Derivative Instruments and Hedging Activities" in these consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations within our 2015 Form 10-K.

### **Foreign Currency Exchange Rate Risks**

At May 31, 2016, 47% and 53% (50% and 50% at November 30, 2015) of our debt was U.S. dollar and euro-denominated, respectively, including the effect of foreign currency swaps.

We have foreign operations that have functional currencies other than the U.S. dollar, which result in foreign currency translational impacts. We execute transactions in a number of currencies other than their functional currencies, principally the euro, sterling and Australian, Canadian and U.S. dollars, which result in foreign currency transactional impacts. Based on a 10% hypothetical change in all currency exchange rates versus the U.S. dollar that were used in our June 28, 2016 guidance, we estimate (including both the foreign currency translational and transactional impacts) that our adjusted diluted earnings per share June 28, 2016 guidance would change by the following:

- \$0.27 per share on an annualized basis for 2016;
- \$0.18 per share for the remaining two quarters of 2016 and
- \$0.09 per share for the third quarter of 2016.



## **Fuel Price Risks**

Based on a 10% hypothetical change in fuel prices versus the current spot price that was used to calculate fuel expense in our June 28, 2016 guidance, we estimate that our adjusted diluted earnings per share June 28, 2016 guidance would change by the following:

- \$0.14 per share on an annualized basis;
- \$0.07 per share for the remaining two quarters of 2016 and
- \$0.04 per share for the third quarter of 2016.

Based on a 10% hypothetical change in Brent prices versus the current spot price that was used to calculate realized gains (losses) on fuel derivatives in our June 28, 2016 guidance, we estimate that our adjusted diluted earnings per share June 28, 2016 guidance would change by the following:

- \$0.03 per share for the remaining two quarters of 2016 and
- \$0.02 per share for the third quarter of 2016.

At May 31, 2016, the estimated unrealized loss on our outstanding fuel derivative contracts was a \$461 million.

## SCHEDULE C

### Unregistered Sales of Equity Securities and Use of Proceeds.

#### **A. Repurchase Authorizations**

Our Boards of Directors have authorized, subject to certain restrictions, the repurchase of up to an aggregate of \$1.0 billion of Carnival Corporation common stock and/or Carnival plc ordinary shares (the "Repurchase Program"). On January 28, 2016, the Boards of Directors approved a modification of the Repurchase Program authorization that increased the remaining authorized repurchases by \$1.0 billion. The Repurchase Program does not have an expiration date and may be discontinued by our Boards of Directors at any time.

During the three months ended May 31, 2016, purchases of Carnival Corporation common stock pursuant to the Repurchase Program were as follows:

Period	Total Number of shares of Carnival Corporation Common Stock Purchased (a)	Average Price Paid per Share of Carnival Corporation Common Stock	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Repurchase Program
			(in millions)
March 1, 2016 through March 31, 2016	3,037,954	\$ 47.87	676
April 1, 2016 through April 30, 2016	1,900,000	\$ 50.00	581
May 1, 2016 through May 31, 2016	4,932,661	\$ 49.61	337
Total	9,870,615	\$ 49.15	

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

From June 1, 2016 through June 26, 2016, we repurchased an additional 4.5 million shares of Carnival Corporation common stock for \$214 million under the Repurchase Program. On June 27, 2016, our Board of Directors increased the authorization under our Repurchase Program by \$1.0 billion. Accordingly, at June 27, 2016, the remaining availability under the Repurchase Program was \$1.1 billion.

In addition to the Repurchase Program, the Boards of Directors authorized, in October 2008, the repurchase of up to 19.2 million Carnival plc ordinary shares and, in January 2013, the repurchase of up to 32.8 million shares of Carnival Corporation common stock under the Stock Swap programs described below. Depending on market conditions and other factors, we may purchase shares of Carnival Corporation common stock and/or Carnival plc ordinary shares under the Repurchase Program and the Stock Swap programs concurrently. At June 27, 2016, the remaining availability under the Stock Swap programs was 18.1 million Carnival plc ordinary shares and 26.0 million shares of Carnival Corporation common stock.

Carnival plc ordinary share repurchases under both the Repurchase Program and the Stock Swap programs require annual shareholder approval. The existing shareholder approval is limited to a maximum of 21.5 million ordinary shares and is valid until the earlier of the conclusion of the Carnival plc 2017 annual general meeting or July 13, 2017. During the three months ended May 31, 2016, there were no repurchases of Carnival plc ordinary shares under the Repurchase Program.

#### **B. Stock Swap Programs**

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

In the event that Carnival Corporation common stock trades at a premium to Carnival plc ordinary shares, we may elect to issue and sell shares of Carnival Corporation common stock through a sales agent, from time to time at prevailing market prices in ordinary brokers' transactions, and use the sale proceeds to repurchase Carnival plc ordinary shares in the UK market on at least an equivalent basis. Based on an authorization provided by the Board of Directors in October 2008, Carnival Corporation was authorized to issue and sell up to 19.2 million shares of its common stock in the U.S. market and had 18.1 million shares remaining at June 24, 2016. Any sales of Carnival Corporation shares have been or will be registered under the Securities Act of 1933.

In the event that Carnival Corporation common stock trades at a discount to Carnival plc ordinary shares, we may elect to sell existing ordinary shares of Carnival plc, with such sales made by Carnival Corporation or Carnival Investments Limited ("CIL") through its sales agent, from time to time at prevailing market prices in ordinary brokers' transactions, and use the sale proceeds to repurchase shares of Carnival Corporation common stock in the U.S. market on at least an equivalent basis. Based on an authorization provided by the Board of Directors in January 2013, Carnival Corporation or CIL was authorized to sell up to 32.8 million Carnival plc ordinary shares in the UK market and has 26.0 million shares remaining at June 24, 2016. Any sales of Carnival plc ordinary shares have been or will be registered under the Securities Act of 1933.

During the three months ended February 29, 2016, under the Stock Swap Programs, CIL sold 891,000 of Carnival plc ordinary shares through its sales agent, Merrill Lynch International ("MLI"), for total gross proceeds of \$40 million and paid commission fees to MLI of \$260,000 and other governmental and regulatory transaction fees of \$46,000. Substantially all of the net proceeds from these sales were used to purchase 891,000 shares of Carnival Corporation common stock. During the three months ended February 29, 2016, no Carnival Corporation common stock was sold and no Carnival plc ordinary shares were repurchased under the Stock Swap programs.

