

July 18, 2017

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

Carnival Corporation & plc announced its three and six months results of operations in its earnings release issued on June 22, 2017. Carnival Corporation & plc 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 2017 three and six months unaudited consolidated financial statements on June 30, 2017.

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. The Carnival Corporation & plc unaudited consolidated financial statements contained in the Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

- **Schedule A** contains the unaudited consolidated financial statements for Carnival Corporation & plc as of and for the three and six months ended May 31, 2017
- **Schedule B** contains the management's discussion and analysis ("MD&A") of financial conditions and results of operations
- **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 condensed financial statements for the Carnival plc Group ("Interim Financial Statements") as of and for the six months ended May 31, 2017. The Interim Financial Statements exclude the consolidated results of Carnival Corporation and are prepared under International Financial Reporting Standards as adopted by the European Union.

The Directors consider that within the Carnival Corporation and Carnival plc dual listed company ("DLC") arrangement, the most appropriate presentation of Carnival plc's results and financial position is by reference to the Carnival Corporation and plc U.S. GAAP unaudited consolidated financial statements.

All these schedules (A, B, C & D) are presented together as Carnival plc's Group half-yearly financial report ("Interim 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 under Carnival Corporation or Carnival plc or the Carnival Corporation & plc website at www.carnivalcorp.com or 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. 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 world's largest leisure travel company and among the most profitable and financially strong in the cruise and vacation industries, with a portfolio of 10 dynamic brands that include nine of the world's leading cruise lines. With operations in North America, Europe, Australia and Asia, its portfolio features Carnival Cruise Line, Holland America Line, Princess Cruises, Seabourn, AIDA Cruises, Costa Cruises, Cunard, P&O Cruises (Australia) and P&O Cruises (UK), as well as Fathom, the corporation's immersion and enrichment experience brand.

Together, the corporation's cruise lines operate 103 ships with 231,000 lower berths visiting over 700 ports around the world, with 17 new ships scheduled to be delivered between 2018 and 2022. Carnival Corporation & plc also operates Holland America Princess Alaska Tours, the leading tour company 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.

In 2017, *Fast Company* recognized Carnival Corporation as being among the "Top 10 Most Innovative Companies" in both the design and travel categories. *Fast Company* specifically recognized Carnival Corporation for its work in developing Ocean Medallion™, a high-tech wearable device that enables the world's first interactive guest experience platform capable of transforming vacation travel into a highly personalized and elevated level of customized service.

Additional information can be found on www.carnival.com, www.fathom.org, www.hollandamerica.com, www.princess.com, www.seabourn.com, www.aida.de, www.costacruise.com, www.cunard.com, www.pocruses.com.au and www.pocruses.com.

SCHEDULE A

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

CARNIVAL CORPORATION & PLC
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in millions, except per share data)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Revenues				
Cruise				
Passenger tickets	\$ 2,872	\$ 2,696	\$ 5,676	\$ 5,414
Onboard and other	1,036	978	2,014	1,901
Tour and other	37	31	46	42
	<u>3,945</u>	<u>3,705</u>	<u>7,736</u>	<u>7,357</u>
Operating Costs and Expenses				
Cruise				
Commissions, transportation and other	513	495	1,082	1,077
Onboard and other	129	123	253	240
Payroll and related	513	502	1,032	994
Fuel	310	196	607	383
Food	253	248	504	495
Other ship operating	685	667	1,346	1,271
Tour and other	33	27	46	41
	<u>2,436</u>	<u>2,258</u>	<u>4,870</u>	<u>4,501</u>
Selling and administrative	553	532	1,102	1,083
Depreciation and amortization	456	437	896	861
	<u>3,445</u>	<u>3,227</u>	<u>6,868</u>	<u>6,445</u>
Operating Income	<u>500</u>	<u>478</u>	<u>868</u>	<u>912</u>
Nonoperating Income (Expense)				
Interest income	2	2	4	3
Interest expense, net of capitalized interest	(50)	(57)	(101)	(108)
(Losses) gains on fuel derivatives, net	(53)	171	(27)	(65)
Other (expense) income, net	(15)	13	(7)	8
	<u>(116)</u>	<u>129</u>	<u>(131)</u>	<u>(162)</u>
Income Before Income Taxes	384	607	737	750
Income Tax Expense, Net	(5)	(2)	(7)	(3)
Net Income	<u>\$ 379</u>	<u>\$ 605</u>	<u>\$ 730</u>	<u>\$ 747</u>
Earnings Per Share				
Basic	<u>\$ 0.52</u>	<u>\$ 0.81</u>	<u>\$ 1.01</u>	<u>\$ 0.99</u>
Diluted	<u>\$ 0.52</u>	<u>\$ 0.80</u>	<u>\$ 1.00</u>	<u>\$ 0.98</u>
Dividends Declared Per Share	<u>\$ 0.40</u>	<u>\$ 0.35</u>	<u>\$ 0.75</u>	<u>\$ 0.65</u>

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

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Net Income	\$ 379	\$ 605	\$ 730	\$ 747
Items Included in Other Comprehensive Income				
Change in foreign currency translation adjustment	257	280	257	72
Other	29	15	43	21
Other Comprehensive Income	286	295	300	93
Total Comprehensive Income	\$ 665	\$ 900	\$ 1,030	\$ 840

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

CARNIVAL CORPORATION & PLC
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in millions, except par values)

	May 31, 2017	November 30, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 597	\$ 603
Trade and other receivables, net	319	298
Inventories	351	322
Prepaid expenses and other	507	466
Total current assets	1,774	1,689
Property and Equipment, Net	33,823	32,429
Goodwill	2,953	2,910
Other Intangibles	1,286	1,275
Other Assets	615	578
	\$ 40,451	\$ 38,881
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	\$ 675	\$ 457
Current portion of long-term debt	1,108	640
Accounts payable	690	713
Accrued liabilities and other	1,807	1,740
Customer deposits	4,778	3,522
Total current liabilities	9,058	7,072
Long-Term Debt	7,635	8,302
Other Long-Term Liabilities	794	910
Contingencies		
Shareholders' Equity		
Common stock of Carnival Corporation, \$0.01 par value; 1,960 shares authorized; 655 shares at 2017 and 654 shares at 2016 issued	7	7
Ordinary shares of Carnival plc, \$1.66 par value; 217 shares at 2017 and 2016 issued	358	358
Additional paid-in capital	8,673	8,632
Retained earnings	22,026	21,843
Accumulated other comprehensive loss	(2,154)	(2,454)
Treasury stock, 118 shares at 2017 and 2016 of Carnival Corporation and 30 shares at 2017 and 27 shares at 2016 of Carnival plc, at cost	(5,946)	(5,789)
Total shareholders' equity	22,964	22,597
	\$ 40,451	\$ 38,881

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

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

	Six Months Ended May 31,	
	2017	2016
OPERATING ACTIVITIES		
Net income	\$ 730	\$ 747
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	896	861
Losses on fuel derivatives, net	27	65
Share-based compensation	34	28
Other, net	36	22
	<u>1,723</u>	<u>1,723</u>
Changes in operating assets and liabilities		
Receivables	(8)	(40)
Inventories	(19)	16
Prepaid expenses and other	(28)	4
Accounts payable	(38)	36
Accrued liabilities and other	(20)	(84)
Customer deposits	1,239	1,026
Net cash provided by operating activities	<u>2,849</u>	<u>2,681</u>
INVESTING ACTIVITIES		
Additions to property and equipment	(1,859)	(1,966)
Proceeds from sales of ships	—	19
Payments of fuel derivative settlements	(99)	(170)
Collateral payments for fuel derivatives	—	(25)
Other, net	24	(31)
Net cash used in investing activities	<u>(1,934)</u>	<u>(2,173)</u>
FINANCING ACTIVITIES		
Proceeds from short-term borrowings, net	182	379
Principal repayments of long-term debt	(907)	(869)
Proceeds from issuance of long-term debt	467	934
Dividends paid	(507)	(459)
Purchases of treasury stock	(152)	(1,401)
Sales of treasury stock	—	40
Other, net	(18)	(5)
Net cash used in financing activities	<u>(935)</u>	<u>(1,381)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>14</u>	<u>(3)</u>
Net decrease in cash and cash equivalents	(6)	(876)
Cash and cash equivalents at beginning of period	603	1,395
Cash and cash equivalents at end of period	<u>\$ 597</u>	<u>\$ 519</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 Statements of Income and the Consolidated Statements of Comprehensive Income for the three and six months ended May 31, 2017 and 2016, the Consolidated Balance Sheet at May 31, 2017 and the Consolidated Statements of Cash Flows for the six months ended May 31, 2017 and 2016 are unaudited and, in the opinion of our management, contain all adjustments necessary for a fair statement. Our interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in the Carnival Corporation & plc 2016 joint Annual Report on Form 10-K (“Form 10-K”) filed with the U.S. Securities and Exchange Commission on January 30, 2017. Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire year.

Accounting Pronouncements

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

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

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

The FASB issued amended guidance regarding accounting for *Derivatives and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. On March 1, 2017, we early adopted this guidance on a prospective basis, and it did not have a material impact to our consolidated financial statements.

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

The FASB issued guidance regarding *Presentation of Financial Statements - Going Concern*, which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. This guidance is required to be adopted by us at November 30, 2017. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

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

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

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

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

The FASB issued guidance regarding *Compensation - Retirement Benefits - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires the bifurcation of net benefit cost. This guidance is required to be adopted by us in the first quarter of 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

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

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

Other

Cruise passenger ticket revenues include fees, taxes and charges collected by us from our guests. The portion of these fees, taxes and charges included in passenger ticket revenues and commissions, transportation and other costs were \$136 million and \$123 million and \$279 million and \$259 million for the three and six months ended May 31, 2017 and 2016, respectively.

NOTE 2 – Unsecured Debt

At May 31, 2017, our short-term borrowings included euro-denominated commercial paper of \$670 million.

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

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

In April 2017, we entered into two euro-denominated export credit facilities totaling \$1.6 billion. The facilities are expected to be drawn in 2021 and 2022 and will be due in semi-annual installments through 2033 and 2034, respectively. The interest rate on these export credit facilities can be fixed or floating, at our discretion.

In May 2017, we repaid \$620 million of export credit facilities prior to their 2025 and 2026 maturity dates.

In May 2017, we borrowed \$367 million under an export credit facility. The facility is due in semi-annual installments through April 2028.

For the six months ended May 31, 2017, we had borrowings of \$111 million and repayments of \$364 million of commercial paper with original maturities greater than three months.

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

NOTE 3 – Contingencies

Litigation

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

Contingent Obligation – Lease Out and Lease Back Type Transaction

At May 31, 2017, we had an estimated contingent obligation of \$122 million. At the inception of the lease, we paid the aggregate of the net present value of the obligation to a group of major financial institutions, who agreed to act as payment undertakers and directly pay this obligation. As a result, this contingent obligation is considered extinguished and neither the funds nor the contingent obligation have been included in our Consolidated Balance Sheets. In January 2016, we exercised our option to terminate, at no cost, this transaction as of January 2, 2018.

Contingent Obligations – Indemnifications

Some of the debt contracts we enter into include indemnification provisions obligating us to make payments to the counterparty if certain events occur. These contingencies generally relate to changes in taxes or changes in laws which increase our lender's costs. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business. There are no stated or notional amounts included in the indemnification clauses, and we are not able to estimate the maximum potential amount of future payments, if any, under these indemnification clauses. We have not been required to make any material payments under such indemnification clauses in the past and we do not believe a request for material future indemnification payments is probable.

