

CARNIVAL CORP
Form 10-K
January 29, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended November 30, 2012 or

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

For the transition period from _____ to _____

Commission file number: 1-9610

Carnival Corporation

(Exact name of registrant as

specified in its charter)

Commission file number: 1-15136

Carnival plc

(Exact name of registrant as

specified in its charter)

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Republic of Panama

(State or other jurisdiction of
incorporation or organization)

59-1562976

(I.R.S. Employer Identification No.)

3655 N.W. 87th Avenue

Miami, Florida 33178-2428

(Address of principal
executive offices
and zip code)

(305) 599-2600

(Registrant's telephone number,
including area code)

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

Title of each class

Common Stock

(\$0.01 par value)

England and Wales

(State or other jurisdiction of
incorporation or organization)

98-0357772

(I.R.S. Employer Identification No.)

Carnival House, 5 Gainsford Street,

London SE1 2NE, United Kingdom

(Address of principal
executive offices
and zip code)

011 44 20 7940 5381

(Registrant's telephone number,
including area code)

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

Title of each class

Ordinary Shares each represented

by American Depositary Shares

(\$1.66 par value), Special Voting Share,

GBP 1.00 par value and Trust Shares

of beneficial interest in the

P&O Princess Special Voting Trust

Name of each exchange on which registered

New York Stock Exchange, Inc.

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

Name of each exchange on which registered

New York Stock Exchange, Inc.

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

Large Accelerated Filers ☒

Accelerated Filers ☐

Non-Accelerated Filers ☐

Smaller Reporting Companies ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was \$12.3 billion as of the last business day of the registrant's most recently completed second fiscal quarter.

At January 22, 2013, Carnival Corporation had outstanding 592,310,060 shares of its Common Stock, \$0.01 par value.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was \$5.9 billion as of the last business day of the registrant's most recently completed second fiscal quarter.

At January 22, 2013, Carnival plc had outstanding 215,466,538 Ordinary Shares \$1.66 par value, one Special Voting Share, GBP 1.00 par value and 592,310,060 Trust Shares of beneficial interest in the P&O Princess Special Voting Trust.

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CARNIVAL CORPORATION & PLC

FORM 10-K

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012

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DOCUMENTS INCORPORATED BY REFERENCE

The information described below and contained in the Registrants' 2012 annual report to shareholders to be furnished to the U.S. Securities and Exchange Commission pursuant to Rule 14a-3(b) of the Securities Exchange Act of 1934 is shown in Exhibit 13 and is incorporated by reference into this joint 2012 Annual Report on Form 10-K (Form 10-K).

Part and Item of the Form 10-K

Part II

- Item 5(a).** Market for Registrants' Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Market Information, Holders and Performance Graph.
- Item 6.** Selected Financial Data.
- Item 7.** Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Item 7A.** Quantitative and Qualitative Disclosures About Market Risk.
- Item 8.** Financial Statements and Supplementary Data.

Portions of the Registrants' 2013 joint definitive Proxy Statement, to be filed with the U.S. Securities and Exchange Commission, are incorporated by reference into this Form 10-K under the items described below.

Part and Item of the Form 10-K

Part III

- Item 10.** Directors, Executive Officers and Corporate Governance.
- Item 11.** Executive Compensation.
- Item 12.** Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
- Item 13.** Certain Relationships and Related Transactions, and Director Independence.
- Item 14.** Principal Accountant Fees and Services.

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PART I

Item 1. Business.

A. Overview

I. Summary

Carnival Corporation was incorporated in Panama in 1972 and Carnival plc was incorporated in England and Wales in 2000. Carnival Corporation and Carnival plc operate a dual listed company (DLC), whereby the businesses of Carnival Corporation and Carnival plc are combined through a number of contracts and through provisions in Carnival Corporation's Articles of Incorporation and By-Laws and Carnival plc's Articles of Association. The two companies operate as if they are a single economic enterprise with a single senior executive management team and identical Boards of Directors, but each has retained its separate legal identity. Carnival Corporation and Carnival plc are both public companies with separate stock exchange listings and their own shareholders. See Note 3, DLC Arrangement to our Consolidated Financial Statements in Exhibit 13 to this Form 10-K. Together with their consolidated subsidiaries, Carnival Corporation and Carnival plc are referred to collectively in this Form 10-K as Carnival Corporation & plc, our, us and we.

With 100 cruise ships, we are the largest cruise company and among the most profitable and financially strong leisure travel companies in the world. We have a portfolio of many of the world's best known cruise brands that are sold in all the world's major vacation markets and are a leading provider of vacations to all major cruise destinations throughout the world (see Section III. Cruise Programs). A description of the principal vacation regions where we source substantially all of our guests and our brands that market primarily to these vacationers is discussed in detail in Sections III. North America and IV. Europe, Australia & Asia.