During the three months ended May 31, 2016, no Carnival Corporation common stock or Carnival plc ordinary shares were sold or repurchased under the Stock Swap programs.

**SCHEDULE D**

**CARNIVAL PLC**  
**INTERIM CONDENSED GROUP STATEMENTS OF INCOME**  
**(UNAUDITED)**  
(in millions, except per share data)

	<b>Six Months Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenues</b>		
Cruise		
Passenger tickets	\$ 2,617	\$ 2,450
Onboard and other	651	620
Tour and other	42	44
	<u>3,310</u>	<u>3,114</u>
<b>Operating Costs and Expenses</b>		
Cruise		
Commissions, transportation and other	592	595
Onboard and other	102	96
Payroll and related	416	349
Fuel	183	280
Food	202	182
Other ship operating	798	773
Tour and other	41	48
	<u>2,334</u>	<u>2,323</u>
Selling and administrative	392	383
Depreciation and amortisation	335	306
	<u>3,061</u>	<u>3,012</u>
<b>Operating Income</b>	<u>249</u>	<u>102</u>
<b>Nonoperating (Expense) Income</b>		
Interest income	-	1
Interest expense, net of capitalised interest	(27)	(29)
Other income (expense), net	4	(2)
	<u>(23)</u>	<u>(30)</u>
<b>Income Before Income Taxes</b>	<u>226</u>	<u>72</u>
<b>Income Tax Expense, Net</b>	<u>-</u>	<u>(4)</u>
<b>Net Income</b>	<u>\$ 226</u>	<u>\$ 68</u>
<b>Earnings Per Share</b>		
Basic	<u>\$ 1.05</u>	<u>\$ 0.31</u>
Diluted	<u>\$ 1.04</u>	<u>\$ 0.31</u>

Within the dual listed company ("DLC") arrangement the most appropriate presentation of Carnival plc's results and financial position is considered to be by reference to the U.S. GAAP consolidated financial statements of Carnival Corporation & plc ("DLC Financial Statements"), which are included within the attached Schedule A (see Note 1). For information, set out below is the U.S. GAAP and adjusted consolidated earnings per share included within the DLC Financial Statements and MD&A sections, within the attached Schedule B, of this Interim Financial Report, respectively, for the six months ended May 31:

	<b>2016</b>	<b>2015</b>
DLC U.S. GAAP basic earnings per share	<u>\$ 0.99</u>	<u>\$ 0.35</u>
DLC U.S. GAAP diluted earnings per share	<u>\$ 0.98</u>	<u>\$ 0.35</u>
DLC adjusted diluted earnings per share	<u>\$ 0.88</u>	<u>\$ 0.45</u>

The accompanying notes are an integral part of these interim financial statements. These interim financial statements only present the Carnival plc consolidated IFRS Interim Financial Statements and, accordingly, do not include the consolidated IFRS results of Carnival Corporation.

**CARNIVAL PLC**  
**INTERIM CONDENSED GROUP STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**  
(in millions)

	<b>Six Months Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net Income</b>	<u>\$ 226</u>	<u>\$ 68</u>
<b>Other Comprehensive Income (Loss)</b>		
<b>Items that will not be reclassified through the Statements of Income</b>		
Actuarial (losses) on post-employment benefit obligations	<u>(15)</u>	<u>(9)</u>
<b>Items that may be reclassified through the Statements of Income</b>		
Changes in foreign currency translation adjustment	47	(806)
Net (losses) gains on hedges of net investments in foreign operations	(2)	47
Net gains (losses) on cash flow derivative hedges	<u>2</u>	<u>(31)</u>
	<u>47</u>	<u>(790)</u>
<b>Other Comprehensive Income (Loss)</b>	<u>32</u>	<u>(799)</u>
<b>Total Comprehensive Income (Loss)</b>	<u>\$ 258</u>	<u>\$ (731)</u>

The accompanying notes are an integral part of these interim financial statements. These interim financial statements only present the Carnival plc consolidated IFRS Interim Financial Statements and, accordingly, do not include the consolidated IFRS results of Carnival Corporation.

Within the DLC arrangement the most appropriate presentation of Carnival plc's results and financial position is considered to be by reference to the DLC Financial Statements, which are included within the attached Schedule A (see Note 1).

**CARNIVAL PLC**  
**INTERIM CONDENSED GROUP BALANCE SHEETS**  
**(UNAUDITED)**  
(in millions)

	<b>May 31, 2016</b>	<b>November 30, 2015</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 404	\$ 821
Trade and other receivables, net	176	148
Insurance recoverables	109	105
Inventories, net	104	126
Prepaid expenses and other	89	113
Total current assets	<u>882</u>	<u>1,313</u>
<b>Property and Equipment, Net</b>	13,140	12,745
<b>Goodwill</b>	605	588
<b>Other Intangibles</b>	47	50
<b>Other Assets</b>	<u>206</u>	<u>144</u>
	<u>\$ 14,880</u>	<u>\$ 14,840</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Short-term borrowings	\$ 4	\$ 30
Current portion of long-term debt	368	354
Amount owed to the Carnival Corporation group	1,963	2,039
Accounts payable	223	262
Claims reserve	134	151
Accrued liabilities and other	398	395
Customer deposits	1,302	1,217
Total current liabilities	<u>4,392</u>	<u>4,448</u>
<b>Long-Term Debt</b>	1,881	1,936
<b>Other Long-Term Liabilities</b>	238	212
<b>Shareholders' Equity</b>		
Share capital	358	358
Share premium	143	143
Retained earnings	8,440	8,362
Other reserves	(572)	(619)
Total shareholders' equity	<u>8,369</u>	<u>8,244</u>
	<u>\$ 14,880</u>	<u>\$ 14,840</u>

The accompanying notes are an integral part of these interim financial statements. These interim financial statements only present the Carnival plc consolidated IFRS Interim Financial Statements and, accordingly, do not include the consolidated IFRS results of Carnival Corporation.

Within the DLC arrangement the most appropriate presentation of Carnival plc's results and financial position is considered to be by reference to the DLC Financial Statements, which are included within the attached Schedule A (see Note 1).