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

Fair Value Measurements

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

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

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

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

The carrying values, 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, 2017			November 30, 2016				
	Carrying Value	Fair Value		Carrying Value	Fair Value			
		Level 1	Level 2		Level 3	Level 1	Level 2	Level 3
Assets								
Long-term other assets (a)	\$ 139	\$ —	\$ 54	\$ 81	\$ 99	\$ 1	\$ 68	\$ 31
Total	\$ 139	\$ —	\$ 54	\$ 81	\$ 99	\$ 1	\$ 68	\$ 31
Liabilities								
Fixed rate debt (b)	\$ 5,604	\$ —	\$ 5,943	\$ —	\$ 5,436	\$ —	\$ 5,727	\$ —
Floating rate debt (b)	3,870	—	3,900	—	4,018	—	4,048	—
Total	\$ 9,474	\$ —	\$ 9,843	\$ —	\$ 9,454	\$ —	\$ 9,775	\$ —

- (a) Long-term other assets are substantially all comprised of notes and other receivables. The fair values of our Level 2 notes and other receivables were based on estimated future cash flows discounted at appropriate market interest rates. The fair values of our Level 3 notes receivable were estimated using risk-adjusted discount rates.
- (b) The debt amounts above do not include the impact of interest rate swaps or debt issuance costs. The fair values of our publicly-traded notes were based on their unadjusted quoted market prices in markets that are not sufficiently active to be Level 1 and, accordingly, are considered Level 2. The fair values of our other debt were estimated based on appropriate market interest rates being applied to this debt.

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

Valuation of Goodwill and Other Intangibles

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

	North America Segment	EAA (a) Segment	Total
Balance at November 30, 2016	\$ 1,898	\$ 1,012	\$ 2,910
Foreign currency translation adjustment	—	43	43
Balance at May 31, 2017	<u>\$ 1,898</u>	<u>\$ 1,055</u>	<u>\$ 2,953</u>

(a) Europe, Australia & Asia (“EAA”)

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

	North America Segment	EAA Segment	Total
Balance at November 30, 2016	\$ 927	\$ 279	\$ 1,206
Foreign currency translation adjustment	—	9	9
Balance at May 31, 2017	<u>\$ 927</u>	<u>\$ 288</u>	<u>\$ 1,215</u>

At July 31, 2016, we performed our annual goodwill and trademark impairment reviews and there was no 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. A change in the conditions, circumstances or strategy, including decisions about the allocation of new ships amongst brands and the transfer of ships between brands (influencing fair values in the future), may result in a 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 and other amortizable intangibles, was as follows (in millions):

	Cruise Support Segment	EAA Segment	Tour and Other Segment	Total
Balance at November 30, 2016	\$ 57	\$ 12	\$ —	\$ 69
Additions	—	—	4	4
Amortization	(2)	—	(1)	(3)
Foreign currency translation adjustment	—	1	—	1
Balance at May 31, 2017	<u>\$ 55</u>	<u>\$ 13</u>	<u>\$ 3</u>	<u>\$ 71</u>

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, 2017			November 30, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Cash and cash equivalents (a)	\$ 597	\$ —	\$ —	\$ 603	\$ —	\$ —
Restricted cash	16	—	—	60	—	—
Short-term investments (b)	—	—	—	—	—	21
Marketable securities held in rabbi trusts (c)	92	4	—	93	4	—
Derivative financial instruments	—	10	—	—	15	—
Total	<u>\$ 705</u>	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ 756</u>	<u>\$ 19</u>	<u>\$ 21</u>
Liabilities						
Derivative financial instruments	\$ —	\$ 313	\$ —	\$ —	\$ 434	\$ —
Total	<u>\$ —</u>	<u>\$ 313</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 434</u>	<u>\$ —</u>

- (a) Cash and cash equivalents are comprised of cash and marketable securities with maturities of less than 90 days.
- (b) The fair value of the auction rate security included in short-term investments, as of November 30, 2016, was based on a broker quote in an inactive market, which is considered a Level 3 input. This auction-rate security was sold in December 2016.
- (c) At May 31, 2017, marketable securities held in rabbi trusts were comprised of Level 1 bonds, frequently-priced mutual funds invested in common stocks and money market funds and Level 2 other investments. Their use is restricted to funding certain deferred compensation and non-qualified U.S. pension plans.

Derivative Instruments and Hedging Activities

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

	Balance Sheet Location	May 31, 2017	November 30, 2016
<u>Derivative assets</u>			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Prepaid expenses and other	\$ 9	\$ 12
	Other assets	—	3
Foreign currency zero cost collars (c)	Other assets	1	—
Total derivative assets		<u>\$ 10</u>	<u>\$ 15</u>
<u>Derivative liabilities</u>			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Accrued liabilities and other	\$ —	\$ 26
	Other long-term liabilities	14	—
Interest rate swaps (b)	Accrued liabilities and other	10	10
	Other long-term liabilities	20	23
Foreign currency zero cost collars (c)	Accrued liabilities and other	—	12
	Other long-term liabilities	—	21
		<u>44</u>	<u>92</u>
Derivatives not designated as hedging instruments			
Fuel (d)	Accrued liabilities and other	184	198
	Other long-term liabilities	85	144
		<u>269</u>	<u>342</u>
Total derivative liabilities		<u>\$ 313</u>	<u>\$ 434</u>

- (a) We had foreign currency forwards totaling \$11 million at May 31, 2017 and \$456 million at November 30, 2016 that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At May 31, 2017, these foreign currency forwards settle through July 2017. We also had foreign currency swaps totaling \$306 million at May 31, 2017 and \$291 million at November 30, 2016 that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At May 31, 2017, these foreign currency swaps settle through 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 \$489 million at May 31, 2017 and \$500 million at November 30, 2016 of EURIBOR-based floating rate euro debt to fixed rate euro debt. At May 31, 2017, these interest rate swaps settle through 2025.
- (c) At May 31, 2017 and November 30, 2016, 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, 2017 and November 30, 2016, 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):

	May 31, 2017				
	Gross Amounts	Gross Amounts Offset in the Balance Sheet	Total Net Amounts Presented in the Balance Sheet	Gross Amounts not Offset in the Balance Sheet	Net Amounts
Assets	\$ 10	\$ —	\$ 10	\$ (9)	\$ 1
Liabilities	\$ 313	\$ —	\$ 313	\$ (9)	\$ 304

	November 30, 2016				
	Gross Amounts	Gross Amounts Offset in the Balance Sheet	Total Net Amounts Presented in the Balance Sheet	Gross Amounts not Offset in the Balance Sheet	Net Amounts
Assets	\$ 15	\$ —	\$ 15	\$ (15)	\$ —
Liabilities	\$ 434	\$ —	\$ 434	\$ (15)	\$ 419

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Net investment hedges	\$ (17)	\$ (4)	\$ (16)	\$ (17)
Foreign currency zero cost collars – cash flow hedges	\$ 27	\$ 9	\$ 35	\$ 19
Interest rate swaps – cash flow hedges	\$ 3	\$ 6	\$ 4	\$ 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, 2017 and November 30, 2016, no collateral was required to be posted to or 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, 2017 and November 30, 2016 and for the three and six months ended May 31, 2017 and 2016 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 have Brent call options and Brent put options, collectively referred to as zero cost collars, that establish ceiling and floor prices and mitigate a portion of our economic risk attributable to potential fuel price increases. To maximize operational flexibility we utilized derivative markets with significant trading liquidity.

Our zero cost collars 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 zero cost collars will act as economic hedges; however, hedge accounting is not applied.

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	2017	2016	2017	2016
Unrealized (losses) gains on fuel derivatives, net	\$ (2)	\$ 242	\$ 69	\$ 96
Realized losses on fuel derivatives, net	(51)	(71)	(96)	(161)
(Losses) gains on fuel derivatives, net	\$ (53)	\$ 171	\$ (27)	\$ (65)

At May 31, 2017, our outstanding fuel derivatives consisted of zero cost collars on Brent as follows:

<u>Maturities (a)</u>	<u>Transaction Dates</u>	<u>Barrels (in thousands)</u>	<u>Weighted- Average Floor Prices</u>	<u>Weighted- Average Ceiling Prices</u>
Fiscal 2017 (3Q - 4Q)	February 2013	1,638	\$ 80	\$ 115
	April 2013	1,014	\$ 75	\$ 110
	January 2014	900	\$ 75	\$ 114
	October 2014	510	\$ 80	\$ 113
		<u>4,062</u>		
Fiscal 2018	January 2014	2,700	\$ 75	\$ 110
	October 2014	3,000	\$ 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 monitor our exposure to, and manage, the economic foreign currency exchange risks faced by our operations and realized if we exchange one currency for another. We currently only hedge certain of our ship commitments and net investments in foreign operations. The financial impacts of the hedging instruments we do employ generally offset the changes in the underlying exposures being hedged.

Operational Currency Risks

Our EAA segment operations generate significant revenues and incur significant expenses in their functional currencies, which subjects us to “foreign currency translational” risk related to these currencies. Accordingly, exchange rate fluctuations in their functional currencies 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 this 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. 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 have \$5.8 billion and \$251 million of euro- and sterling-denominated debt, respectively, including the effect of foreign currency swaps, which provides an economic offset for our operations with euro and sterling functional currency. We also partially mitigate our net investment currency exposures by denominating a portion of our foreign currency intercompany payables in our foreign operations’ functional currencies.

Newbuild Currency Risks

Our shipbuilding contracts are typically denominated in euros. Our decision to hedge a non-functional currency ship commitment for our cruise brands is made on a case-by-case basis, considering the amount and duration of the exposure, market volatility, economic trends, our overall expected net cash flows by currency and other offsetting risks. We use foreign currency derivative contracts to manage foreign currency exchange rate risk for some of our ship construction payments.

At May 31, 2017, we had foreign currency zero cost collars that are designated as cash flow hedges for a portion of euro-denominated shipyard payments for the following newbuilds:

	Entered Into	Matures in	Weighted-Average Floor Rate	Weighted- Average Ceiling Rate
<i>Carnival Horizon</i>	2016	March 2018	\$ 1.02	\$ 1.25
<i>Seabourn Ovation</i>	2016	April 2018	\$ 1.02	\$ 1.25
Holland America <i>Nieuw Statendam</i>	2016	November 2018	\$ 1.05	\$ 1.25

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, 2017, our remaining newbuild currency exchange rate risk primarily relates to euro-denominated newbuild contract payments, which represent a total unhedged commitment of \$5.9 billion and substantially relates to newbuilds to be delivered during 2019 through 2022 to non-euro functional currency brands.

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

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

	May 31, 2017	November 30, 2016
Fixed rate	29%	28%
Euro fixed rate	35%	35%
Floating rate	7%	14%
Euro floating rate	26%	23%
GBP floating rate	3%	—%

Concentrations of Credit Risk

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

- Conducting business with large, well-established financial institutions, insurance companies and export credit agencies
- Diversifying our counterparties
- Having guidelines regarding credit ratings and investment maturities that we follow to help safeguard liquidity and minimize risk
- Generally requiring collateral and/or guarantees to support notes receivable on significant asset sales, long-term ship charters and new ship progress payments to shipyards

We currently believe the risk of nonperformance by any of our significant counterparties is remote. At May 31, 2017, our exposures under foreign currency and fuel derivative contracts and interest rate swap agreements were not material.

We also monitor the creditworthiness of travel agencies and tour operators in Asia, Australia and Europe, which includes charter-hire agreements in Asia, and credit and debit card providers to which we extend credit in the normal course of our business 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, the nature of these contingent obligations and their short maturities. We have not experienced significant credit losses on our trade receivables, charter-hire agreements and contingent obligations. We do not normally require collateral or other security to support normal credit sales.

NOTE 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 Cruises and Seabourn. Our EAA segment includes AIDA Cruises, Costa Cruises, Cunard, P&O Cruises (Australia) and P&O Cruises (UK). 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. Our Tour and Other segment represents the hotel and transportation operations of Holland America Princess Alaska Tours and other operations.