II. Mission and Related Strategies

Our mission is to take the world on vacation and deliver exceptional experiences that appeal to a large variety of consumers, all at an outstanding value. We believe our multi-brand strategy is essential to achieving our mission and maintaining our leadership positions. Our ten unique brands with worldwide sourcing of guests and diverse itinerary options allow us to expand our offerings to our past guests, while continuing to grow our business through the acquisition of new guests in established and emerging markets. Our success also depends on, among other things, our ability to exceed the expectations of our guests by providing them with a wide variety of exceptional vacation experiences. We strive to capture a greater share of consumers spending on vacations by providing extraordinary cruise products and services, all at an outstanding value.

In conjunction with our mission we are committed to:

Protecting the health, safety and security of our guests, employees and all others working on our behalf, thereby promoting an organization that is free of injuries, illness and loss. The safety of our guests and crew is paramount to our business. We continue to focus on improving existing, and implementing new, safety measures onboard all of our ships.

Protecting the environment, including the marine environment in which our vessels sail and the communities in which we operate, by minimizing adverse environmental consequences and using resources efficiently.

Fully complying with, or exceeding, all legal and statutory requirements related to health, environment, safety and security throughout our business activities.

Assigning health, environment, safety and security matters the same priority as other critical business matters.

Our primary financial goals are to profitably grow our cruise business, while maintaining a strong balance sheet. Our ability to generate significant operating cash flows allows us to internally fund all of our capital investment program and still have a substantial amount of free cash flow, which we intend to return to shareholders in the form of dividends and opportune share buybacks.

To achieve our mission and primary financial goals, we build new and innovative ships and continue to invest in our existing ships to strengthen the leadership position of each of our brands. We believe that adding newer, more efficient ships, as well as improving our existing fleet, will have a positive impact on our profitability. Our newbuilding program is the primary platform for our capacity growth. We currently have nine

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cruise ships scheduled to enter service between March 2013 and March 2016, two of which will enter service in 2013. Our current intention is to have an average of two to three new cruise ships enter service annually, some of which will replace existing capacity from the possible sales of older, less efficient ships. We are strategically timing the introductions of additional ships to our brands to allow ample time for those lines to further grow their guest base and absorb the new capacity. In addition, we will continue to focus on increasing our fleets' onboard revenues by adding new products and services for our guests to enjoy.

Based on our current ship orders, our capacity growth rate is expected to be 4%, compounded annually through 2016. Our rate of growth is slowing in the more established regions of North America and Western Europe. We are committed to a measured pace of newbuilds to achieve an optimal balance of supply and demand to maximize our profitability in these established regions. In addition, we believe that we have significant opportunities to grow our presence in the emerging Asian cruise region and will continue to redeploy some of our existing ships to that region. The mobility of ships enables us to move them between regions to maximize our profitability.

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Our operating structure is decentralized, with each of our major brands having its own headquarters and operating team, which helps create an ownership culture that is an important driver of our performance. We believe this approach results in delivering products and services that are tailored to specific geographic markets and lifestyles, which allows us to penetrate each market more effectively. Although we operate under this decentralized structure, we leverage our size to obtain economies of scale and synergies by consolidating our purchasing power and implementing cross-brand initiatives aimed at cost-containment, such as common reservation systems, cross-selling, shared data centers and shared port facilities. Currently, our most important cross-brand initiatives are aimed at improving our safety training and reducing our fuel consumption.

Following the *Costa Concordia* incident (the ship incident) in January 2012, we announced a comprehensive audit and review of all safety and emergency response procedures across our ten brands to identify lessons learned and best practices, which reinforces our commitment to the safety of our guests and crew. We engaged outside industry-leading experts to assist in these audits and reviews. As a result, we have and will continue to implement improvements to our already established procedures for bridge operations, quality assurance and auditing of ship operations, bridge officer training, safety and emergency response and crew training programs. We are also improving the structure and organization of our existing Health, Environmental, Safety and Security (HESS)-related audit functions and our HESS-related management systems. In addition, as members of Cruise Lines International Association (CLIA) and the European Cruise Council (ECC), we are also enhancing existing or implementing additional safety policies that are a result of the CLIA/ECC Cruise Industry Operational Safety Review that was initiated after the ship incident.

Costa Concordia is expected to be removed from the coast of Italy during 2013. We remain committed to minimizing any environmental impact from the ship incident. As of January 22, 2013, we have settled with 93% and 62% of the crew and guests, respectively. Substantially all of the ship removal costs and the costs of these and any future claims will be covered by our insurance.

