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CARNIVAL CORP  
Form 10-Q  
July 01, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended May 31, 2010

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

Commission file number: 1-15136

Carnival Corporation

Carnival plc

(Exact name of registrant as  
specified in its charter)

(Exact name of registrant as  
specified in its charter)

Republic of Panama

England and Wales

(State or other jurisdiction of  
incorporation or organization)

(State or other jurisdiction of  
incorporation or organization)

59-1562976

98-0357772

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

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

3655 N.W. 87th Avenue

Carnival House, 5 Gainsford Street,

Miami, Florida 33178-2428

London SE1 2NE, United Kingdom

(Address of principal  
executive offices)  
(Zip Code)

(Address of principal  
executive offices)  
(Zip Code)

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(305) 599-2600

011 44 20 7940 5381

(Registrant's telephone number, including area code)

(Registrant's telephone number, including area code)

None

None

(Former name, former address and former fiscal year, if changed since last report)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrants have submitted electronically and posted on its corporate Web sites, 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 registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or smaller 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   
Non-accelerated filers

Accelerated filers   
Smaller reporting companies

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

At June 25, 2010, Carnival Corporation had outstanding 612,219,385 shares of Common Stock, \$.01 par value.

At June 25, 2010, Carnival plc had outstanding 213,669,942 Ordinary Shares \$1.66 par value, one Special Voting Share, GBP 1.00 par value and 612,219,385 Trust Shares of beneficial interest in the P&O Princess Special Voting Trust.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

**CARNIVAL CORPORATION & PLC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(UNAUDITED)

(in millions, except per share data)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2010	2009	2010	2009
<b>Revenues</b>				
Cruise				
Passenger tickets	\$ 2,427	\$ 2,242	\$ 4,785	\$ 4,461
Onboard and other	737	673	1,466	1,307
Tour and other	31	33	39	44
	3,195	2,948	6,290	5,812
<b>Costs and Expenses</b>				
Operating				
Cruise				
Commissions, transportation and other	440	440	937	954
Onboard and other	106	110	219	214
Payroll and related	383	366	774	718
Fuel	416	243	813	451
Food	212	203	424	401
Other ship operating	504	488	978	946
Tour and other	32	35	47	51
Total	2,093	1,885	4,192	3,735
Selling and administrative	404	393	800	785
Depreciation and amortization	349	317	694	628
	2,846	2,595	5,686	5,148
<b>Operating Income</b>	<b>349</b>	<b>353</b>	<b>604</b>	<b>664</b>
<b>Nonoperating (Expense) Income</b>				
Interest income	3	2	7	6
Interest expense, net of capitalized interest	(99)	(90)	(195)	(186)
Other (expense) income, net	(2)	5	(5)	24
	(98)	(83)	(193)	(156)
<b>Income Before Income Taxes</b>	<b>251</b>	<b>270</b>	<b>411</b>	<b>508</b>
<b>Income Tax Benefit (Expense), Net</b>	<b>1</b>	<b>(6)</b>	<b>16</b>	<b>16</b>
<b>Net Income</b>	<b>\$ 252</b>	<b>\$ 264</b>	<b>\$ 427</b>	<b>\$ 524</b>

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**Earnings Per Share**

Basic	\$ 0.32	\$ 0.34	\$ 0.54	\$ 0.67
Diluted	\$ 0.32	\$ 0.33	\$ 0.54	\$ 0.66
<b>Dividends Declared Per Share</b>	<b>\$ 0.10</b>		<b>\$ 0.20</b>	

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, 2010	November 30, 2009
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 594	\$ 538
Trade and other receivables, net	455	362
Inventories	297	320
Prepaid expenses and other	240	298
<b>Total current assets</b>	<b>1,586</b>	<b>1,518</b>
<b>Property and Equipment, Net</b>	<b>29,317</b>	<b>29,870</b>
<b>Goodwill</b>	<b>3,214</b>	<b>3,451</b>
<b>Trademarks</b>	<b>1,289</b>	<b>1,346</b>
<b>Other Assets</b>	<b>623</b>	<b>650</b>
	<b>\$ 36,029</b>	<b>\$ 36,835</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Short-term borrowings	\$ 808	\$ 135
Current portion of long-term debt	676	815
Convertible debt subject to current put option	595	
Accounts payable	548	568
Accrued liabilities and other	928	874
Customer deposits	3,208	2,575
<b>Total current liabilities</b>	<b>6,763</b>	<b>4,967</b>
<b>Long-Term Debt</b>	<b>7,681</b>	<b>9,097</b>
<b>Other Long-Term Liabilities and Deferred Income</b>	<b>721</b>	<b>732</b>
<b>Contingencies (Note 3)</b>		
<b>Shareholders Equity</b>		
Common stock of Carnival Corporation, \$0.01 par value; 1,960 shares authorized; 645 shares at 2010 and 644 shares at 2009 issued	6	6
Ordinary shares of Carnival plc, \$1.66 par value; 214 shares at 2010 and 213 shares at 2009 issued	355	354
Additional paid-in capital	8,059	7,920
Retained earnings	15,830	15,561
Accumulated other comprehensive (loss) income	(1,029)	462
Treasury stock, 32 shares at 2010 and 24 shares at 2009 of Carnival Corporation and 38 shares at 2010 and 46 shares at 2009 of Carnival plc, at cost	(2,357)	(2,264)
<b>Total shareholders equity</b>	<b>20,864</b>	<b>22,039</b>
	<b>\$ 36,029</b>	<b>\$ 36,835</b>

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



## CARNIVAL CORPORATION &amp; PLC

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in millions)

