

CARNIVAL CORP
Form 10-K
January 29, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended November 30, 2017 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission file number: 001-9610

Commission file number: 001-15136

Carnival Corporation
(Exact name of registrant as
specified in its charter)

Carnival plc
(Exact name of registrant as
specified in its charter)

Republic of Panama
(State or other jurisdiction of
incorporation or organization)

England and Wales
(State or other jurisdiction of
incorporation or organization)

59-1562976
(I.R.S. Employer Identification No.)

98-0357772
(I.R.S. Employer Identification No.)

3655 N.W. 87th Avenue
Miami, Florida 33178-2428
(Address of principal
executive offices
and zip code)

Carnival House, 100 Harbour Parade,
Southampton SO15 1ST, United Kingdom
(Address of principal
executive offices
and zip code)

(305) 599-2600
(Registrant's telephone number,
including area code)

011 44 23 8065 5000
(Registrant's telephone number,
including area code)

Securities registered pursuant
to Section 12(b) of the Act:

Securities registered pursuant
to Section 12(b) of the Act:

Title of each class

Title of each class

Common Stock
(\$0.01 par value)

Ordinary Shares each represented
by American Depositary Shares
(\$1.66 par value), Special Voting Share,
GBP 1.00 par value and Trust Shares
of beneficial interest in the
P&O Princess Special Voting Trust

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Name of each exchange on which registered Name of each exchange on which registered
 New York Stock Exchange, Inc. New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was \$25.6 billion as of the last business day of the registrant's most recently completed second fiscal quarter.

At January 18, 2018, Carnival Corporation had outstanding 534,171,562 shares of its Common Stock, \$0.01 par value.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was \$11.9 billion as of the last business day of the registrant's most recently completed second fiscal quarter.

At January 18, 2018, Carnival plc had outstanding 209,345,279 Ordinary Shares \$1.66 par value, one Special Voting Share GBP 1.00 par value and 534,171,562 Trust Shares of beneficial interest in the P&O Princess Special Voting Trust.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2017 Annual Report and 2018 joint definitive Proxy Statement are incorporated by reference into Part II and Part III of this report.

CARNIVAL CORPORATION & PLC
 FORM 10-K
 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2017

TABLE OF CONTENTS

PART I

Item 1. <u>Business</u>	4
<u>A. Overview</u>	4
<u>I. Summary</u>	4
<u>II. Vision, Goals and Related Strategies</u>	4
<u>B. Global Cruise Industry</u>	6
<u>I. Overview</u>	6
<u>II. Favorable Characteristics of the Global Cruise Industry</u>	6
<u>III. Passenger Capacity and Cruise Guests Carried by Ocean Going Vessels</u>	8
<u>C. Our Global Cruise Business</u>	8
<u>I. Segment Information</u>	8
<u>II. Ships Under Contract for Construction</u>	9
<u>III. Cruise Brands</u>	10
<u>IV. Principal Source Geographic Areas</u>	15
<u>V. Cruise Programs</u>	15
<u>VI. Cruise Pricing and Payment Terms</u>	16
<u>VII. Seasonality</u>	16
<u>VIII. Onboard and Other Revenues</u>	17
<u>IX. Marketing Activities</u>	17
<u>X. Sales Relationships</u>	18
<u>XI. Sustainability</u>	18
<u>XII. Employees</u>	19
<u>XIII. Training</u>	20
<u>XIV. Information Technology</u>	20
<u>XV. Innovation</u>	20
<u>XVI. Supply Chain</u>	21
<u>XVII. Insurance</u>	21
<u>XVIII. Port Destinations and Private Islands</u>	22
<u>XIX. Governmental Regulations</u>	22
<u>XX. Taxation</u>	28
<u>XXI. Trademarks and Other Intellectual Property</u>	29
<u>XXII. Competition</u>	29
<u>D. Website Access to Carnival Corporation & plc SEC Reports</u>	30
<u>E. Industry and Market Data</u>	30
Item 1A. <u>Risk Factors</u>	31
Item 1B. <u>Unresolved Staff Comments</u>	37

Item 2.	<u>Properties</u>	<u>37</u>
Item 3.	<u>Legal Proceedings</u>	<u>37</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>37</u>
	<u>Executive Officers of the Registrants</u>	<u>38</u>
PART II		
Item 5.	<u>Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>38</u>
Item 6.	<u>Selected Financial Data</u>	<u>40</u>
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>41</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
Item 8.	<u>Financial Statements and Supplementary Data</u>	<u>41</u>
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>41</u>
Item 9A.	<u>Controls and Procedures</u>	<u>41</u>
Item 9B.	<u>Other Information</u>	<u>41</u>
PART III		
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>42</u>
Item 11.	<u>Executive Compensation</u>	<u>42</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>42</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>43</u>
Item 14.	<u>Principal Accountant Fees and Services</u>	<u>43</u>
PART IV		
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	<u>43</u>
Item 16.	<u>Form 10-K Summary</u>	<u>48</u>

DOCUMENTS INCORPORATED BY REFERENCE

The information described below and contained in the Registrants' 2017 Annual Report to shareholders to be furnished to the U.S. Securities and Exchange Commission pursuant to Rule 14a-3(b) of the Securities Exchange Act of 1934 is shown in Exhibit 13 and is incorporated by reference into this joint 2017 Annual Report on Form 10-K ("Form 10-K").