We are committed to rebuilding Costa Cruises (Costa) reputation and strengthening its trust with guests and travel agents after the ship incident. Accordingly, Costa has launched a number of initiatives, including enhancements to existing safety and security procedures, training and related processes. In addition, Costa has initiated a major international advertising campaign called the Real Costa that targets consumers in its key markets. The primary goal of the campaign is to enhance Costa's image and describe its exceptional vacation experiences through the perspective of its guests and crew. The Real Costa campaign focuses on Costa's excellent products and services as reflected in Costa's high guest satisfaction rates. Over the next few years, we expect to fully recover from the ship incident and continue to build on our leadership positions.

III. Cruise Programs

Our 100 ships sail to all of the world's major cruise destinations and the percentage of our passenger capacity deployed in each of these areas is as follows:

Region	Cruise Programs	
	2013	2012
Caribbean	33%	35%
Europe	31%	29%
Asia/Australia	10%	8%
Alaska	6%	6%
Other	20%	22%
	100%	100%

B. Cruise Business

I. Overview

a. Summary

The multi-night cruise business has grown significantly but still remains relatively small compared to the wider global vacation industry, which includes a large variety of land-based vacation alternatives around the world. For example, there were only about 230,000 cabins in the global cruise business at November 30, 2012, which is less than two percent of the number of worldwide hotel rooms. Within the global vacation industry, cruise companies compete for the discretionary income spent by vacationers, and a 2012 Nielsen Global Consumer Confidence Survey found that after providing for savings and living expenses, the number one global spending priority is for vacations. Cruise guests tend to rate their overall satisfaction with a cruise vacation higher than comparable land-based hotel and resort vacations. As a result of these and other favorable cruise business characteristics, we believe that the cruise business has the opportunity to capture a greater share of consumers' spending on vacations compared to prior periods.

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b. Favorable Characteristics of the Cruise Business

1. Exceptional Value Proposition

We believe that the cost of a cruise vacation represents an exceptional value in comparison to alternative land-based vacations. We believe that cruising provides many relatively unique benefits, such as transportation to various destinations while also providing accommodations, a generous diversity of food choices and a selection of daily entertainment options for one all-inclusive, competitive price. To make cruising even more cost effective and more easily accessible to our guests, we offer a number of drive-to-home ports, which enables many cruise guests to reduce their overall vacation costs by eliminating or reducing air and other transportation costs.

2. Relatively Low Penetration Levels

Based on industry data, the 2012 annual penetration rate, computed based on the number of annual cruise passengers as a percentage of the total population, is 3.4% for North America, 2.7% for the United Kingdom (UK), 2.7% for Australia and 1.4% for continental Europe (continental Europe represents Germany, Italy, Spain, France and Portugal). Based on industry data or our internal estimates, approximately 24% of the U.S. population and lower percentages of European and Australian populations, have ever taken a cruise. In addition, Europeans and Australians have significantly more vacation days a year than North Americans, which presents opportunities for increases in these regions' penetration levels compared to North America.

Cruising is at an earlier stage of development and has lower penetration rates in emerging markets within Asia. There are an increasing number of relatively lower penetrated markets where economic growth has raised discretionary income levels and thus fueled an increasing demand for vacations, including cruising.

3. Wide Appeal

Cruising appeals to a broad range of ages and income levels. The average age of a cruise guest varies by brand and ranges from approximately 40 years to 60 years across the contemporary, premium and luxury cruise categories. Cruising provides something for every generation, from kids clubs to an array of onboard entertainment provided to teens and adults. Cruising also offers a diverse range of ship types and sizes, as well as price points, to attract guests with varying tastes and from most income levels. To attract more first time cruisers, the duration of some cruises has been shortened, which has lowered the purchase price and thus broadened the appeal for cruising. The range of pricing varies by a wide margin, from a three-day cruise in an inside cabin on a contemporary line embarking at a local home port to a world cruise in a balcony suite on a luxury brand requiring air transportation to and from the port.

4. Positive Demographics

The average age of populations in established cruise regions is increasing. Between 2012 and 2022, the number of people in the cruise business primary age group of 45 years and older is expected to grow by 19 million, or 13%, in the U.S. and Canada, and 16 million, or 11%, in the major Western European countries. We believe the cruise business is well-positioned to take advantage of these favorable age demographics in its major markets.

Many international markets are experiencing a rapid growth in middle-class consumers, especially in **Brazil, Russia, India and China**. As their earning power and disposable income increase, these middle-class consumers are becoming more eager to purchase entertainment, travel and luxury products and services. This demand growth provides the cruise business the opportunity to expand its reach in these markets.