Selected information for our segments and the reconciliation to the consolidated financial statement amounts was as follows (in millions):

	Three Months Ended May 31,				
	Revenues	Operating costs and expenses	Selling and administrative	Depreciation and amortization	Operating income (loss)
<u>2017</u>					
North America	\$ 2,581	\$ 1,534	\$ 319	\$ 285	\$ 443
EAA	1,309	874	172	150	113
Cruise Support	34	11	56	12	(45)
Tour and Other	37	33	6	9	(11)
Intersegment elimination	(16)	(16)	—	—	—
	<u>\$ 3,945</u>	<u>\$ 2,436</u>	<u>\$ 553</u>	<u>\$ 456</u>	<u>\$ 500</u>
<u>2016</u>					
North America	\$ 2,320	\$ 1,386	\$ 292	\$ 263	\$ 379
EAA	1,339	853	178	151	157
Cruise Support	29	6	60	13	(50)
Tour and Other	31	27	2	10	(8)
Intersegment elimination	(14)	(14)	—	—	—
	<u>\$ 3,705</u>	<u>\$ 2,258</u>	<u>\$ 532</u>	<u>\$ 437</u>	<u>\$ 478</u>
<u>Six Months Ended May 31,</u>					
	Revenues	Operating costs and expenses	Selling and administrative	Depreciation and amortization	Operating income (loss)
<u>2017</u>					
North America	\$ 4,986	\$ 3,003	\$ 639	\$ 559	\$ 785
EAA	2,648	1,820	344	296	188
Cruise Support	72	17	111	23	(79)
Tour and Other	46	46	8	18	(26)
Intersegment elimination	(16)	(16)	—	—	—
	<u>\$ 7,736</u>	<u>\$ 4,870</u>	<u>\$ 1,102</u>	<u>\$ 896</u>	<u>\$ 868</u>
<u>2016</u>					
North America	\$ 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	42	41	5	20	(24)
Intersegment elimination	(14)	(14)	—	—	—
	<u>\$ 7,357</u>	<u>\$ 4,501</u>	<u>\$ 1,083</u>	<u>\$ 861</u>	<u>\$ 912</u>

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 Cruises. 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,	
	2017	2016	2017	2016
Net income for basic and diluted earnings per share	\$ 379	\$ 605	\$ 730	\$ 747
Weighted-average shares outstanding	724	751	724	758
Dilutive effect of equity plans	3	2	3	3
Diluted weighted-average shares outstanding	727	753	727	761
Basic earnings per share	\$ 0.52	\$ 0.81	\$ 1.01	\$ 0.99
Diluted earnings per share	\$ 0.52	\$ 0.80	\$ 1.00	\$ 0.98

NOTE 7 – Shareholders' Equity

On April 6, 2017, the Boards of Directors approved a modification of the general authorization to repurchase Carnival Corporation common stock and/or Carnival plc ordinary shares (the "Repurchase Program"), which replenished the remaining authorized repurchases at the time of the approval to \$1.0 billion. During the six months ended May 31, 2017, we repurchased 2.8 million shares of Carnival plc ordinary shares for \$156 million under the Repurchase Program. At May 31, 2017, the remaining availability under the Repurchase Program was \$989 million.

During the three months ended May 31, 2017, our Boards of Directors declared a dividend to holders of Carnival Corporation common stock and Carnival plc ordinary shares of \$0.40 per share, which was an increase from the prior dividend of \$0.35.

NOTE 8 – Property and Equipment

In April 2017, we transferred an EAA segment 1,550-passenger capacity ship under a bareboat charter agreement to an unrelated entity which was accounted for as a sale.

SCHEDULE B

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

Cautionary Note Concerning Factors That May Affect Future Results

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

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

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

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

- 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 the 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
- Overcapacity in the cruise ship and land-based vacation industry
- 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 the cruise ship and land-based vacation industry
- Economic, market and political factors that are beyond our control
- 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
- The dual listed company arrangement involves risks not associated with the more common ways of combining the operations of two companies

The ordering of the risk factors set forth above is not intended to reflect our indication of priority or likelihood.

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

Outlook

On June 22, 2017, we said in our earnings release that we expected our adjusted earnings per share for the 2017 third quarter to be in the range of \$2.16 to \$2.20 and 2017 full year to be in the range of \$3.60 to \$3.70 (see "Key Performance Non-GAAP Financial Indicators"). Our guidance was based on the following assumptions:

	<u>2017 Third Quarter</u>	<u>2017 Full Year</u>
Fuel price per metric ton	\$372	\$367
Currencies		
U.S. dollar to euro	\$1.12 to €1	\$1.10 to €1
U.S. dollar to sterling	\$1.27 to £1	\$1.26 to £1
U.S. dollar to Australian dollar	\$0.75 to A\$1	\$0.75 to A\$1

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

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 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,	
	2017	2016	2017	2016
Available Lower Berth Days (“ALBDs”) (in thousands) (a) (b)	20,397	19,693	40,421	38,983
Occupancy percentage (c)	104.1%	104.1%	104.3%	104.1%
Passengers carried (in thousands)	2,906	2,781	5,675	5,340
Fuel consumption in metric tons (in thousands)	830	808	1,649	1,623
Fuel consumption in metric tons per thousand ALBDs	40.7	41.0	40.8	41.6
Fuel cost per metric ton consumed	\$ 374	\$ 243	\$ 368	\$ 236
Currencies				
U.S. dollar to euro	\$ 1.08	\$ 1.13	\$ 1.07	\$ 1.11
U.S. dollar to sterling	\$ 1.26	\$ 1.44	\$ 1.25	\$ 1.44
U.S. dollar to Australian dollar	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.73

- (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, 2017 compared to the three months ended May 31, 2016, we had a 3.6% capacity increase in ALBDs comprised of a 5.6% capacity increase in our North America segment while capacity in our EAA segment increased slightly by 0.6%.

Our North America segment’s capacity increase was driven by:

- Partial quarter impact from one Holland America Line 2,650-passenger capacity ship that entered into service in April 2016
- Partial quarter impact from one Carnival Cruise Line 3,930-passenger capacity ship that entered into service in May 2016
- Partial quarter impact from one Princess Cruises 3,560-passenger capacity ship that entered into service in April 2017

Our EAA segment’s capacity increase was driven by the partial quarter impact from one AIDA Cruises 3,290-passenger capacity ship that entered into service in April 2016, which was offset by the partial quarter impact from one P&O Cruises (Australia) 1,550-passenger capacity ship removed from service in April 2017.

For the six months ended May 31, 2017 compared to the six months ended May 31, 2016, we had a 3.7% capacity increase in ALBDs comprised of a 5.4% capacity increase in our North America segment and a 1.2% capacity increase in our EAA segment.

Our North America segment's capacity increase was driven by:

- Partial period impact from one Holland America Line 2,650-passenger capacity ship that entered into service in April 2016
- Partial period impact from one Carnival Cruise Line 3,930-passenger capacity ship that entered into service in May 2016
- Partial period impact from one Princess Cruises 3,560-passenger capacity ship that entered into service in April 2017

Our EAA segment's capacity increase was caused by the partial period impact from one AIDA Cruises 3,290-passenger capacity ship that entered into service in April 2016, which was offset by the partial period impact from one P&O Cruises (Australia) 1,550-passenger capacity ship removed from service in April 2017.

- (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, 2017 ("2017") Compared to Three Months Ended May 31, 2016 ("2016")

Revenues

Consolidated

Cruise passenger ticket revenues made up 73% of our 2017 total revenues. Cruise passenger ticket revenues increased by \$176 million, or 6.5%, to \$2.9 billion in 2017 from \$2.7 billion in 2016.

This increase was caused by:

- \$156 million - increase in cruise ticket revenue, driven primarily by price improvements in our Caribbean, European and Alaska programs for our North America segment and European and Caribbean programs for our EAA segment, partially offset by decreases in our China programs
- \$96 million - 3.6% capacity increase in ALBDs

These increases were partially offset by the foreign currency translational impact from a stronger U.S. dollar against the functional currencies of our foreign operations ("foreign currency translational impact"), which accounted for \$72 million.

The remaining 27% of 2017 total revenues were substantially all comprised of onboard and other cruise revenues, which increased by \$58 million, or 5.9%, to \$1,036 million in 2017 from \$978 million in 2016.

This increase was caused by:

- \$39 million - higher onboard spending by our guests
- \$35 million - 3.6% capacity increase in ALBDs

These increases were partially offset by the foreign currency translational impact, which accounted for \$15 million.

Concession revenues, which are included in onboard and other revenues, increased by \$5 million, or 2.3%, to \$245 million in 2017 from \$240 million in 2016.

North America Segment

Cruise passenger ticket revenues made up 71% of our North America segment's 2017 total revenues. Cruise passenger ticket revenues increased by \$198 million, or 12.2%, to \$1.8 billion in 2017 compared to \$1.6 billion in 2016.

This increase was caused by:

- \$92 million - 5.6% capacity increase in ALBDs
- \$83 million - increase in cruise ticket revenue, driven primarily by price improvements in the Caribbean, European and Alaska programs
- \$23 million - 1.5 percentage point increase in occupancy

The remaining 29% of our North America segment's 2017 total revenues were comprised of onboard and other cruise revenues, which increased by \$61 million, or 9.0%, to \$738 million in 2017 from \$677 million in 2016.

The increase was caused by:

- \$38 million - 5.6% capacity increase in ALBDs
- \$19 million - higher onboard spending by our guests
- \$10 million - 1.5 percentage point increase in occupancy

Concession revenues, which are included in onboard and other revenues, increased by \$14 million, or 8.9%, to \$176 million in 2017 from \$162 million in 2016.

EAA Segment

Cruise passenger ticket revenues made up 80% of our EAA segment's 2017 total revenues. Cruise passenger ticket revenues decreased by \$29 million, or 2.7%, and was \$1.1 billion in both 2017 and 2016.

This decrease was caused by:

- \$72 million - foreign currency translational impact
- \$27 million - 2.5 percentage point decrease in occupancy driven primarily by the China programs

These decreases were partially offset by a \$59 million increase in cruise ticket revenue driven primarily by price improvements in the Caribbean and European programs, partially offset by decreases in the China programs.

The remaining 20% of our EAA segment's 2017 total revenues were comprised of onboard and other cruise revenues, which slightly decreased by \$1 million, and was \$259 million in 2017 and \$260 million in 2016.

Concession revenues, which are included in onboard and other revenues, decreased by \$9 million, or 12%, to \$69 million in 2017 from \$78 million in 2016.

Costs and Expenses

Consolidated

Operating costs and expenses increased by \$178 million, or 7.9%, to \$2.4 billion in 2017 from \$2.3 billion in 2016.

This increase was caused by:

- \$109 million - higher fuel prices
- \$80 million - 3.6% capacity increase in ALBDs
- \$14 million - higher commissions, transportation and other

These increases were partially offset by the foreign currency translational impact, which accounted for \$49 million.

Selling and administrative expenses increased by \$21 million, or 3.9%, to \$553 million in 2017 from \$532 million in 2016.

Depreciation and amortization expenses increased by \$19 million, or 4.3%, to \$456 million in 2017 from \$437 million in 2016.

North America Segment

Operating costs and expenses increased by \$148 million, or 10.7%, to \$1.5 billion in 2017 from \$1.4 billion in 2016.

This increase was driven by:

- \$77 million - 5.6% capacity increase in ALBDs
- \$70 million - higher fuel prices

Selling and administrative expenses increased by \$27 million, or 9.2%, to \$319 million in 2017 from \$292 million in 2016.

Depreciation and amortization expenses increased by \$22 million, or 8.4%, to \$285 million in 2017 from \$263 million in 2016.