**CARNIVAL PLC**  
**INTERIM CONDENSED GROUP STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
(in millions)

	<b>Six Months Ended May 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Income before income taxes	226	\$ 72
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation and amortisation	335	306
Share-based compensation	5	4
Interest expense, net	27	28
Other, net	(12)	10
Changes in operating assets and liabilities		
Receivables	(29)	(54)
Inventories	25	3
Insurance recoverables, prepaid expenses and other	34	73
Accounts payable	(44)	(31)
Claims reserve and accrued and other liabilities	(72)	(106)
Customer deposits	95	130
Cash provided by operations before interest and income taxes	590	435
Interest received	-	1
Interest paid	(28)	(34)
Income taxes paid, net	(21)	(24)
Net cash provided by operating activities	541	378
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(390)	(744)
Other, net	(48)	22
Net cash used in investing activities	(438)	(722)
<b>FINANCING ACTIVITIES</b>		
Changes in loans with the Carnival Corporation group	(212)	259
(Repayments of) proceeds from short-term borrowings, net	(27)	33
Principal repayments of long-term debt	(142)	(344)
Proceeds from issuance of long-term debt	-	472
Dividends paid	(130)	(108)
Other, net	(8)	(2)
Net cash (used in) provided by financing activities	(519)	310
Effect of exchange rate changes on cash and cash equivalents	(1)	(29)
Net (decrease) in cash and cash equivalents	(417)	(63)
Cash and cash equivalents at beginning of period	821	217
Cash and cash equivalents at end of period	\$ 404	\$ 154

The accompanying notes are an integral part of these interim financial statements. These interim financial statements only present the Carnival plc consolidated IFRS Interim Financial Statements and, accordingly, do not include the consolidated IFRS results of Carnival Corporation.

Within the DLC arrangement the most appropriate presentation of Carnival plc's results and financial position is considered to be by reference to the DLC Financial Statements, which are included within the attached Schedule A (see Note 1).

**CARNIVAL PLC**  
**INTERIM CONDENSED GROUP STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**  
(in millions)

	Other reserves							Total shareholders' equity
	Share capital	Share premium	Retained earnings	Translation reserve	Cash flow hedges	Merger reserve	Total	
<b>2016</b>								
<b>Balances at November 30,</b>	\$ 358	\$ 143	\$ 8,362	\$ (2,057)	\$ (65)	\$ 1,503	\$ (619)	\$ 8,244
<b>2015</b>								
Comprehensive income								
Net income	-	-	226	-	-	-	-	226
Changes in foreign currency translation	-	-	-	47	-	-	47	47
Other, net	-	-	(15)	(2)	2	-	-	(15)
Total comprehensive	-	-	211	45	2	-	47	258
Cash dividends declared	-	-	(139)	-	-	-	-	(139)
Other, net	-	-	6	-	-	-	-	6
<b>Balances at May 31, 2016</b>	<b>\$ 358</b>	<b>\$ 143</b>	<b>\$ 8,440</b>	<b>\$ (2,012)</b>	<b>\$ (63)</b>	<b>\$ 1,503</b>	<b>\$ (572)</b>	<b>\$ 8,369</b>
<b>2015</b>								
<b>Balances at November 30, 2014</b>	<b>\$ 358</b>	<b>\$ 137</b>	<b>\$ 7,835</b>	<b>\$ (1,046)</b>	<b>\$ (33)</b>	<b>\$ 1,503</b>	<b>\$ 424</b>	<b>\$ 8,754</b>
Comprehensive income								
Net income	-	-	68	-	-	-	-	68
Changes in foreign currency translation	-	-	-	(806)	-	-	(806)	(806)
Net gains on hedges of net investments in foreign	-	-	-	-	-	-	47	47
Net losses on cash flow derivative hedges	-	-	-	-	(31)	-	(31)	(31)
Other, net	-	-	(9)	-	-	-	-	(9)
Total comprehensive	-	-	59	(759)	(31)	-	(790)	(731)
Cash dividends declared	-	-	(108)	-	-	-	-	(108)
Other, net	-	5	5	-	-	-	-	10
<b>Balances at May 31, 2015</b>	<b>\$ 358</b>	<b>\$ 142</b>	<b>\$ 7,791</b>	<b>\$ (1,805)</b>	<b>\$ (64)</b>	<b>1,503</b>	<b>\$ (366)</b>	<b>\$ 7,925</b>

The accompanying notes are an integral part of these interim financial statements. These interim financial statements only present the Carnival plc consolidated IFRS Interim Financial Statements and, accordingly, do not include the consolidated IFRS results of Carnival Corporation.

Within the DLC arrangement the most appropriate presentation of Carnival plc's results and financial position is considered to be by reference to the DLC Financial Statements, which are included within the attached Schedule A (see Note 1).



**CARNIVAL PLC**  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 - Basis of Preparation**

The interim condensed consolidated IFRS financial statements ("Interim Financial Statements") have been prepared on the basis of the accounting policies and methods of computation, including estimates and assumptions, adopted and disclosed in Carnival plc and its subsidiaries and associates (referred to collectively in these Interim Financial Statements as the "Group," "our," "us" and "we") consolidated statutory financial statements for the year ended November 30, 2015. Carnival plc was incorporated in England and Wales in 2000 and its headquarters is located at Carnival House, 100 Harbour Parade, Southampton, SO15 1ST, UK (registration number 4039524). These Interim Financial Statements were approved by the Board of Directors on June 30, 2016.

These Interim Financial Statements have been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority ("FCA") and with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union ("IAS 34"). The Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended November 30, 2015, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). Our Interim Financial Statements are presented in U.S. dollars as this is our presentation currency.

Carnival Corporation and Carnival plc operate a dual listed company ("DLC"), known as Carnival Corporation & plc, whereby the businesses of Carnival Corporation and Carnival plc are combined through a number of contracts and through provisions in Carnival Corporation's Articles of Incorporation and By-Laws and Carnival plc's Articles of Association. The two companies operate as if they are a single economic enterprise, but each has retained its separate legal identity. Each company's shares are publicly traded; on the New York Stock Exchange ("NYSE") for Carnival Corporation and the London Stock Exchange for Carnival plc. In addition, Carnival plc American Depository Shares are traded on the NYSE. The contracts governing the DLC arrangement provide that Carnival Corporation and Carnival plc each continue to have separate Boards of Directors, but the Boards of Directors and senior executive management of both companies are identical. Further details relating to the DLC arrangement are included in Note 3 of the 2015 DLC Financial Statements, which do not form part of these Carnival plc Interim Financial Statements.