5. High Guest Satisfaction Rates

Cruise guests tend to rate their overall satisfaction with a cruise vacation higher than comparable land-based hotel and resort vacations. According to industry surveys, the cruise experience consistently exceeds expectations of repeat and first-time cruisers on a wide range of important vacation attributes. Cruising continues to receive high guest satisfaction rates because of the unique vacation experiences it offers, including, but not limited to, visiting multiple destinations without having to pack and unpack, all-inclusive product offerings and state-of-the-art cruise ships with entertainment, relaxation and fun, all at an outstanding value.

6. Favorable Supply Versus Demand Balance

Our current intention is to have an average of two to three new cruise ships enter service annually. Other cruise operators have also slowed their passenger capacity growth compared to historical levels. Furthermore, older cruise ships will continue to be retired from service as they near the end of their economic lives. As a result of these factors and other reasons, the cruise business supply growth has recently slowed, and we expect demand to accelerate as the global economy recovers and emerging markets continue to develop. We believe this favorable supply versus demand balance will have a positive impact on our ability to profitably grow our cruise business.

Table of Contents**c. Global Cruise Business**

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

The global cruise business and our passenger capacity have increased at a compound annual growth rate of 5.6% and 6.9%, respectively, from 2006 to 2011. The global cruise business and our compound annual passenger capacity growth rate is currently expected to be 3.2% and 3.2%, respectively, from 2011 to 2015 based on the assumption discussed below. The passenger capacities that have been or are expected to be marketed are as follows:

Fiscal Year	Passenger Capacity (weighted-average)	
	Global Cruise Business	Carnival Corporation & plc
2006	337,000	140,000
2007	359,000	150,000
2008	377,000	162,000
2009	397,000	174,000
2010	423,000	186,000
2011	443,000	195,000
2012	455,000	200,000
2013 (a)	470,000	206,000
2014 (a)	483,000	211,000
2015 (a)	502,000	221,000

(a) Our estimates of future passenger capacity do not include any assumption related to unannounced ship withdrawals and, accordingly, our estimates could indicate a higher growth in passenger capacity than will actually occur.

The number of cruise passengers carried in the global cruise business and by us have increased at a compound annual growth rate of 5.4% and 6.4% from 2006 to 2011, respectively, and 2.8% and 2.8% from 2011 to 2012, respectively. The North America regions' cruise passengers have increased at a compound annual growth rate of 2.2% from 2006 to 2011 and 2.3% from 2011 to 2012. The Europe, Australia, Asia and Other regions' cruise passengers have increased at a compound annual growth rate of 11% from 2006 to 2011 and 3.5% from 2011 to 2012. As we continue to expand our global presence, our revenues generated from passengers sourced from outside the U.S. have grown to 54% in 2012, up from 40% in 2006. The number of cruise passengers carried are as follows:

Year (a)	Cruise Passengers			Carnival Corporation & plc Total
	Global Cruise Business			
	Europe, Australia, Asia and Other			
	North America	Asia and Other	Total	
2006	10,380,000	4,800,000	15,180,000	7,008,000
2007	10,450,000	5,500,000	15,950,000	7,672,000

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2008	10,290,000	6,000,000	16,290,000	8,183,000
2009	10,400,000	7,190,000	17,590,000	8,519,000
2010	11,000,000	8,070,000	19,070,000	9,147,000
2011	11,520,000	9,090,000	20,610,000	9,559,000
2012(b)	11,790,000	9,400,000	21,190,000	9,829,000

- (a) The estimates of the total passengers carried for 2006 through 2011 were obtained from G.P. Wild (International) Limited, an independent cruise research company, and are based upon where the passengers were sourced and not the cruise brands on which they sailed.
- (b) The estimates of the total passengers carried for 2012 were based on internally developed global passenger growth rates.

Table of Contents**II. Segment Information**

Each of our ten cruise brands is an operating segment that we aggregate into either the (1) North America or (2) Europe, Australia & Asia (EAA) reportable cruise segments based on the similarity of their economic and other characteristics. As of January 22, 2013, our cruise brands summary information is as follows:

Cruise Brands	Passenger Capacity (a)	Number of Cruise Ships	Primary Markets (b)
<u>North America</u>			
Carnival Cruise Lines	61,968	24	North America
Princess Cruises (Princess)	36,912	16	North America
Holland America Line	23,492	15	North America
Seabourn	1,986	6	North America
North America Cruise Brands	124,358	61	
<u>EAA</u>			
Costa	31,720	14	Italy, France and Germany
AIDA Cruises (AIDA)	16,442	9	Germany
P&O Cruises (UK)	14,636	7	UK
Cunard	6,672	3	UK and North America
P&O Cruises (Australia)	4,780	3	Australia
Ibero Cruises (Ibero)	4,176		