EAA Segment

Operating costs and expenses increased by \$21 million, or 2.5%, to \$874 million in 2017 from \$853 million in 2016.

This increase was caused by:

- \$38 million - higher fuel prices
- \$35 million - increases in various other costs

These increases were partially offset by the foreign currency translational impact, which accounted for \$49 million.

Selling and administrative expenses decreased by \$6 million, or 3.4%, to \$172 million in 2017 from \$178 million in 2016.

Depreciation and amortization expenses decreased by \$1 million to \$150 million in 2017 from \$151 million in 2016.

Operating Income

Our consolidated operating income increased by \$22 million, or 4.6%, to \$500 million in 2017 from \$478 million in 2016. Our North America segment's operating income increased by \$64 million, or 17%, to \$443 million in 2017 from \$379 million in 2016, and our EAA segment's operating income decreased by \$44 million, or 28%, to \$113 million in 2017 from \$157 million in 2016. These changes were primarily due to the reasons discussed above.

Nonoperating Income (Expense)

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

	Three Months Ended May 31,	
	2017	2016
Unrealized (losses) gains on fuel derivatives, net	\$ (2)	\$ 242
Realized (losses) on fuel derivatives, net	(51)	(71)
(Losses) gains on fuel derivatives, net	<u>\$ (53)</u>	<u>\$ 171</u>

Key Performance Non-GAAP Financial Indicators

Non-GAAP Financial Measures

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

We believe that gains and losses on ship sales and ship impairments and restructuring and certain other expenses are not part of our core operating business and, therefore, are not an indication of our future earnings performance. As such, we exclude these items from non-GAAP measures. Net revenue yields and net cruise costs excluding fuel per ALBD enable us to separate the impact of predictable capacity or ALBD changes from price and other changes that affect our business. We believe these non-GAAP measures provide useful information to investors and expanded insight to measure our revenue and cost performance as a supplement to our U.S. GAAP consolidated financial statements.

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

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

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

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

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

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

Constant Dollar and Constant Currency

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 net revenue yields, net passenger revenue yields, net onboard and other revenue yields and net cruise costs excluding fuel per ALBD on a "constant dollar" and "constant currency" basis assuming the 2017 periods' currency exchange rates have remained constant with the 2016 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 American 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.

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

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,		
	2017	2017 Constant Dollar	2016
Passenger ticket revenues	\$ 2,872	\$ 2,944	\$ 2,696
Onboard and other revenues	1,036	1,051	978
Gross cruise revenues	3,908	3,995	3,674
Less cruise costs			
Commissions, transportation and other	(513)	(526)	(495)
Onboard and other	(129)	(131)	(123)
	(642)	(657)	(618)
Net passenger ticket revenues	2,359	2,418	2,201
Net onboard and other revenues	907	920	855
Net cruise revenues	\$ 3,266	\$ 3,338	\$ 3,056
ALBDs	20,396,773	20,396,773	19,693,362
Gross revenue yields	\$ 191.59	\$ 195.89	\$ 186.55
% increase vs. 2016	2.7%	5.0%	
Net revenue yields	\$ 160.15	\$ 163.67	\$ 155.21
% increase vs. 2016	3.2%	5.5%	
Net passenger ticket revenue yields	\$ 115.66	\$ 118.55	\$ 111.78
% increase vs. 2016	3.5%	6.1%	
Net onboard and other revenue yields	\$ 44.49	\$ 45.12	\$ 43.43
% increase vs. 2016	2.4%	3.9%	

	Three Months Ended May 31,		
	2017	2017 Constant Currency	2016
Net passenger ticket revenues	\$ 2,359	\$ 2,409	\$ 2,201
Net onboard and other revenues	907	917	855
Net cruise revenues	\$ 3,266	\$ 3,326	\$ 3,056
ALBDs	20,396,773	20,396,773	19,693,362
Net revenue yields	\$ 160.15	\$ 163.05	\$ 155.21
% increase vs. 2016	3.2%	5.1%	
Net passenger ticket revenue yields	\$ 115.66	\$ 118.10	\$ 111.78
% increase vs. 2016	3.5%	5.7%	
Net onboard and other revenue yields	\$ 44.49	\$ 44.94	\$ 43.43
% increase vs. 2016	2.4%	3.5%	

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,		
	2017	2017 Constant Dollar	2016
Cruise operating expenses	\$ 2,403	\$ 2,451	\$ 2,231
Cruise selling and administrative expenses	548	559	530
Gross cruise costs	2,951	3,010	2,761
Less cruise costs included above			
Commissions, transportation and other	(513)	(526)	(495)
Onboard and other	(129)	(131)	(123)
Gain on ship sale	4	4	—
Restructuring expenses	—	—	(2)
Other	(1)	(1)	(5)
Net cruise costs	2,312	2,356	2,136
Less fuel	(310)	(310)	(196)
Net cruise costs excluding fuel	\$ 2,002	\$ 2,046	\$ 1,940
ALBDs	20,396,773	20,396,773	19,693,362
Gross cruise costs per ALBD	\$ 144.63	\$ 147.58	\$ 140.18
% increase vs. 2016	3.2 %	5.3%	
Net cruise costs excluding fuel per ALBD	\$ 98.11	\$ 100.29	\$ 98.49
% (decrease) increase vs. 2016	(0.4)%	1.8%	

	Three Months Ended May 31,		
	2017	2017 Constant Currency	2016
Net cruise costs excluding fuel	\$ 2,002	\$ 2,039	\$ 1,940
ALBDs	20,396,773	20,396,773	19,693,362
Net cruise costs excluding fuel per ALBD	\$ 98.11	\$ 99.99	\$ 98.49
% (decrease) increase vs. 2016	(0.4)%	1.5%	

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

	Three Months Ended	
	May 31,	
	2017	2016
Net income		
U.S. GAAP net income	\$ 379	\$ 605
Unrealized losses (gains) on fuel derivatives, net	2	(242)
(Gain) on ship sale	(4)	—
Restructuring expenses	—	2
Other	1	5
Adjusted net income	<u>\$ 378</u>	<u>\$ 370</u>
Weighted-average shares outstanding	<u>727</u>	<u>753</u>
Earnings per share		
U.S. GAAP earnings per share	\$ 0.52	\$ 0.80
Unrealized losses (gains) on fuel derivatives, net	—	(0.32)
(Gain) on ship sale	—	—
Restructuring expenses	—	—
Other	—	0.01
Adjusted earnings per share	<u>\$ 0.52</u>	<u>\$ 0.49</u>

Net cruise revenues increased by \$210 million, or 6.9%, to \$3.3 billion in 2017 from \$3.1 billion in 2016.

The increase in net cruise revenues was caused by:

- \$160 million - 5.1% increase in constant currency net revenue yields
- \$109 million - 3.6% 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 \$59 million.

The 5.1% increase in net revenue yields on a constant currency basis was due to a 5.7% increase in net passenger ticket revenue yields and a 3.5% increase in net onboard and other revenue yields.

The 5.7% increase in net passenger ticket revenue yields was driven primarily by price improvements in our Caribbean, European and Alaska programs for our North America segment and European and Caribbean programs for our EAA segment, partially offset by decreases in our China programs. This 5.7% increase in net passenger ticket revenue yields was comprised of a 6.4% increase from our North America segment and a 3.2% increase from our EAA segment.

The 3.5% increase in net onboard and other revenue yields was caused by similar increases in our North America and EAA segments.

Gross cruise revenues increased by \$234 million, or 6.4%, to \$3.9 billion in 2017 from \$3.7 billion in 2016 for largely the same reasons as discussed above.

Net cruise costs excluding fuel increased by \$62 million, or 3.2%, to \$2.0 billion in 2017 from \$1.9 billion in 2016.

The increase in net cruise costs excluding fuel was caused by:

- \$69 million - 3.6% capacity increase in ALBDs
- \$31 million - 1.5% increase in constant currency net cruise costs excluding fuel

These increases were partially offset by foreign currency impacts (including both the foreign currency translational and transactional impacts), which accounted for \$38 million.

Net cruise costs excluding fuel per ALBD increased by 1.5%.

Fuel costs increased by \$114 million, or 58%, to \$310 million in 2017 from \$196 million in 2016. This increase was driven by higher fuel prices, which accounted for \$109 million.

Gross cruise costs increased by \$190 million, or 6.9%, to \$3.0 billion in 2017 from \$2.8 billion in 2016 for largely the same reasons as discussed above.

Six Months Ended May 31, 2017 (“2017”) Compared to Six Months Ended May 31, 2016 (“2016”)

Revenues

Consolidated

Cruise passenger ticket revenues made up 73% of our 2017 total revenues. Cruise passenger ticket revenues increased by \$262 million, or 4.8%, to \$5.7 billion in 2017 from \$5.4 billion in 2016.

This increase was caused by:

- \$227 million - increase in cruise ticket revenue, driven primarily by price improvements in our Caribbean, European and Alaska programs for our North America segment and European and Caribbean programs for our EAA segment, partially offset by decreases in our China programs
- \$200 million - 3.7% capacity increase in ALBDs

These increases were partially offset by:

- \$149 million - foreign currency translational impact
- \$27 million - decrease in air transportation revenues from guests who purchased their tickets from us

The remaining 27% of 2017 total revenues were substantially all comprised of onboard and other cruise revenues, which increased by \$113 million, or 5.9%, to \$2.0 billion in 2017 from \$1.9 billion in 2016.

This increase was caused by:

- \$70 million - 3.7% capacity increase in ALBDs
- \$70 million - higher onboard spending by our guests

These increases were partially offset by the foreign currency translational impact, which accounted for \$30 million.

Concession revenues, which are included in onboard and other revenues, increased slightly by \$5 million to \$472 million in 2017 from \$467 million in 2016.

North America Segment

Cruise passenger ticket revenues made up 71% of our North America segment’s 2017 total revenues. Cruise passenger ticket revenues increased by \$330 million, or 10%, to \$3.5 billion in 2017 from \$3.2 billion in 2016.

The increase was caused by:

- \$174 million - 5.4% capacity increase in ALBDs
- \$122 million - increase in cruise ticket revenue, driven primarily by price improvements in the Caribbean, European and Alaska programs
- \$32 million - 1.1 percentage point increase in occupancy

The remaining 29% of our North America segment’s 2017 total revenues were comprised of onboard and other cruise revenues, which increased by \$115 million, or 8.8%, to \$1.4 billion in 2017 from \$1.3 billion in 2016.

The increase was caused by:

- \$71 million - 5.4% capacity increase in ALBDs
- \$40 million - higher onboard spending by our guests

Concession revenues, which are included in onboard and other revenues, increased by \$18 million, or 5.8%, to \$331 million in 2017 from \$313 million in 2016.

EAA Segment

Cruise passenger ticket revenues made up 81% of our EAA segment's 2017 total revenues. Cruise passenger ticket revenues decreased by \$79 million, or 3.6%, to \$2.1 billion in 2017 from \$2.2 billion in 2016.

This decrease was caused by:

- \$149 million - foreign currency translational impact
- \$23 million - 1.0 percentage point decrease in occupancy driven primarily by the China programs
- \$21 million - decrease in air transportation revenues from guests who purchased their tickets from us

These decreases were partially offset by:

- \$78 million - increase in cruise ticket revenue, driven primarily by price improvements in the Caribbean and European programs, partially offset by decreases in the China programs
- \$26 million - 1.2% capacity increase in ALBDs

The remaining 19% of our EAA segment's 2017 total revenues were comprised of onboard and other cruise revenues, which slightly decreased by \$1 million to \$513 million in 2017 from \$514 million in 2016. This decrease was caused by \$30 million of foreign currency translational impact, partially offset by higher onboard spending by our guests, which accounted for \$25 million.