Our Interim Financial Statements are required to satisfy reporting requirements of the UK Listing Authority and do not include the IFRS consolidated results and financial position of Carnival Corporation and its subsidiaries. Accordingly, the Directors consider that, within the DLC arrangement, the most appropriate presentation of Carnival plc's results and financial position is by reference to the U.S. GAAP DLC Financial Statements, because all significant financial and operating decisions affecting the DLC companies are made on the basis of U.S. GAAP. Schedule A to this announcement, which consists of the DLC Financial Statements for the three and six months ended May 31, 2016, are provided to shareholders as other information, but do not form part of these Carnival plc Interim Financial Statements. In addition, the related management commentary, which has been included in Schedule B to this announcement as other information, contains a review of the business and sets out the principal activities, risks and uncertainties, impact of seasonality on its business, operations, performance, key performance indicators, liquidity, financial condition and capital resources, debt covenants, and likely future developments of Carnival Corporation & plc.

The assessment of future commitments and funding sources within Schedule B indicates that Carnival Corporation & plc is well positioned to meet its commitments and obligations. In light of these circumstances, the Board of Directors have a reasonable expectation that Carnival Corporation & plc has adequate resources to continue its operational existence and continue to adopt the going concern basis of preparing the Carnival plc Interim Financial Statements.

The preparation of our Interim Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported and disclosed amounts. The estimates and underlying assumptions are based on historical experience and various other factors that we believe to be reasonable under the circumstances, and form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates used in preparing these Interim Financial Statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

## **NOTE 2 - Changes in Accounting Policy and Disclosures**

### **New and Amended Standards That Have Been Adopted By Us**

During 2016, we adopted the amendments to IFRS 8, "Operating Segments", which did not have a material impact on the Group's results and financial position.

### **New and Amended Standards That Will Be Adopted By Us In The Future**

- IFRS 15, "Revenue from contracts with customers" effective for accounting periods beginning on or before January 1, 2018 and
- IFRS 16, "Leases" effective for annual periods beginning on or after January 1, 2019.

Management is still in the process of determining if these standards will have a material impact on us.

## **NOTE 3 - Status of Financial Statements**

Our Interim Financial Statements for the six months ended May 31, 2016 have not been audited or reviewed by the auditors.

Our Interim Financial Statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended November 30, 2015 were approved by the Board of Directors on February 19, 2016 and delivered to the Registrar of Companies. The report of the auditors on those accounts was (i) unqualified, (ii) did not contain an emphasis of matter paragraph and (iii) did not contain any statement under section 498 of the Companies Act 2006.

## **NOTE 4 - Property and Equipment**

During the six months ended May 31, 2016, we took delivery of the 3,286-passenger capacity AIDA Cruises ("AIDA") *AIDAprima* and made stage payments for other ships under construction.

In March 2016, we entered into a bareboat charter/sale agreement under which the 1,546-passenger capacity *Pacific Pearl* will be chartered to an unrelated entity from April 2017 through April 2027. Under this agreement, ownership of *Pacific Pearl* will be transferred to the buyer in April 2027. This transaction will be accounted for as an operating lease whereby the charter revenue will be recognized over the term of the agreement.

Our property and equipment increased by \$282 million as a result of the change in currency exchange rates of the U.S. dollar to the euro, sterling and Australian dollar at May 31, 2016 compared to November 30, 2015.

## **NOTE 5 - Goodwill and Other Intangibles**

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

At November 30, 2015	\$	588
Exchange movements		<u>17</u>
At May 31, 2016	\$	<u><u>605</u></u>

At July 31, 2015, our AIDA, Costa and Cunard cruise brands carried goodwill. As of that date, we performed our annual goodwill impairment reviews and no goodwill was impaired.

The determination of our cruise brands' goodwill recoverable amounts includes numerous assumptions that are subject to various risks and uncertainties. We believe that we have made reasonable estimates and judgments. If

there is a change in the conditions or circumstances influencing fair values in the future, then we may need to recognize an impairment charge.

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

At November 30, 2015	\$	50
Amortisation		(2)
Exchange movements		(1)
At May 31, 2016	\$	<u>47</u>

Port usage rights are stated at cost less accumulated amortisation, which is computed using the straight-line method over the shorter of the arrangement term or their expected useful lives.

#### **NOTE 6 - Unsecured Debt**

At May 31, 2016, our short-term borrowings consisted of euro-denominated bank loans of \$4 million with an aggregate weighted-average floating interest rate of 1.4%.

In May 2016, we entered into four export facilities that will provide us with the ability to borrow up to an aggregate of \$2.3 billion. Proceeds from these facilities will be used to pay for a portion of the purchase price of three Carnival plc cruise ships and one Carnival Corporation cruise ship, which are expected to be delivered between February 2019 and September 2020. These borrowings will be due in semi-annual installments through September 2032.

In May 2016, Carnival Corporation, Carnival plc and certain of Carnival Corporation and Carnival plc's subsidiaries exercised their option to extend the termination date of their multi-currency revolving credit facility from June 2020 to June 2021. In addition, the total capacity of the revolving credit facility increased to \$2.7 billion (comprised of \$1.9 billion, €500 million and £169 million).

#### **NOTE 7 - Ship Commitments**

Ship capital commitments include contract prices with the shipyard, design and engineering fees, capitalised interest, construction oversight costs and various owner supplied items.

At May 31, 2016, we had eight ships under contract for construction with an aggregate passenger capacity of 36,500 lower berths with three for AIDA, four for Costa Cruises ("Costa") and one for P&O Cruises (Australia). Our future cruise ship commitments for these eight ships, aggregated based on each ship's delivery date, are expected to be \$0.3 billion in 2017, \$1.0 billion in 2018, \$2.7 billion in 2019 and \$3.0 billion in 2020.