Part and Item of the Form 10-K

Part II

Item 5(a). Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities –
Market Information, Holders and Performance Graph.

Item 6. Selected Financial Data.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Item 8. Financial Statements and Supplementary Data.

Portions of the Registrants' 2018 joint definitive Proxy Statement, to be filed with the U.S. Securities and Exchange Commission, are incorporated by reference into this Form 10-K under the items described below.

Part and Item of the Form 10-K

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

Item 11. Executive Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Item 14. Principal Accountant Fees and Services.

PART I

Item 1. Business.

A. Overview

I. Summary

Carnival Corporation was incorporated in Panama in 1972 and Carnival plc was incorporated in England and Wales in 2000. Carnival Corporation and Carnival plc operate a dual listed company (“DLC”), whereby the businesses of Carnival Corporation and Carnival plc are combined through a number of contracts and through provisions in Carnival Corporation’s Articles of Incorporation and By-Laws and Carnival plc’s Articles of Association. The two companies operate as if they are a single economic enterprise with a single senior executive management team and identical Boards of Directors (“BODs”), but each has retained its separate legal identity. Carnival Corporation and Carnival plc are both public companies with separate stock exchange listings and their own shareholders. Together with their consolidated subsidiaries, Carnival Corporation and Carnival plc are referred to collectively in this Form 10-K as “Carnival Corporation & plc,” “our,” “us” and “we.”

We are the world’s largest leisure travel company and among the most profitable and financially strong in the cruise and vacation industries. We are also the largest cruise company, carrying nearly half of global cruise guests, and a leading provider of vacations to all major cruise destinations throughout the world. With operations in North America, Europe, Australia, and Asia, we operate over 100 cruise ships within a portfolio of leading global, regional and national cruise brands that sell tailored cruise products, services and vacation experiences in all the world’s most desirable destinations.

II. Vision, Goals and Related Strategies

Our vision is “Together we deliver unmatched joyful vacation experiences and breakthrough shareholder returns by exceeding guest expectations and leveraging our scale.” We believe our portfolio of brands is instrumental to achieving our vision and maintaining our cruise industry leadership positions. Our primary financial goals are to profitably grow our cruise business and increase our return on invested capital, while maintaining our strong investment grade credit ratings and balance sheet. Health, environment, safety, security (“HESS”) and sustainability is a core focus for our operations and these matters directly influence how we measure our performance.

To reach our primary financial goals, we continue to implement initiatives to create additional demand for our brands in excess of measured capacity growth, ultimately leading to higher revenue yields. We will continue to identify opportunities to enhance our cruise products and services and optimize our cost structure while preserving the unique identities of our individual brands. We have made significant investments in performing customer segmentation analyses and data analytics to gain insight into our guests’ decision-making process and vacation needs enabling us to identify new marketing opportunities and further grow our share of their vacation spend. We have also implemented strategies to grow demand by increasing consumer awareness and consideration of our cruise brands and the global cruise industry through our ongoing marketing, public relations and guest experience efforts.

We continue to identify and implement new strategies and tactics to strengthen our cruise ticket revenue management processes and systems across our portfolio of brands, such as optimizing our pricing methodologies and improving our pricing models. We are currently rolling-out our state-of-the-art revenue management system across six brands and expect the roll-out to be completed in 2018. We also continue to implement initiatives to better coordinate and optimize our brands’ global deployment strategies to maximize guest satisfaction and profits.

We are building new, innovative, purpose-built ships that are larger, more fuel efficient, have an improved mix of guest accommodations and present a wider range of onboard amenities and features. These ships further enhance the attractiveness of a cruise vacation while achieving greater economies of scale and resulting in improved returns on invested capital. As of November 30, 2017, we have a total of 18 cruise ships scheduled to be delivered between 2018 and 2022. Some of these ships will replace existing capacity as less efficient ships exit our fleet. Since 2006, we have removed 19 ships from our fleet, and our newbuild program has been designed to consider an expected acceleration in our fleet replacement cycle over time. Furthermore, we continue to make substantial investments in our existing ship enhancement programs to improve our onboard product offerings and enrich our guests' vacation experiences.