Concession revenues, which are included in onboard and other revenues, decreased by \$13 million, or 8.6%, to \$141 million in 2017 from and \$154 million in 2016.

Costs and Expenses

Consolidated

Operating costs and expenses increased by \$369 million, or 8.2%, to \$4.9 billion in 2017 from \$4.5 billion in 2016.

This increase was caused by:

- \$218 million - higher fuel prices
- \$164 million - 3.7% capacity increase in ALBDs
- \$41 million - higher ship port costs
- \$28 million - higher cruise payroll and related expenses
- \$22 million - higher dry-dock expenses

These increases were partially offset by:

- \$105 million - foreign currency translational impact
- \$30 million - decrease in air transportation costs related to the decreases in revenues from guests who purchased their tickets from us

Selling and administrative expenses increased by \$19 million, or 1.8%, and remained at \$1.1 billion in both 2017 and 2016.

Depreciation and amortization expenses increased by \$35 million, or 4.1%, to \$896 million in 2017 from \$861 million in 2016.

North America Segment

Operating costs and expenses increased by \$301 million, or 11%, to \$3.0 billion in 2017 from \$2.7 billion in 2016.

This increase was caused by:

- \$145 million - 5.4% capacity increase in ALBDs
- \$140 million - higher fuel prices

Selling and administrative expenses increased by \$36 million, or 6.0%, to \$639 million in 2017 from \$603 million in 2016.

Depreciation and amortization expenses increased by \$40 million, or 7.7%, to \$559 million in 2017 from \$519 million in 2016.

EAA Segment

Operating costs and expenses increased by \$57 million, or 3.2%, and was \$1.8 billion in both 2017 and 2016.

This increase was caused by:

- \$78 million - higher fuel prices
- \$41 million - higher dry-dock expenses and ship repair and maintenance expenses
- \$23 million - higher ship port costs
- \$21 million - 1.2% capacity increase in ALBDs
- \$19 million - higher cruise payroll and related expenses

These increases were partially offset by:

- \$105 million - foreign currency translational impact
- \$27 million - decrease in air transportation costs related to the decrease in revenues from guests who purchased their tickets from us

Selling and administrative expenses decreased by \$8 million, or 2.3%, to \$344 million in 2017 from \$352 million in 2016.

Depreciation and amortization expenses slightly decreased by \$3 million to \$296 million in 2017 from \$299 million in 2016.

Operating Income

Our consolidated operating income decreased by \$44 million, or 4.8%, to \$868 million in 2017 from \$912 million in 2016. Our North America segment's operating income increased by \$69 million, or 9.6%, to \$785 million in 2017 from \$716 million in 2016, and our EAA segment's operating income decreased by \$126 million, or 40%, to \$188 million in 2017 from \$314 million in 2016. These changes were primarily due to the reasons discussed above.

Nonoperating Income (Expense)

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

	Six Months Ended May 31,	
	2017	2016
Unrealized gains on fuel derivatives, net	\$ 69	\$ 96
Realized losses on fuel derivatives, net	(96)	(161)
Losses on fuel derivatives, net	<u>\$ (27)</u>	<u>\$ (65)</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,		
	2017	2017 Constant Dollar	2016
Passenger ticket revenues	\$ 5,676	\$ 5,825	\$ 5,414
Onboard and other revenues	2,014	2,044	1,901
Gross cruise revenues	7,690	7,869	7,315
Less cruise costs			
Commissions, transportation and other	(1,082)	(1,114)	(1,077)
Onboard and other	(253)	(258)	(240)
	(1,335)	(1,372)	(1,317)
Net passenger ticket revenues	4,594	4,711	4,337
Net onboard and other revenues	1,761	1,786	1,661
Net cruise revenues	\$ 6,355	\$ 6,497	\$ 5,998
ALBDs	40,420,819	40,420,819	38,983,272
Gross revenue yields	\$ 190.25	\$ 194.68	\$ 187.65
% increase vs. 2016	1.4%	3.7%	
Net revenue yields	\$ 157.21	\$ 160.74	\$ 153.87
% increase vs. 2016	2.2%	4.5%	
Net passenger ticket revenue yields	\$ 113.65	\$ 116.56	\$ 111.25
% increase vs. 2016	2.2%	4.8%	
Net onboard and other revenue yields	\$ 43.56	\$ 44.18	\$ 42.61
% increase vs. 2016	2.2%	3.7%	

	Six Months Ended May 31,		
	2017	2017 Constant Currency	2016
Net passenger ticket revenues	\$ 4,594	\$ 4,716	\$ 4,337
Net onboard and other revenues	1,761	1,778	1,661
Net cruise revenues	\$ 6,355	\$ 6,494	\$ 5,998
ALBDs	40,420,819	40,420,819	38,983,272
Net revenue yields	\$ 157.21	\$ 160.65	\$ 153.87
% increase vs. 2016	2.2%	4.4%	
Net passenger ticket revenue yields	\$ 113.65	\$ 116.68	\$ 111.25
% increase vs. 2016	2.2%	4.9%	
Net onboard and other revenue yields	\$ 43.56	\$ 43.98	\$ 42.61
% increase vs. 2016	2.2%	3.2%	

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,		
	2017	2017 Constant Dollar	2016
Cruise operating expenses	\$ 4,824	\$ 4,929	\$ 4,460
Cruise selling and administrative expenses	1,094	1,117	1,079
Gross cruise costs	5,918	6,046	5,539
Less cruise costs included above			
Commissions, transportation and other	(1,082)	(1,114)	(1,077)
Onboard and other	(253)	(258)	(240)
Gain on ship sale	4	4	2
Restructuring expenses	—	—	(2)
Other	—	—	(21)
Net cruise costs	4,587	4,678	4,201
Less fuel	(607)	(607)	(383)
Net cruise costs excluding fuel	\$ 3,980	\$ 4,071	\$ 3,818
ALBDs	40,420,819	40,420,819	38,983,272
Gross cruise costs per ALBD	\$ 146.42	\$ 149.57	\$ 142.08
% increase vs. 2016	3.1%	5.3%	
Net cruise costs excluding fuel per ALBD	\$ 98.46	\$ 100.71	\$ 97.93
% increase vs. 2016	0.5%	2.8%	

	Six Months Ended May 31,		
	2017	2017 Constant Currency	2016
Net cruise costs excluding fuel	\$ 3,980	\$ 4,051	\$ 3,818
ALBDs	40,420,819	40,420,819	38,983,272
Net cruise costs excluding fuel per ALBD	\$ 98.46	\$ 100.23	\$ 97.93
% increase vs. 2016	0.5%	2.3%	

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

	Six Months Ended	
	May 31,	
	2017	2016
Net income		
U.S. GAAP net income	\$ 730	\$ 747
Unrealized (gains) losses on fuel derivatives, net	(69)	(96)
(Gain) on ship sale	(4)	(2)
Restructuring expenses	—	2
Other	—	21
Adjusted net income	\$ 657	\$ 672
Weighted-average shares outstanding	727	761
Earnings per share		
U.S. GAAP earnings per share	\$ 1.00	\$ 0.98
Unrealized (gains) losses on fuel derivatives, net	(0.10)	(0.13)
(Gain) on ship sale	—	—
Restructuring expenses	—	—
Other	—	0.03
Adjusted earnings per share	\$ 0.90	\$ 0.88

Net cruise revenues increased by \$357 million, or 6.0%, to \$6.4 billion in 2017 from \$6.0 billion in 2016.

The increase in net cruise revenues was caused by:

- \$275 million - 4.4% increase in constant currency net revenue yields
- \$221 million - 3.7% 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 \$140 million.

The 4.4% increase in net revenue yields on a constant currency basis was due to a 4.9% increase in net passenger ticket revenue yields and a 3.2% increase in net onboard and other revenue yields.

The 4.9% increase in net passenger ticket revenue yields was driven primarily by price improvements in our Caribbean, European and Alaska programs for our North America segment and European and Caribbean programs for our EAA segment, partially offset by decreases in our China programs. This 4.9% increase in net passenger ticket revenue yields was comprised of a 4.9% increase from our North America segment and a 4.0% increase from our EAA segment.

The 3.2% increase in net onboard and other revenue yields was caused by similar increases in our North America and EAA segments.

Gross cruise revenues increased by \$375 million, or 5.1%, to \$7.7 billion in 2017 from \$7.3 billion in 2016 for largely the same reasons as discussed above.

Net cruise costs excluding fuel increased by \$162 million, or 4.2%, to \$4.0 billion in 2017 from \$3.8 billion in 2016.

The increase in net cruise costs excluding fuel was caused by:

- \$141 million - 3.7% capacity increase in ALBDs
- \$93 million - 2.3% increase in constant currency net cruise costs excluding fuel

These increases were partially offset by foreign currency impacts (including both the foreign currency translational and transactional impacts), which accounted for \$72 million.

Net cruise costs excluding fuel per ALBD increased by 2.3%.

Fuel costs increased by \$224 million, or 58%, to \$607 million in 2017 from \$383 million in 2016. This was driven by higher fuel prices, which accounted for \$218 million.

Gross cruise costs decreased by \$379 million, or 6.8%, to \$5.9 billion in 2017 from \$5.5 billion in 2016 for largely 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, 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 flow allows us to internally fund our capital investments. We are committed to returning free cash flow to our shareholders in the form of dividends and/or share repurchases. 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. This will allow us to return both free cash flow 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.

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.

We had a working capital deficit of \$7.3 billion as of May 31, 2017 compared to a working capital deficit of \$5.4 billion as of November 30, 2016. The increase in working capital deficit was mainly due to the increase in customer deposits and our net current portion of our borrowings. We operate with a substantial working capital deficit. This deficit is mainly attributable to the fact that, under our business model, a vast majority of our passenger ticket receipts are collected in advance of the applicable sailing date. These advance passenger receipts remain a current liability until the sailing date. The cash generated from these advance receipts is used interchangeably with cash on hand from other sources, such as our borrowings and other cash from operations. The cash received as advanced receipts can be used to fund operating expenses, pay down our debt, invest in long term investments or any other use of cash. Included within our working capital deficit are \$4.8 billion and \$3.5 billion of customer deposits as of May 31, 2017 and November 30, 2016, respectively. In addition, we have a relatively low-level of accounts receivable and limited investment in inventories. We generate substantial cash flows from operations and our business model has historically allowed us to maintain this working capital deficit and still meet our operating, investing and financing needs. We expect that we will continue to have working capital deficits in the future.

Sources and Uses of Cash

Operating Activities

Our business provided \$2.8 billion of net cash from operations during the six months ended May 31, 2017, an increase of \$0.2 billion, or 6%, compared to \$2.7 billion for the same period in 2016. This increase was caused by an increase in our customer deposits.