#### **NOTE 8 - Contingencies Litigation**

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

#### **NOTE 9 - Dividends**

During the three months ended May 31, 2016, the Board of Directors declared a 17% dividend increase to holders of Carnival Corporation common stock and Carnival plc ordinary shares to \$0.35 per share from \$0.30 per share for the first quarter in 2016 (\$0.25 per share for the first and second quarters in 2015). During the six months ended May 31, 2016, our quarterly dividend declarations amounted to \$139 million (\$108 million at May 31, 2015).

## **NOTE 10 - Segment Information**

IFRS 8 "Operating Segments" requires that an entity's operating segments are reported on the same basis as the internally reported information that is provided to the chief operating decision maker ("CODM"), who is the President and Chief Executive Officer of Carnival Corporation and Carnival plc. Carnival Corporation & plc has four reportable segments that are comprised of (1) North America, (2) Europe, Australia & Asia ("EAA"), (3) Cruise Support and (4) Tour and Other.

As previously discussed, within the DLC arrangement the most appropriate presentation of Carnival plc's results and financial position is by reference to the DLC Financial Statements, which are included in Section A, but do not form part of these Carnival plc Interim Financial Statements. The CODM assesses performance for Carnival plc and makes decisions to allocate resources based upon review of the U.S. GAAP results across all of Carnival Corporation & plc's segments.

The Carnival Corporation & plc North America segment includes Carnival Cruise Line, Holland America Line, Princess Cruises ("Princess") and Seabourn. The Carnival Corporation & plc EAA segment includes AIDA, Costa, Cunard, P&O Cruises (Australia) and P&O Cruises (UK) and ship operations of Fathom, our newest brand. The operations of these reporting units have been aggregated into two reportable segments based on the similarity of their economic and other characteristics, including types of customers, regulatory environment, maintenance requirements, supporting systems and processes and products and services they provide. The Carnival Corporation & plc Cruise Support segment represents certain of its port and related facilities and other services that are provided for the benefit of its cruise brands and Fathom's selling, general and administrative expenses.

The Carnival Corporation & plc Tour and Other segment represents the hotel and transportation operations of Holland America Princess Alaska Tours and three ships that it bareboat charters to unaffiliated entities.

Selected information for the Carnival Corporation & plc segments and the reconciliation to the corresponding Carnival plc amounts for the six months ended May 31, 2016 and 2015 was as follows (in millions):

	<b>Revenues</b>	<b>Operating expenses</b>	<b>Selling and administrative</b>	<b>Depreciation and amortisation</b>	<b>Operating income (loss)</b>
<b><u>2016</u></b>					
North America (a)	\$ 4,538	\$ 2,700	\$ 603	\$ 519	\$ 716
EAA (b)	2,728	1,763	352	299	314
Cruise Support	63	11	123	23	(94)
Tour and Other (a)	42	41	5	20	(24)
Intersegment elimination (a)	<u>(14)</u>	<u>(14)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carnival Corporation & plc – U.S. GAAP	7,357	4,501	1,083	861	912
Carnival Corporation, U.S. GAAP vs. IFRS differences and eliminations (c)	<u>(4,047)</u>	<u>(2,167)</u>	<u>(691)</u>	<u>(526)</u>	<u>(663)</u>
Carnival plc – IFRS	<u>\$ 3,310</u>	<u>\$ 2,334</u>	<u>\$ 392</u>	<u>\$ 335</u>	<u>\$ 249</u>
<b><u>2015</u></b>					
North America (a)	\$ 4,459	\$ 2,911	\$ 558	\$ 497	\$ 493
EAA (b)	2,582	1,792	349	276	165
Cruise Support	52	6	108	12	(74)
Tour and Other (a)	44	47	5	22	(30)
Intersegment elimination (a)	<u>(17)</u>	<u>(17)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carnival Corporation & plc – U.S. GAAP	7,120	4,739	1,020	807	554
Carnival Corporation, U.S. GAAP vs. IFRS differences and eliminations (c)	<u>(4,006)</u>	<u>(2,416)</u>	<u>(637)</u>	<u>(501)</u>	<u>(452)</u>
Carnival plc – IFRS	<u>\$ 3,114</u>	<u>\$ 2,323</u>	<u>\$ 383</u>	<u>\$ 306</u>	<u>\$ 102</u>

- (a) A portion of North America's segment revenues includes revenues for the tour portion of a cruise when a land tour package is sold along with a cruise by Holland America Line and Princess. These intersegment tour revenues, which are also included in the Tour and Other segment, are eliminated directly by the North America segment's revenues and operating expenses in the line "Intersegment elimination."
- (b) Carnival plc consists principally of the EAA segment.
- (c) Carnival Corporation consists primarily of cruise brands that do not form part of the Group; however, these brands are included in Carnival Corporation & plc and thus represent substantially all of the reconciling items. These North American Carnival Corporation cruise brands are Carnival Cruise Line, Holland America Line, Princess and Seabourn. The U.S. GAAP vs. IFRS accounting differences principally relate to differences in the carrying value of ships and related depreciation expenses.

## **NOTE 11 - Related Party Transactions**

There have been no changes in the six months ended May 31, 2016 to the related party transactions described in the Group IFRS financial statements for the year ended November 30, 2015 that have a material effect on the financial position or results of operations of the Group.

During the six months ended May 31, 2016, Holland America Line and Princess purchased land tours from us totaling \$14 million (\$17 million in 2015) and packaged these land tours for sale with their cruises. In addition, during each of the six months ended May 31, 2016 we sold pre- and post-cruise vacations, shore excursions and transportation services to the Carnival Corporation group.

At May 31, 2016 and November 30, 2015, we owed \$2.0 billion to the Carnival Corporation group, which was unsecured and repayable on demand.

Within the DLC arrangement, there are instances where we provide services to Carnival Corporation group companies, and also where Carnival Corporation group companies provide services to us. Additional disclosures of related party transactions are discussed in Note 3 of the 2015 DLC Financial Statements, which do not form part of these Carnival plc Interim Financial Statements.

During the six months ended May 31, 2016 and 2015, Carnival plc had ship charter agreements with Princess for six and five ships, respectively, and Carnival Cruise Line for two ships operating in Australia and/or Asia. These charters are accounted for as operating leases. Princess and Carnival Cruise Line are subsidiaries of Carnival Corporation. The total charter payments for the six months ended May 31, 2016 were \$334 million (\$294 million in 2015), which were included in other ship operating expenses.