We continue to grow our presence in established markets and increase our penetration in developing markets, such as Asia. We believe that our most significant long-term growth opportunity in Asia is in China, due to its large and growing middle-class

population, expansion of its international tourism and the government's plan to support the cruise industry. During 2018, we expect 5% of our total capacity to be deployed in China.

With over 100 ships and 12.1 million guests in 2017, we have the scale to optimize our structure by utilizing our combined purchasing volumes and common technologies as well as accelerating progress on our cross-brand initiatives aimed at cost containment. We have and continue to integrate certain back office functions to achieve the full benefits of our scale. Having global leaders in communications, innovation, maritime, procurement, revenue management and strategy supports collaboration and communication across our brands and helps coordinate our global efforts.

Our ability to generate significant operating cash flow allows us to internally fund our capital investments. This allows us to manage our debt level in a manner consistent with maintaining our strong credit metrics and strong investment grade credit ratings while returning free cash flow and more to our shareholders in the form of dividends and share buybacks. In 2017, we increased our quarterly dividend to \$0.45 per share from \$0.35 per share, representing over \$1 billion in annual dividends. Since resuming our stock repurchase program in late 2015, we repurchased approximately 63 million shares for \$3.1 billion.

Our vision is based on four key pillars:

Health, environment, safety, security and sustainability

Guests

Employees

Shareholders and other stakeholders

Health, Environment, Safety, Security and Sustainability

Our uncompromising commitment to the safety and comfort of our guests and crew is paramount to the success of our business. We are committed to operating a safe and reliable fleet and protecting the health, safety and security of our guests, employees and all others working on our behalf. We continue to focus on further enhancing the safety measures onboard all of our ships. We are dedicated to fully complying with, or exceeding, all legal and statutory requirements related to health, environment, safety, security and sustainability throughout our business.

We are committing resources across the entire corporation to further improve how we operate to protect and preserve our oceans. We have implemented important fleet-wide changes and enhancements to our environmental processes and procedures, all with the goal to improve our operations, oversight and compliance with our previously disclosed December 2016 plea agreement. Since 2013, we have restructured our fleet operations organization including strengthening its leadership. We also increased the scope and frequency of our training, and invested millions of dollars to upgrade our equipment to new ship standards to ensure compliance with all environmental regulations.

Guests

Our goal is to consistently exceed our guests' expectations while providing them with a wide variety of exceptional vacation experiences. We believe that we can achieve this goal by continually focusing our efforts on helping our guests choose the cruise brand that will best meet their unique needs and desires, improving their overall vacation experiences and building state-of-the-art ships with innovative onboard offerings and providing unequaled guest services. We enhance our guest experience by offering high quality destinations around the world including a portfolio of private destinations that are uniquely tailored to our guests' preferences.

Employees

Our goal is to recruit, develop and retain the finest employees. A team of highly motivated and engaged employees is key to delivering vacation experiences that exceed our guests' expectations. Understanding the critical skills that are needed for outstanding performance is crucial in order to hire and train our officers, crew and shoreside personnel. We believe in listening to and acting upon our employees' perspectives and ideas and use employee feedback tools to monitor and improve our progress in this area. We are a diverse organization and value and support our talented and diverse employee base. We are committed to employing people from around the world and hiring them based on the quality of their experience, skills, education and character, without regard for their identification with any group or classification of people.

Shareholders and Other Stakeholders

We value the relationships we have with our shareholders and other stakeholders, including travel agents, trade associations, communities, regulatory bodies, media, creditors, insurers, shipbuilders, governments and suppliers. We believe that engaging stakeholders in a mutually beneficial manner is critical to our long-term success. As part of this effort, we believe we must continue to be an outstanding corporate citizen in the communities in which we operate. Our brands work to meet or exceed their economic, environmental, ethical and legal responsibilities.

Strong relationships with our travel agent partners are especially vital to our success. We continue to strengthen our relationship with the travel agent community by increasing our communication and outreach, implementing changes based on their feedback and improving our educational programs to assist agents in stimulating cruise demand.

B. Global Cruise Industry

I. Overview

Cruising offers a broad range of products and services to suit vacationing guests of many ages, backgrounds and interests. Cruise brands can be broadly classified as offering contemporary, premium and luxury cruise experiences. The contemporary experience typically includes cruises that last seven days or less, have a more casual ambiance and are less expensive than premium or luxury cruises. The premium experience typically includes cruises that last from seven to 14 days and appeal to those who are more affluent and older. Premium cruises emphasize quality, comfort, style and more destination-focused itineraries, and the average pricing is normally higher than contemporary cruises. The luxury experience is usually characterized by smaller vessel size, very high standards of accommodation and service, higher prices and exotic itineraries to ports that are inaccessible to larger ships. We have product and service offerings in each of these three broad classifications. Notwithstanding these classifications, there is generally overlap and competition among all cruise products and services.

II. Favorable Characteristics of the Global Cruise Industry

a. High Guest Satisfaction Rates