Investing Activities

During the six months ended May 31, 2017, net cash used in investing activities was \$1.9 billion. This was substantially due to:

- Capital expenditures of \$945 million for our ongoing new shipbuilding program
- Capital expenditures of \$955 million for ship improvements and replacements, information technology, buildings and improvements and other assets
- Payments of \$99 million of fuel derivative settlements

During the six months ended May 31, 2016, net cash used in investing activities was \$2.2 billion. This was comprised of:

- Capital expenditures of \$1.4 billion for our ongoing new shipbuilding program
- Capital expenditures of \$590 million for ship improvements and replacements, information technology, buildings and improvements and other assets
- \$170 million of fuel derivative settlements
- \$25 million of collateral to one of our fuel derivative counterparties

Financing Activities

During the six months ended May 31, 2017, net cash used in financing activities of \$935 million was substantially due to the following:

- Net proceeds from short-term borrowings of \$182 million in connection with our availability of, and needs for, cash at various times throughout the period
- Repayments of \$907 million of long-term debt
- Issuances of \$100 million of long-term debt under a term loan
- Proceeds of \$367 million of long-term debt under an export credit facility
- Payments of cash dividends of \$507 million
- Purchases of \$152 million of Carnival plc ordinary shares in open market transactions under our Repurchase Program

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

- Net proceeds from short-term borrowings of \$379 million in connection with our availability of, and needs for, cash at various times throughout the period
- Repayments of \$869 million of long-term debt
- Issuances of \$555 million of euro-denominated publicly-traded notes, which net proceeds are being used for general corporate purposes
- Proceeds of \$379 million of long-term debt under an export credit facility
- Payments of cash dividends of \$459 million
- Purchases of \$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 Programs
- Sales of \$40 million of treasury stock under our Stock Swap Programs

Future Commitments and Funding Sources

Our total annual capital expenditures consist of ships under contract for construction entered into through June 23, 2017, and estimated improvements to existing ships and shoreside assets and are expected to be (in billions):

	2017	2018	2019	2020	2021	2022
Total annual capital expenditures	\$ 3.0	\$ 3.8	\$ 4.8	\$ 4.6	\$ 3.6	\$ 2.8

The year-over-year percentage increases in our annual capacity are expected to result primarily from contracted new ships entering service and are currently expected to be:

	2017	2018	2019	2020	2021	2022
Annual capacity increase (a)	3.0%	2.5%	5.6%	8.2%	6.4%	3.3%

(a) These percentage increases include only (a) contracted ship orders, sales and other dispositions.

At May 31, 2017, we had liquidity of \$11.9 billion. Our liquidity consisted of \$348 million of cash and cash equivalents, which excludes \$249 million of cash used for current operations, \$2.3 billion available for borrowing under our revolving credit facilities, net of our outstanding commercial paper borrowings, and \$9.3 billion under our committed future financings, which are comprised of ship export credit facilities. These commitments are from numerous large and well-established banks and export credit agencies, which we believe will honor their contractual agreements with us. The committed future financing will be available as follows (in millions):

	2018	2019	2020	2021	2022
Availability of committed future financing at May 31, 2017	\$ 1,957	\$ 2,548	\$ 2,266	\$ 1,689	\$ 875

At May 31, 2017, all of our revolving credit facilities are scheduled to mature in 2021, except for \$300 million that matures in 2020.

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 Form 10-K. At May 31, 2017, we were in compliance with our debt covenants. In addition, based on our forecasted operating results, financial condition and cash flows, we expect to be in compliance with our debt covenants for the foreseeable future. Generally, if an event of default under any debt agreement occurs, then pursuant to

cross default acceleration clauses, substantially all of our outstanding debt and derivative contract payables could become due, and all debt and derivative contracts could be terminated.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Operational Currency Risks

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, which result in foreign currency transactional impacts. Based on a 10% change in all currency exchange rates that were used in our June 22, 2017 guidance, we estimate that our adjusted diluted earnings per share June 22, 2017 guidance would change by the following:

- \$0.14 per share for the remaining two quarters of 2017
- \$0.09 per share for the third quarter of 2017

Interest Rate Risks

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

	<u>May 31, 2017</u>	<u>November 30, 2016</u>
Fixed rate	29%	28%
Euro fixed rate	35%	35%
Floating rate	7%	14%
Euro floating rate	26%	23%
GBP floating rate	3%	—%

Fuel Price Risks

Based on a 10% change in fuel prices versus the current spot price that was used to calculate fuel expense in our June 22, 2017 guidance, we estimate that our adjusted diluted earnings per share June 22, 2017 guidance would change by the following:

- \$0.08 per share for the remaining two quarters of 2017
- \$0.04 per share for the third quarter of 2017

Based on a 10% change in Brent prices versus the current spot price that was used to calculate realized gains (losses) on fuel derivatives in our June 22, 2017 guidance, we estimate that our adjusted diluted earnings per share June 22, 2017 guidance would change by the following:

- \$0.03 per share for the remaining two quarters of 2017
- \$0.01 per share for the third quarter of 2017

At May 31, 2017, the unrealized losses on our outstanding fuel derivative contracts were \$252 million.

Item 4. Controls and Procedures.

A. Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Our President and Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer have evaluated our disclosure controls and procedures and have concluded, as of May 31, 2017, that they are effective at a reasonable level of assurance, as described above.

B. Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended May 31, 2017 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

As previously disclosed, in 2015, the Alaska Department of Environmental Conservation issued Notices of Violations to all of the major cruise lines who had operated in the state of Alaska, including Carnival Cruise Line, Holland America Line and Princess Cruises, for alleged violations of the Alaska Marine Vessel Visible Emission Standards. On May 22, 2017, Holland America Line and Princess Cruises entered into settlement agreements settling all claims. Carnival Cruise Line settled its claims on August 6, 2016.

On May 19, 2017, Holland America Line and Princess Cruises notified the National Oceanic and Atmospheric Administration (“NOAA”) regarding discharges made by certain vessels in the recently expanded area of the National Marine Sanctuary in the Farallones Islands. NOAA is conducting an investigation. We believe the ultimate outcome will not have a material impact on our consolidated financial statements.

Item 1A. Risk Factors.

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

SCHEDULE C

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

A. Repurchase Program

Under a share repurchase program effective 2004, we are authorized to repurchase Carnival Corporation common stock and Carnival plc ordinary shares (the “Repurchase Program”). On April 6, 2017, the Boards of Directors approved a modification of the general authorization under the Repurchase Program, which replenished the remaining authorized repurchases at the time of the approval to \$1.0 billion. The Repurchase Program does not have an expiration date and may be discontinued by our Boards of Directors at any time.

No shares of Carnival Corporation common stock were repurchased pursuant to the Repurchase Program during the three months ended May 31, 2017. During this period, repurchases of Carnival plc ordinary shares pursuant to the Repurchase Program were as follows:

Period	Total Number of Shares of Carnival plc Purchased	Average Price Paid per Share of Carnival plc	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Repurchase Program
	(in millions)		(in millions)
March 1, 2017 through March 31, 2017	1.1	\$ 55.75	\$ 266
April 1, 2017 through April 30, 2017	0.4	\$ 57.18	\$ 989
May 1, 2017 through May 31, 2017	—	\$ —	\$ 989
Total	1.5	\$ 56.14	

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

B. Stock Swap Programs

In addition to the Repurchase Program, we also have programs that allow us to obtain an economic benefit when either Carnival Corporation common stock is trading at a premium to the price of Carnival plc ordinary shares or Carnival

Corporation common stock is trading at a discount to Carnival plc ordinary shares (the “Stock Swap Programs”). For example:

- In the event that Carnival Corporation common stock trades at a premium to Carnival plc ordinary shares, we may from time to time elect to issue and sell shares of Carnival Corporation common stock through a sales agent, at prevailing market prices in ordinary brokers’ transactions, and use the sale proceeds to repurchase Carnival plc ordinary shares in the UK market on an equivalent basis.
- In the event that Carnival Corporation common stock trades at a discount to Carnival plc ordinary shares, we may from time to time elect to sell ordinary shares of Carnival plc, with such sales made by Carnival Corporation or Carnival Investments Limited (“CIL”) through its sales agent, 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 an equivalent basis.

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.

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

- In January 2017, to issue and sell up to 22.0 million shares of Carnival Corporation common stock in the U.S. market and repurchase up to 22.0 million of Carnival plc ordinary shares in the UK market. We had 22.0 million shares remaining under this authorization at May 31, 2017.
- In February 2016, to sell up to 26.9 million of existing Carnival plc ordinary shares in the UK market and repurchase up to 26.9 million shares of Carnival Corporation common stock in the U.S. market. We had 26.0 million shares remaining under this authorization at May 31, 2017.

During the three months ended May 31, 2017, no Carnival Corporation common stock or Carnival plc ordinary shares were sold or repurchased under the Stock Swap Programs. Any sales of Carnival Corporation shares and Carnival plc ordinary shares have been or will be registered under the Securities Act of 1933.

C. Carnival plc Shareholder Approvals

Carnival plc ordinary share repurchases under both the Repurchase Program and the Stock Swap Programs require annual shareholder approval. The existing shareholder approval is limited to a maximum of 21.6 million ordinary shares and is valid until the earlier of the conclusion of the Carnival plc 2018 annual general meeting or July 4, 2018. At May 31, 2017, the remaining Carnival plc availability under the Repurchase Program and the Stock Swap Programs was 21.4 million ordinary shares.

SCHEDULE D

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

	Six Months Ended May 31,	
	2017	2016
Revenues		
Cruise		
Passenger tickets	\$ 2,610	\$ 2,617
Onboard and other	677	651
Tour and other	46	42
	3,333	3,310
Operating Costs and Expenses		
Cruise		
Commissions, transportation and other	544	592
Onboard and other	108	102
Payroll and related	412	416
Fuel	278	183
Food	201	202
Other ship operating	872	798
Tour and other	46	41
	2,461	2,334
Selling and administrative	393	392
Depreciation and amortisation	321	335
	3,175	3,061
Operating Income	158	249
Nonoperating Income (Expense)		
Interest income	1	—
Interest expense, net of capitalised interest	(18)	(27)
Other income, net	77	4
	60	(23)
Income Before Income Taxes	218	226
Income Tax Expense, Net	(3)	—
Net Income	\$ 215	\$ 226
Earnings Per Share		
Basic	\$ 1.00	\$ 1.05
Diluted	\$ 0.99	\$ 1.04

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.

<p>Within the 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 unaudited consolidated financial statements of Carnival Corporation & plc ("DLC Financial Statements"), which are included within the attached Schedule A. For information, set out below is the consolidated earnings per share included within the DLC Financial Statements (Schedule A) of this Interim Financial Report for the six months ended May 31:</p>		
	2017	2016
DLC basic earnings per share	\$ 1.01	\$ 0.99
DLC diluted earnings per share	\$ 1.00	\$ 0.98
DLC adjusted diluted earnings per share	\$ 0.90	\$ 0.88

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

	Six Months Ended May 31,	
	2017	2016
Net Income	\$ 215	\$ 226
Other Comprehensive Income		
Items that will not be reclassified through the Statements of Income		
Actuarial losses on post-employment benefit obligations	(2)	(15)
Items that may be reclassified through the Statements of Income		
Changes in foreign currency translation adjustment	236	47
Other	2	—
	238	47
Other Comprehensive Income	236	32
Total Comprehensive Income	\$ 451	\$ 258

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.

<p>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.</p>

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

	May 31, 2017	November 30, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 275	\$ 225
Trade and other receivables, net	153	144
Inventories	185	124
Prepaid expenses and other	200	210
Total current assets	<u>813</u>	<u>703</u>
Property and Equipment, Net	13,045	12,188
Goodwill	587	560
Other Intangibles	49	46
Other Assets	242	166
	<u>\$ 14,736</u>	<u>\$ 13,663</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	\$ 675	\$ 457
Current portion of long-term debt	195	270
Amount owed to the Carnival Corporation group	1,205	154
Accounts payable	293	306
Accrued liabilities and other	680	917
Customer deposits	1,561	1,224
Total current liabilities	<u>4,609</u>	<u>3,328</u>
Long-Term Debt	1,594	2,261
Other Long-Term Liabilities	248	238
Shareholders' Equity		
Share capital	358	358
Share premium	162	154
Retained earnings	8,960	8,907
Reserves	(1,195)	(1,583)
Total shareholders' equity	<u>8,285</u>	<u>7,836</u>
	<u>\$ 14,736</u>	<u>\$ 13,663</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.