At May 31, 2016 and November 30, 2015, Carnival Corporation owned 1,115,450, or 0.5%, of Carnival plc's ordinary shares, which are non-voting. At May 31, 2016, Carnival Investments Limited ("CIL"), a wholly-owned subsidiary of Carnival Corporation, owned 24,901,144 or 11.5%, of Carnival plc's ordinary shares, which are also non-voting (25,792,144 or 11.9% at November 30, 2015). In the six months ended May 31, 2016, Carnival Corporation and CIL received dividends on their Carnival plc ordinary shares in the aggregate amount of \$17 million.

During the six months ended May 31, 2016, CIL sold 0.9 million of Carnival plc ordinary shares for net proceeds of \$40 million. Substantially all of the net proceeds from these sales were used to purchase 0.9 million shares of Carnival Corporation common stock. Pursuant to our Stock Swap program, Carnival Corporation sold these Carnival plc ordinary shares owned by CIL only to the extent it was able to repurchase shares of Carnival Corporation common stock in the U.S. on at least an equivalent basis. During the six months ended May 31, 2015, no Carnival plc ordinary shares or Carnival Corporation common stock were sold or repurchased under the Stock Swap programs.

During the six months ended May 31, 2016, Carnival plc continued to provide a guarantee to the Merchant Navy Officers Pension Fund for certain employees who have transferred from Carnival plc to a subsidiary of Carnival Corporation.

## **Key Management Personnel**

During the six months ended May 31, 2016, there were no material transactions or balances between the Group and its key management personnel or members of their close family, other than in respect of remuneration, which is not material to the Group.

## **NOTE 12 - Principal Risks and Uncertainties**

Within the DLC arrangement, the Boards of Directors assess our risks on a consolidated Carnival Corporation & plc basis. On June 24, 2016, the UK electorate voted to withdraw from the European Union. It is not currently possible to determine all of the potential consequences from this vote; these will depend, in part, on which withdrawal option the UK adopts. Among other things, we believe there could be potential changes in global consumer confidence, impacts to various foreign currency exchange rates, friction in travel, changes to international tax treaties and changes to laws and regulations. These risks are already addressed in our principal risks and uncertainties affecting our business activities, which are included in Item 5. "Risk Management and/or Mitigation of Principal Risks" of our 2015 Strategic Report and, for the remaining six months of fiscal 2016, remain the same.

## **NOTE 13 - 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.

## **NOTE 14 - Employee Benefit Plans**

Actuarial valuations for the Group's retirement benefit pension plans are formally updated triennially and valuations for these plans have been carried out at regular intervals, as required by the UK regulations. An interim valuation was carried out at May 31, 2016. As part of this update, the liabilities for the schemes are recalculated to reflect revised actuarial assumptions and the plan assets are revalued based on market data at May 31, 2016.

## **NOTE 15 - Financial Risk Management and Financial Instruments**

The Group's activities expose it to a variety of financial risks such as foreign currency risk, fair value and cash flow interest rate risks, credit risk and liquidity risk.

The Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements; as such they should be read in conjunction with the Group's annual financial statements at November 30, 2015 and the DLC Financial Statements for the three and six months ended May 31, 2016. There have been no significant changes in the risk management department or the risk management policies since November 30, 2015.

### **Liquidity Risk**

Within the DLC arrangement, liquidity and liquidity risk is assessed on a consolidated Carnival Corporation & plc basis and there are cross guarantees between the two parent companies that result in there being little substantive difference in the availability of debt financing for either Carnival Corporation or Carnival plc. Typically, the Carnival Corporation & plc debt financing agreements allow for either Carnival Corporation or Carnival plc to draw under the facilities, with the non-borrowing parent as guarantor. For additional information see the "Liquidity, Financial Condition and Capital Resources" section within Schedule B.

As noted in the "Future Commitments and Funding Sources" section within Schedule B, at May 31, 2016 the consolidated Carnival Corporation & plc group had liquidity of \$10.7 billion. Carnival Corporation & plc's liquidity consisted of \$290 million of cash and cash equivalents, which excludes \$229 million of cash used for current operations, \$2.6 billion available for borrowing under its revolving credit facilities, net of our commercial paper borrowings, and \$7.8 billion under its committed future financings, which are comprised of ship export credit

facilities. Of this \$7.8 billion, \$0.2 billion is available for funding in 2016, \$0.9 billion in 2017, \$1.9 billion in 2018, \$2.5 billion in 2019 and \$2.3 billion in 2020. At May 31, 2016, Carnival Corporation & plc revolving credit facilities are scheduled to mature in 2021, except for \$400 million that matures in 2020. These commitments are from numerous large and well-established banks and export credit agencies, which we believe will honor their contractual agreements with us.

### **Fair Value Measurements**

IFRS establishes a fair value hierarchy prioritising the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). This hierarchy requires entities to maximise the use of observable inputs and minimise the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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

There were no transfers between Level 1, Level 2 and Level 3 during the six months ended May 31, 2016 and 2015. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable market participants. When quoted prices are not readily available, our own assumptions are set to reflect those that we believe market participants would use in pricing the asset or liability.

The fair value measurement of a financial asset or financial liability reflects the non-performance risk of both parties to the contract. Therefore, the fair value measurement of our financial instruments reflects the impact of our counterparty's creditworthiness for asset positions, and our creditworthiness for liability positions. Creditworthiness did not have a significant impact on the fair values of our financial instruments at May 31, 2016 and November 30, 2015. 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 realised in a current or future market exchange.



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

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

	May 31, 2016				November 30, 2015			
		Fair Value				Fair Value		
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
<b>Assets</b>								
Cash and cash equivalents (a)	\$ 176	\$ 176	\$ -	\$ -	\$ 136	\$ 136	\$ -	\$ -
Restricted cash (b)	45	45	-	-	-	-	-	-
Long-term other assets (c)	3	-	-	3	3	-	-	3
Total	<u>\$ 224</u>	<u>\$ 221</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 139</u>	<u>\$ 136</u>	<u>\$ -</u>	<u>\$ 3</u>
<b>Liabilities</b>								
<b>Floating rate debt</b>								
(d)								
Euro export credit facilities	\$ 1,378	\$ -	\$ 1,368	\$ -	\$ 1,387	\$ -	\$ 1,402	\$ -
Bank loans	150	-	149	-	150	-	149	-
Short-term euro bank loans	4	-	4	-	30	-	30	-
	<u>\$ 1,532</u>	<u>\$ -</u>	<u>\$ 1,521</u>	<u>\$ -</u>	<u>\$ 1,567</u>	<u>\$ -</u>	<u>\$ 1,581</u>	<u>\$ -</u>
<b>Fixed rate debt</b>								
(d)								
Bearing interest at 3.0% to 3.9%	\$ 289	\$ -	\$ 317	\$ -	\$ 295	\$ -	\$ 327	\$ -
Bearing interest at 4.0% to 4.9%	294	-	321	-	327	-	358	-
Bearing interest at 7.0% to 7.9%	138	-	148	-	131	-	145	-
Total	<u>\$ 721</u>	<u>\$ -</u>	<u>\$ 786</u>	<u>\$ -</u>	<u>\$ 753</u>	<u>\$ -</u>	<u>\$ 830</u>	<u>\$ -</u>

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

(b) Restricted cash is comprised of funds held in escrow.

(c) At May 31, 2016 and November 30, 2015, long term other assets were comprised of a note receivable. The fair value of our note receivable was estimated using a risk-adjusted discount rate.

(d) Debt does not include the impact of interest rate swaps. The net difference between the fair value of our fixed rate debt and its carrying value was due to the market interest rates in existence at May 31, 2016 and November 30, 2015 being lower than the fixed interest rates on these debt obligations, including the impact of any changes in our credit ratings. At May 31, 2016 and November 30, 2015, the net difference between the fair value of our floating rate debt and its carrying value was due to the market interest rates in existence at May 31, 2016 and November 30, 2015 being slightly higher and lower, respectively, than the floating interest rates on these debt obligations, including the impact of any changes in our credit ratings. The fair values of our debt were estimated based on appropriate market interest rates being applied to this debt.

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

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

	<b>May 31, 2016</b>		<b>November 30, 2015</b>	
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 1</b>	<b>Level 2</b>
<b>Assets</b>				
Cash equivalents (a)	\$ 228	\$ -	\$ 685	\$ -
Restricted Cash (b)	4	-	-	-
Marketable securities held in trust (c)	1	-	1	-
Derivatives				
Net investment hedges (d)	-	9	-	14
<b>Total</b>	<b>\$ 233</b>	<b>\$ 9</b>	<b>\$ 686</b>	<b>\$ 14</b>
<b>Liabilities</b>				
Derivatives				
Interest rate swaps (e)	-	28	-	(24)
<b>Total</b>	<b>\$ -</b>	<b>\$ 28</b>	<b>\$ -</b>	<b>\$ (24)</b>

- (a) Cash equivalents are comprised of money market funds.
- (b) Restricted cash is comprised of a money market fund.
- (c) At May 31, 2016 and November 30, 2015, marketable securities held in trusts were comprised of Level 1 bonds, frequently-priced mutual funds invested in common stocks and money market funds.
- (d) At May 31, 2016, we had foreign currency forwards totalling \$34 million (\$44 million at November 30, 2015) that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. These foreign currency forwards settle through July 2017.
- (e) At May 31, 2016 and November 30, 2015, we had euro interest rate swaps designated as cash flow hedges whereby we receive floating interest rate payments in exchange for making fixed interest rate payments. At May 31, 2016, these interest rate swap agreements effectively changed \$414 million (\$418 million at November 30, 2015) of EURIBOR-based floating rate euro debt to fixed rate euro debt. These interest rate swaps settle through March 2025.

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

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

<b>May 31, 2016</b>						
	<b>Gross Amounts</b>	<b>Gross Amounts Offset in the Balance Sheet</b>	<b>Total Net Amounts Presented in the Balance Sheet</b>	<b>Gross Amounts not Offset in the Balance Sheet</b>	<b>Net Amounts</b>	
Assets	\$ 9	\$ -	\$ 9	\$ -	\$	9
Liabilities	\$ 28	\$ -	\$ 28	\$ -	\$	28

<b>November 30, 2015</b>						
	<b>Gross Amounts</b>	<b>Gross Amounts Offset in the Balance Sheet</b>	<b>Total Net Amounts Presented in the Balance Sheet</b>	<b>Gross Amounts not Offset in the Balance Sheet</b>	<b>Net Amounts</b>	
Assets	\$ 14	\$ -	\$ 14	\$ -	\$	14
Liabilities	\$ 24	\$ -	\$ 24	\$ -	\$	24

## Capital Management

The Group manages its capital on a consolidated Carnival Corporation & plc basis. Within the DLC arrangement, the consolidated Carnival Corporation & plc group's primary financial goals are to profitably grow its cruise business and increase its return on invested capital ("ROIC"), reaching double digit returns in the next two to three years, while maintaining a strong balance sheet and strong investment grade credit ratings (we define ROIC as the twelve month adjusted earnings before interest divided by the monthly average of debt plus equity minus construction-in-progress). Carnival Corporation & plc's ability to generate significant operating cash flows allows it to internally fund its capital investments. As Carnival Corporation & plc continues to profitably grow its cruise business it plans to increase its debt level, in a manner consistent with maintaining its strong credit metrics and strong investment grade credit ratings. This will allow Carnival Corporation & plc to return both free cash flows and incremental debt proceeds to its shareholders in the form of dividends and/or share buybacks. Other objectives of its capital structure policy are to maintain a sufficient level of liquidity with its available cash and cash equivalents and committed financings for immediate and future liquidity needs, and a reasonable debt maturity profile that is spread out over a number of years. For additional information see the "Liquidity, Financial Condition and Capital Resources" section in the MD&A section of the DLC Financial Statements within the attached Schedule B of this Interim Financial Report, which does not form part of these Interim Financial Statements.