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

	Six Months Ended May 31,	
	2017	2016
OPERATING ACTIVITIES		
Income before income taxes	\$ 218	\$ 226
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation and amortisation	321	335
Share-based compensation	6	5
Interest expense, net	17	27
Other, net	34	(12)
	<u>378</u>	<u>355</u>
Changes in operating assets and liabilities		
Receivables	8	(29)
Inventories	(57)	25
Prepaid expenses and other	(11)	34
Accounts payable	(5)	(44)
Accrued and other liabilities	(10)	(72)
Customer deposits	305	95
	<u>826</u>	<u>590</u>
Cash provided by operations before interest and income taxes	826	590
Interest received	—	—
Interest paid	(22)	(28)
Income taxes paid, net	(9)	(21)
Net cash provided by operating activities	<u>795</u>	<u>541</u>
INVESTING ACTIVITIES		
Additions to property and equipment	(589)	(390)
Other, net	35	(48)
Net cash used in investing activities	<u>(554)</u>	<u>(438)</u>
FINANCING ACTIVITIES		
Changes in amounts owed to the Carnival Corporation group	62	(212)
Proceeds from (repayments of) short-term borrowings, net	182	(27)
Principal repayments of long-term debt	(132)	(142)
Dividends paid	(149)	(130)
Purchases of treasury shares	(152)	—
Other, net	(15)	(8)
Net cash used in financing activities	<u>(204)</u>	<u>(519)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>13</u>	<u>(1)</u>
Net increase (decrease) in cash and cash equivalents	50	(417)
Cash and cash equivalents at beginning of period	225	821
Cash and cash equivalents at end of period	<u>\$ 275</u>	<u>\$ 404</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.

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

	Share capital	Share premium	Retained earnings	Reserves					Total	Total shareholders' equity
				Translation reserve	Cash flow hedges	Treasury shares	Other reserves	Merger reserve		
2016										
Balances at November 30, 2015	\$ 358	\$ 143	\$ 8,362	\$ (2,057)	\$ (65)	\$ —	\$ —	\$ 1,503	\$ (619)	\$ 8,244
Comprehensive income										
Net income	—	—	226	—	—	—	—	—	—	226
Changes in foreign currency translation adjustment	—	—	—	47	—	—	—	—	47	47
Other, net	—	—	(15)	(2)	2	—	—	—	—	(15)
Total comprehensive income	—	—	211	45	2	—	—	—	47	258
Cash dividends declared	—	—	(139)	—	—	—	—	—	—	(139)
Other, net	—	—	6	—	—	—	—	—	—	6
Balances at May 31, 2016	\$ 358	\$ 143	\$ 8,440	\$ (2,012)	\$ (63)	\$ —	\$ —	\$ 1,503	\$ (572)	\$ 8,369
2017										
Balances at November 30, 2016	\$ 358	\$ 154	\$ 8,907	\$ (2,598)	\$ (60)	\$ (36)	\$ (392)	\$ 1,503	\$ (1,583)	\$ 7,836
Comprehensive income										
Net income	—	—	215	—	—	—	—	—	—	215
Changes in foreign currency translation adjustment	—	—	—	236	—	—	—	—	236	236
Other, net	—	—	(2)	—	2	—	—	—	2	—
Total comprehensive income	—	—	213	236	2	—	—	—	238	451
Purchase of treasury shares	—	—	—	—	—	(157)	—	—	(157)	(157)
Share repurchase obligations	—	—	—	—	—	—	307	—	307	307
Cash dividends declared	—	—	(159)	—	—	—	—	—	—	(159)
Other, net	—	8	(1)	—	—	—	—	—	—	7
Balances at May 31, 2017	\$ 358	\$ 162	\$ 8,960	\$ (2,362)	\$ (58)	\$ (193)	\$ (85)	\$ 1,503	\$ (1,195)	\$ 8,285

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.

<p>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.</p>

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

NOTE 1 - General

Basis of Preparation

Carnival plc was incorporated in England and Wales in 2000 and its headquarters is located at Carnival House, 100 Harbour Parade, Southampton, SO15 1ST, United Kingdom (registration number 4039524). The 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, 2016. These Interim Financial Statements were approved by the Board of Directors on July 18, 2017.

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 audited annual financial statements for the year ended November 30, 2016, 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 with a single senior executive management team and identical Boards of Directors, 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 ("LSE") 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 2016 DLC Financial Statements, which do not form part of these Carnival plc Interim Financial Statements.

These Interim Financial Statements are required to satisfy reporting requirements of the United Kingdom Listing Authority and do not include the IFRS consolidated results and financial position of Carnival Corporation and its subsidiaries. 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 Carnival Corporation and plc U.S. GAAP consolidated financial statements. Schedule A to this announcement, which consists of the DLC Financial Statements for the three and six months ended May 31, 2017, are provided to shareholders as other information. In addition, the related management commentary has been included in Schedule B to this announcement as other information. Schedules A & B do not form part of these Carnival plc Interim Financial Statements.

The assessment of liquidity, financial conditions and capital resources 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 of the Group 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 as well as reported and disclosed amounts in these financial statements. 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.

Status of Financial Statements

Our Interim Financial Statements for the six months ended May 31, 2017 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, 2016 were approved by the Board of Directors on January 30, 2017 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.

Accounting Pronouncements

The International Accounting Standards Board ("IASB") issued a new standard, IFRS 15, *Accounting for Revenue from Contracts with Customers*. This standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. IFRS 15 requires an entity to recognise the amount of revenue to which it expects to be entitled to when the transfer of control of the promised goods or services passes to the customers. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not comprehensively addressed under current IFRS, introducing the use of a five step model. This standard is mandatory for financial years commencing on or after January 1, 2018, and the expected date of adoption by us is for the financial year commencing December 1, 2018 by either restating 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 that this standard will have on our Group financial statements.

The IASB issued a new standard, IFRS 16, regarding accounting for *leases*. This standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. The only exceptions are short-term and low-value leases. The total operating lease cost, currently expensed to the Income Statement as incurred, will be split into a financing element and an operating element. This standard will also lead to additional qualitative and quantitative disclosures. IFRS 16 is mandatory for financial years commencing on or after January 1, 2019, and will be adopted by us for the financial year commencing December 1, 2019. We are currently evaluating the impact this guidance will have on our Group financial statements.

The IASB issued a new standard, IFRS 9, regarding accounting for *Financial Instruments*, which replaces the previous standard and will include changes on classification, measurement and derecognition of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. IFRS 9 must be applied for financial years commencing on or after January 1, 2018, and will be adopted by us for the financial year commencing December 1, 2018. We are currently evaluating the impact that this standard will have on our Group financial statements.

The IASB issued amendments to the standard, IAS 7, regarding accounting for *Statement of Cash Flows*, which requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes for the financial year commencing December 1, 2017.

The IASB issued amendments to IAS 1, regarding an initiative to improve and simplify disclosures within existing disclosure requirements. On December 1, 2016 we adopted this standard.

NOTE 2 - Property and Equipment

The reconciliation of changes to property and equipment was as follows (in millions):

Balance at November 30, 2016	\$	12,188
Foreign currency translation adjustment		535
Additions		727
Disposals		(86)
Depreciation		(319)
Balance at May 31, 2017	\$	<u>13,045</u>

In April 2017, we transferred an EAA segment 1,550-passenger capacity ship under a bareboat charter agreement to an unrelated entity which was accounted for as a sale.

NOTE 3 - Goodwill and Other Intangibles

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

Balance at November 30, 2016	\$	560
Foreign currency translation adjustment		27
Balance at May 31, 2017	\$	<u>587</u>

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

The determination of our cash generating units' goodwill recoverable amounts includes numerous assumptions that are subject to various risks and uncertainties. We believe that we have made reasonable estimates and judgments. A change in the conditions, circumstances or strategy, including decisions about the allocation of new ships amongst brands and the transfer of ships between brands (influencing fair values in the future), may result in a need to recognise 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):

Balance at November 30, 2016	\$	46
Additions		4
Amortisation		(2)
Foreign currency translation adjustment		1
Balance at May 31, 2017	\$	<u>49</u>

NOTE 4 - Unsecured Debt

At May 31, 2017, our short-term borrowings included euro-denominated commercial paper of \$670 million.

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

In April 2017, we entered into two euro-denominated export credit facilities totaling \$1.6 billion. These facilities are expected to be drawn in 2021 and 2022 and will be due in semi-annual installments through 2033 and 2034, respectively. The interest rate on these export credit facilities can be fixed or floating, at our discretion.

In May 2017, we novated \$733 million of our euro-denominated export credit facilities to Carnival Corporation. This transaction represents a non-cash item in the statement of cash flows.

In June 2017, we entered into a \$577 million export credit facility, which may be drawn in euro or U.S. dollars in 2020 and will be due in semi-annual installments through 2032. The interest rate on this export credit facility can be fixed or floating, at our discretion.

For the six months ended May 31, 2017, we had borrowings of \$111 million and repayments of \$364 million of commercial paper with original maturities greater than three months.

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

NOTE 5 - Ship Commitments

At May 31, 2017, we had seven ships under contract for construction. The estimated total future commitments, including the contract prices with the shipyards, design and engineering fees, capitalised interest, construction oversight costs and various owner supplied items are as follows (in millions):

<u>Fiscal</u>	<u>May 31,</u> <u>2017</u>
2017	\$ —
2018	1,011
2019	1,854
2020	1,949
2021	2,246
Total	<u>\$ 7,060</u>

NOTE 6 - Contingencies

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 financial statements.

NOTE 7 - Dividends

The dividends declared, by quarter, were as follows (in millions, except per share data):

	<u>Quarters Ended</u>	
	<u>February 28 / 29</u>	<u>May 31</u>
<u>2017</u>		
Dividends declared per share	\$ 0.35	\$ 0.40
Dividend declarations	\$ 75	\$ 85
<u>2016</u>		
Dividends declared per share	\$ 0.30	\$ 0.35
Dividend declarations	\$ 63	\$ 76

NOTE 8 - Segment Information

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. 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. Carnival Corporation & plc's 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.

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 Cruises, Costa Cruises, Cunard, P&O Cruises (Australia) and P&O Cruises (UK). 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. The Carnival Corporation & plc Tour and Other segment represents the hotel and transportation operations of Holland America Princess Alaska Tours and other operations.

Selected information for the Carnival Corporation & plc segments and the reconciliation to the corresponding Carnival plc amounts for the six months ended May 31, 2017 and 2016 was as follows (in millions):

	<u>Revenues</u>	<u>Operating expenses</u>	<u>Selling and administrative</u>	<u>Depreciation and amortisation</u>	<u>Operating income (loss)</u>
2017					
North America (a)	\$ 4,986	\$ 3,003	\$ 639	\$ 559	\$ 785
EAA (b)	2,648	1,820	344	296	188
Cruise Support	72	17	111	23	(79)
Tour and Other (a)	46	46	8	18	(26)
Intersegment elimination (a)	(16)	(16)	—	—	—
Carnival Corporation & plc – U.S. GAAP	7,736	4,870	1,102	896	868
Carnival Corporation, U.S. GAAP vs IFRS differences and eliminations (c)	(4,403)	(2,409)	(709)	(575)	(710)
Carnival plc – IFRS	\$ 3,333	\$ 2,461	\$ 393	\$ 321	\$ 158
2016					
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)	(14)	(14)	—	—	—
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)	(4,047)	(2,167)	(691)	(526)	(663)
Carnival plc – IFRS	\$ 3,310	\$ 2,334	\$ 392	\$ 335	\$ 249

- (a) A portion of the North America segment's revenues includes revenues for the tour portion of a cruise when a land tour package is sold along with a cruise by either Holland America Line or Princess. These intersegment tour revenues, which are included in the Tour and Other segment, are eliminated directly against 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. The eliminations include ship charters between Carnival Corporation and the Group.