## Fuel Price Risks

The Group manages its fuel price risks on a consolidated Carnival Corporation & plc basis. Substantially all of our exposure to market risk for changes in fuel prices relates to the consumption of fuel on our ships. For additional information see the "Fuel Price Risk" section of Note 4 of the DLC Financial Statements within the attached Schedule A of this Interim Financial Report, which does not form part of these Interim Financial Statements.

## **Foreign Currency Exchange Rate Risks**

### **Overall Strategy**

The Group manages its foreign currency exchange rate risks on a consolidated Carnival Corporation & plc basis. Within the DLC arrangement, consolidated Carnival Corporation & plc manages its exposure to fluctuations in foreign currency exchange rates through its normal operating and financing activities, including netting certain exposures to take advantage of any natural offsets and, when considered appropriate, through the use of derivative and nonderivative financial instruments. Carnival Corporation & plc's primary focus is to manage the economic foreign currency exchange risks faced by its operations. Those risks are the ultimate foreign currency exchange risks that would be realised if they exchanged one currency for another and are not the accounting risks. Carnival Corporation & plc monitors its exposure to these economic risks. Carnival Corporation & plc currently only hedges certain of its ship commitments and net investments in foreign operations. The financial impacts of the hedging instruments it employs generally offset the changes in the underlying exposures being hedged.

### **Operational Currency Risks**

Carnival Corporation & plc's EAA segment operations, which substantially has the same currency operational exposures as the Group, generate significant revenues and incur significant expenses in their euro, sterling or Australian dollar functional currency, which subjects it to "foreign currency translational" risk related to these currencies. Accordingly, exchange rate fluctuations of the euro, sterling and Australian dollar against the U.S. dollar will affect its reported financial results since the reporting currency for Carnival Corporation & plc's consolidated financial statements is the U.S. dollar. Any strengthening of the U.S. dollar against these foreign currencies has the financial statement effect of decreasing the U.S. dollar values reported for this segment's revenues and expenses. Any weakening of the U.S. dollar has the opposite effect.

Substantially all of Carnival Corporation & plc's operations also have non-functional currency risk related to their international sales, which are principally denominated in euro, sterling and Australian, Canadian and U.S. dollars. In addition, Carnival Corporation & plc has a portion of its operating expenses denominated in non-functional currencies. Accordingly, Carnival Corporation & plc also has "foreign currency transactional" risks related to changes in the exchange rates for its revenues and expenses that are in a currency other than the functional currency. The revenues and expenses which occur in the same non-functional currencies create some degree of natural offset.

### **Investment Currency Risks**

Within the DLC arrangement, investment currency risks are considered from the consolidated basis of Carnival Corporation & plc, which is substantially the same as the Group. Carnival Corporation & plc considers its investments in foreign operations to be denominated in stable currencies. Carnival Corporation & plc's investment in foreign operations are of a long-term nature. At May 31, 2016, substantially all of the Carnival Corporation & plc's net operating assets were denominated in euros, sterling and Australian dollars. As a result of this currency composition, the Carnival Corporation & plc's U.S. dollar consolidated balance sheet can be affected by currency movements. Carnival Corporation & plc partially mitigates the effect of such movements by entering into foreign currency forwards and having some borrowings in the same currencies as those in which the assets are denominated.

At May 31, 2016, Carnival Corporation & plc and the Group has \$34 million of foreign currency forwards that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency, thus partially offsetting this foreign currency exchange rate risk (\$44 million at November 30, 2015).

### **Newbuild Currency Risks**

Within the DLC arrangement, consolidated Carnival Corporation & plc's shipbuilding contracts are typically denominated in euros. Carnival Corporation & plc's decisions to hedge a non-functional currency ship commitment for its cruise brands is made on a case-by-case basis, considering the amount and duration of the exposure, market volatility, economic trends, its overall expected net cash flows by currency and other offsetting risks. Carnival Corporation & plc uses foreign currency derivative contracts and have used nonderivative financial instruments to manage foreign currency exchange rate risk for some of its ship construction payments.

At May 31, 2016, Carnival Corporation & plc's remaining newbuild currency exchange rate risk relates to euro-denominated newbuild contract payments, which represent a total unhedged commitment of \$2.6 billion and relates

to Carnival Cruise Line, Holland America Line, P&O Cruises (Australia), Princess and Seabourn newbuilds scheduled to be delivered through 2020. At May 31, 2016, the Group's remaining newbuild currency exchange rate risk relates to euro-denominated newbuild contract payments, which represent a total unhedged commitment of \$704 million.

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

### **Interest Rate Risks**

Within the DLC arrangement, consolidated Carnival Corporation & plc manages its exposure to fluctuations in interest rates through its debt portfolio management and investment strategies. They evaluate their debt portfolio to determine whether to make periodic adjustments to the mix of fixed and floating rate debt through the use of interest rate swaps and the issuance of new debt or the early retirement of existing debt. At May 31, 2016, 62% and 38% (60% and 40% at November 30, 2015) of Carnival Corporation & plc debt bore fixed and floating interest rates, respectively, including the effect of interest rates swaps. For additional information see Note 4 and the MD&A section of the DLC Financial Statements within the attached Schedule A and Schedule B of this Interim Financial Report, which do not form part of these Carnival plc condensed interim consolidated financial statements.

There are no amounts excluded from the assessment of hedge effectiveness, and there are no credit risk related contingent features in our derivative agreements. The amount of estimated cash flow hedges' unrealised gains and losses that are expected to be reclassified to earnings in the next twelve months is not significant. Ineffectiveness arising on cash flow hedges was not material during the six months ended May 31, 2016 and 2015 and, accordingly, substantially all cash flow hedges were considered effective.

### **NOTE 16 - Responsibility Statement**

The Directors confirm that to the best of their knowledge the interim condensed consolidated financial statements included as Schedule D to this release has been prepared in accordance with IAS 34 as adopted by the European Union, and that the half-yearly financial report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's FCA.

The Directors of Carnival plc are listed in the Carnival Corporation & plc Annual Report for the year ended November 30, 2015. No new Directors have been appointed during the six months ended May 31, 2016. A list of current Directors is maintained and is available for inspection on the Group's website at [www.carnivalplc.com](http://www.carnivalplc.com).

By order of the Board

Micky Arison  
Chairman of the Board of Directors  
July 1, 2016

Arnold W. Donald  
President and Chief Executive Officer and Director  
July 1, 2016