NOTE 9 - Related Party Transactions

There have been no changes in the six months ended May 31, 2017 to the nature of the related party transactions described in the Group IFRS financial statements for the year ended November 30, 2016 that have a material effect on the financial position or results of operations of the Group. All amounts owed to the Carnival Corporation group are unsecured and repayable on demand.

During the six months ended May 31, 2017, Holland America Line and Princess purchased land tours from us totaling \$16 million (\$14 million in 2016) and packaged these land tours for sale with their cruises. In addition, during each of the six months ended May 31, 2017 and 2016, we sold pre- and post-cruise vacations, shore excursions and transportation services to the Carnival Corporation group.

During the six months ended May 31, 2017 and 2016, Carnival plc had ship charter agreements with Princess and Carnival Cruise Line for ships operating in Australia and Asia. Princess and Carnival Cruise Line are subsidiaries of Carnival Corporation. The total charter payments for the six months ended May 31, 2017 were \$340 million (\$334 million in 2016), which were included in other ship operating expenses.

At May 31, 2017 and November 30, 2016, Carnival Corporation owned 1.1 million or 0.5%, of Carnival plc's ordinary shares, which are non-voting. At May 31, 2017 and November 30, 2016, Carnival Investments Limited ("CIL"), a wholly-owned subsidiary of Carnival Corporation, owned 24.9 million or 11.5% of Carnival plc's ordinary shares, which are also non-voting. During the six months ended May 31, 2017, Carnival Corporation and CIL received dividends on their Carnival plc ordinary shares in the aggregate amount of \$18 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 an equivalent basis.

During the six months ended May 31, 2017, 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.

At May 31, 2017, Carnival plc had floating rate euro-denominated loans from Carnival Corporation totaling \$491 million (\$389 million at May 31, 2016).

NOTE 10 - Principal Risks and Uncertainties

The principal risks and uncertainties affecting our business activities are included in Item 4. Principal Risks and Uncertainties of our 2016 Strategic Report and remain the same.

NOTE 11 - 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 12 - Fair Value Measurements and Derivative Instruments

The Group's activities expose it to a variety of financial risks such as foreign currency risk, fair value risk, 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, 2016 and the DLC Financial Statements for the three and six months ended May 31, 2017. There have been no significant changes in the risk management policies since November 30, 2016.

Fair Value Measurements

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

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

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

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

The carrying values, 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, 2017				November 30, 2016			
	Carrying Value	Fair Value			Carrying Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets								
Long-term other assets (a)	\$ 1	\$ —	\$ —	\$ 1	\$ 4	\$ —	\$ —	\$ 4
Total	\$ 1	\$ —	\$ —	\$ 1	\$ 4	\$ —	\$ —	\$ 4
Liabilities								
Fixed rate debt (b)	\$ 1,020	\$ —	\$ 1,078	\$ —	\$ 1,033	\$ —	\$ 1,093	\$ —
Floating rate debt (b)	1,445	—	1,457	—	1,955	—	1,977	—
Total	\$ 2,465	\$ —	\$ 2,535	\$ —	\$ 2,988	\$ —	\$ 3,070	\$ —

(a) Long-term other assets is comprised of a note receivable. The fair value of our Level 3 note receivable was estimated using a risk-adjusted discount rate.

(b) The debt amounts above do not include the impact of interest rate swaps or debt issuance costs. 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):

	May 31, 2017			November 30, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Cash and cash equivalents (a)	\$ 275	\$ —	\$ —	\$ 225	\$ —	\$ —
Restricted cash	3	—	—	33	—	—
Marketable securities held in trust (b)	1	—	—	1	—	—
Derivative financial instruments	—	3	—	—	7	—
Total	<u>\$ 279</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 259</u>	<u>\$ 7</u>	<u>\$ —</u>
Liabilities						
Derivative financial instruments	\$ —	\$ 21	\$ —	\$ —	\$ 23	\$ —
Total	<u>\$ —</u>	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 23</u>	<u>\$ —</u>

- (a) Cash and cash equivalents are comprised of cash and marketable securities with maturities of less than 90 days.
(b) At May 31, 2017, marketable securities held in trusts are restricted to funding certain deferred compensation and non-qualified U.S. pension plans.

Derivative Instruments and Hedging Activities

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

	Balance Sheet Location	May 31, 2017	November 30, 2016
<u>Derivative assets</u>			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Prepaid expenses and other	\$ 3	\$ 7
Total derivative assets		<u>\$ 3</u>	<u>\$ 7</u>
<u>Derivative liabilities</u>			
Derivatives designated as hedging instruments			
Interest rate swaps (b)	Accrued liabilities and other	\$ 7	\$ 7
	Other long-term liabilities	14	16
Total derivative liabilities		<u>\$ 21</u>	<u>\$ 23</u>

- (a) We had foreign currency forwards totaling \$11 million at May 31, 2017 and \$21 million at November 30, 2016 that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At May 31, 2017, these foreign currency forwards settle through July 2017.
(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 \$367 million at May 31, 2017 and \$372 million at November 30, 2016 of EURIBOR-based floating rate euro debt to fixed rate euro debt. At May 31, 2017, these interest rate swaps settle through March 2025.

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

May 31, 2017					
	Gross Amounts	Gross Amounts Offset in the Balance Sheet	Total Net Amounts Presented in the Balance Sheet	Gross Amounts not Offset in the Balance Sheet	Net Amounts
Assets	\$ 3	\$ —	\$ 3	\$ —	\$ 3
Liabilities	\$ 21	\$ —	\$ 21	\$ —	\$ 21
November 30, 2016					
	Gross Amounts	Gross Amounts Offset in the Balance Sheet	Total Net Amounts Presented in the Balance Sheet	Gross Amounts not Offset in the Balance Sheet	Net Amounts
Assets	\$ 7	\$ —	\$ 7	\$ —	\$ 7
Liabilities	\$ 23	\$ —	\$ 23	\$ —	\$ 23

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. We have not provided additional disclosures in our Interim Financial Statements of the impact that derivative instruments and hedging activities have as of May 31, 2017 and November 30, 2016 and for the six months ended May 31, 2017 and 2016, as 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. The Group manages its fuel price risks on a consolidated Carnival Corporation & plc basis. 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

Within the DLC arrangement, Carnival Corporation & plc manages its exposure to fluctuations in foreign currency exchange rates through our normal operating and financing activities, including netting certain exposures to take advantage of any natural offsets and, when considered appropriate, through the use of derivative and nonderivative financial instruments. Carnival Corporation & plc's primary focus is to monitor its exposure to, and manage, the economic foreign currency exchange risks faced by its operations and realised if we exchange one currency for another. Carnival Corporation & plc currently only hedges certain of its 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 functional currencies, which subjects us to "foreign currency translational" risk related to these currencies. Accordingly, exchange rate fluctuations in their functional currencies against the U.S. dollar will affect our reported financial results since the reporting currency for our Interim 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 our operations also have non-functional currency risk related to their international sales. 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

Within the DLC arrangement, Carnival Corporation & plc considers its investments in foreign operations to be denominated in stable currencies. Carnival Corporation & plc's investments in foreign operations are of a long-term nature. At May 31, 2017, Carnival Corporation & plc had \$5.8 billion and \$251 million of euro- and sterling-denominated debt, respectively, including the effect of foreign currency swaps, which provides an economic offset for its operations with euro and sterling functional currency. Carnival Corporation & plc also partially mitigates its net investment currency exposure by denominating a portion of its foreign currency intercompany payables in its foreign operations' functional currencies.

Newbuild Currency Risks

Our shipbuilding contracts are typically denominated in euros. Our decision to hedge a non-functional currency ship commitment for our cruise brands is made on a case-by-case basis, considering the amount and duration of the exposure, market volatility, economic trends, our overall expected net cash flows by currency and other offsetting risks. The Group uses foreign currency derivative contracts to manage foreign currency exchange rate risk for some of its ship construction payments.

At May 31, 2017, the Group's remaining newbuild currency exchange rate risk primarily relates to unhedged euro-denominated newbuild contract payments, which represents a total unhedged commitment of \$1.0 billion and relates to a newbuild scheduled to be delivered in 2020.

The functional currency cost of this ship will increase or decrease based on changes in the exchange rates until the unhedged payment is made under the shipbuilding contract. We may enter into additional foreign currency euro cost collars to mitigate some of this foreign currency exchange rate risk. Based on a 10% change in euro to U.S. dollar exchange rates at May 31, 2017, the remaining unhedged cost of this ship would have a corresponding change of \$100 million.

Interest Rate Risks

Within the DLC arrangement, Carnival Corporation & plc manages its exposure to fluctuations in interest rates through its debt portfolio management and investment strategies. Carnival Corporation & plc evaluates its 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. The composition of Carnival Corporation & plc's debt, including the effect of foreign currency swaps and interest rate swaps, was as follows:

	<u>May 31, 2017</u>	<u>November 30, 2016</u>
Fixed rate	29%	28%
Euro fixed rate	35%	35%
Floating rate	7%	14%
Euro floating rate	26%	23%
GBP floating rate	3%	—

Concentrations of Credit Risk

As part of ongoing control procedures, Carnival Corporation & plc monitors concentrations of credit risk associated with financial and other institutions with which it conducts significant business. Carnival Corporation & plc seeks to minimise these credit risk exposures, including counterparty nonperformance primarily associated with cash equivalents, investments, committed financing facilities, contingent obligations, derivative instruments, insurance contracts and new ship progress payment guarantees, by:

- Conducting business with large, well-established financial institutions, insurance companies and export credit agencies
- Diversifying our counterparties
- Having guidelines regarding credit ratings and investment maturities that we follow to help safeguard liquidity and minimise risk
- Generally requiring collateral and/or guarantees to support notes receivable on significant asset sales, long-term ship charters and new ship progress payments to shipyards

Carnival Corporation & plc currently believes the risk of nonperformance by any of its significant counterparties is remote. At May 31, 2017, Carnival Corporation & plc's exposures under foreign currency derivative contracts and interest rate swap agreements were not material.

Carnival Corporation & plc also monitors 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 it extends credit in the normal course of business prior to sailing. Carnival Corporation & plc's 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 it is obligated to honour its guests' cruise payments made by them to their travel agents and tour operators regardless of whether Carnival Corporation & plc has received these payments. Concentrations of credit risk associated with these trade receivables, charter-hire agreements and contingent obligations are not considered to be material, principally due to the large number of unrelated accounts, the nature of these contingent obligations and their short maturities. Carnival Corporation & plc has not experienced significant credit losses on its trade receivables, charter-hire agreements and contingent obligations. Carnival Corporation & plc does not normally require collateral or other security to support normal credit sales.

NOTE 13 - Reserves and Other Equity Activity

On April 6, 2017, the Boards of Directors approved a modification of the general authorization to repurchase Carnival Corporation common stock and/or Carnival plc ordinary shares (the "Repurchase Program"), which replenished the remaining authorized repurchases at the time of the approval to \$1.0 billion. During the six months ended May 31, 2017, we repurchased 2.8 million shares of Carnival plc ordinary shares for \$156 million under the Repurchase Program. At May 31, 2017, the remaining availability under the Repurchase Program was \$989 million.

In May 2017, the Group entered into an agreement to purchase a maximum of \$85 million of its own shares during the closed period as part of the Repurchase Program. The accrual of \$85 million for this agreement is classified as other reserves with the payment obligation recognized in accrued liabilities and other.

NOTE 14 - 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 have 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 plc Annual Report for the year ended November 30, 2016. No new Directors have been appointed during the six months ended May 31, 2017. A list of current Directors is maintained and is available for inspection on the Group's website at www.carnivalplc.com.

By order of the Board

Micky Arison
Chairman of the Board of Directors
July 18, 2017

Arnold W. Donald
President and Chief Executive Officer and Director
July 18, 2017