	Six Months Ended May 31,	
	2010	2009
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 427	\$ 524
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	694	628
Share-based compensation	23	32
Other	(24)	4
Changes in operating assets and liabilities		
Receivables	(122)	12
Inventories	2	17
Prepaid expenses and other	3	(22)
Accounts payable	31	11
Accrued and other liabilities	(5)	(35)
Customer deposits	765	270
Net cash provided by operating activities	1,794	1,441
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(2,168)	(1,956)
Other, net	74	(6)
Net cash used in investing activities	(2,094)	(1,962)
<b>FINANCING ACTIVITIES</b>		
Proceeds from (repayments of) short-term borrowings, net	702	(255)
Principal repayments of revolvers	(323)	(1,004)
Proceeds from revolvers	89	1,060
Principal repayments of other long-term debt	(796)	(216)
Proceeds from issuance of other long-term debt	806	987
Dividends paid	(79)	(314)
Purchases of treasury stock	(305)	(9)
Sales of treasury stock	317	10
Proceeds from settlement of foreign currency swaps		113
Other, net	14	(38)
Net cash provided by financing activities	425	334
Effect of exchange rate changes on cash and cash equivalents	(69)	22
Net increase (decrease) in cash and cash equivalents	56	(165)
Cash and cash equivalents at beginning of period	538	650
Cash and cash equivalents at end of period	\$ 594	\$ 485

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





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CARNIVAL CORPORATION & PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**NOTE 1 Basis of Presentation**

Carnival Corporation is incorporated in Panama, and Carnival plc is incorporated in England and Wales. 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, but each has retained its separate legal identity.

The accompanying 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.

The accompanying Consolidated Balance Sheet at May 31, 2010 and the Consolidated Statements of Operations for the three and six months ended May 31, 2010 and 2009 and the Consolidated Statements of Cash Flows for the six months ended May 31, 2010 and 2009 are unaudited and, in the opinion of our management, contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation. In our accompanying 2009 Consolidated Statement of Cash Flows we have revised our presentation of proceeds from, and principal repayments of, our principal revolving credit facility to reflect the cash flows in connection with the underlying borrowings and repayments under this revolver. This revision had no impact on the net proceeds from, and principal repayments of, this revolver or on our net cash used in financing activities. 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 2009 joint Annual Report on Form 10-K. Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire year.

On December 1, 2009, we adopted a new accounting pronouncement on a retrospective basis that requires the issuer of certain convertible debt instruments that may be settled in cash, or other assets, on conversion to separately account for the debt and equity components in a manner that reflects the issuer's non-convertible debt borrowing rate. The impact of adopting this pronouncement had no effect on our previously reported diluted earnings per share. However, at November 30, 2009 we recorded an adjustment to reduce retained earnings and increase additional paid-in capital by \$209 million.

**NOTE 2 Debt**

At May 31, 2010, unsecured short-term borrowings consisted of \$798 million of commercial paper and \$10 million of euro-denominated bank loans with an aggregate weighted-average interest rate of 0.4%.

In January 2010, we repaid a \$100 million unsecured floating rate bank loan prior to its 2012 maturity date.

In February 2010, we borrowed \$371 million under an unsecured euro-denominated export credit facility, the proceeds of which were used to pay for a portion of *AIDAblu*'s purchase price. This facility bears interest at EURIBOR plus 50 basis points ( *bps* ) and is due in semi-annual installments through 2022.

In February 2010, we borrowed \$132 million under an unsecured euro-denominated bank loan, which bears interest at EURIBOR plus 200 *bps* and is due in February 2014.

In April 2010, we obtained a commitment for two unsecured export credit ship financings. Each financing will provide us with the ability to borrow up to \$496 million, currently denominated in euros, for a portion of the purchase price of the new Princess Cruises ( Princess ) ship. The first Princess ship is expected to enter service in May 2013 and the second in May 2014. Each financing, if drawn, will have a fixed interest rate of 4.87%, although we have the option to switch the interest rate to LIBOR plus 120 bps up until 60 days prior to the ship delivery dates. Each financing will be due in semi-annual installments over 12 years from the date of funding.

In May 2010, Costa Crociere, one of our Italian subsidiaries, borrowed \$246 million under an unsecured euro-denominated export credit facility, which bears interest at 3.75% and is due in semi-annual installments through 2025.

In May 2010, we repaid \$412 million of an unsecured floating rate euro-denominated export credit facility that was borrowed to pay for a portion of *Costa Pacifica*'s purchase price prior to its maturity dates through 2019.

At May 31, 2010, our 2% Convertible notes were classified as current liabilities, since we may be required to repurchase all or a portion of these notes at the option of the noteholders on April 15, 2011.

### **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, accordingly, the maximum amount of our liability, net of any insurance recoverables, is typically limited to our self-insurance retention levels. However, the ultimate outcome of these claims and lawsuits which are not covered by insurance cannot be determined at this time.

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

At May 31, 2010, Carnival Corporation had estimated contingent obligations totaling \$542 million, excluding termination payments as discussed below, to participants in LILO transactions for two of its ships. At the inception of these leases, the aggregate of the net present value of these obligations was paid by Carnival Corporation to a group of major financial institutions, who agreed to act as payment undertakers and directly pay these obligations. Accordingly, these contingent obligations are considered extinguished, and neither the funds nor the contingent obligations have been included in our accompanying Consolidated Balance Sheets.

In the event that Carnival Corporation were to default on its contingent obligations and assuming performance by all other participants, we estimate that we would, as of May 31, 2010, be responsible for a termination payment of approximately \$105 million. In 2017, we have the right to exercise options that would terminate these two LILO transactions at no cost to us.

In certain cases, if the credit ratings of the financial institutions who are directly paying the contingent obligations fall below AA-, then Carnival Corporation will be required to replace these financial institutions with other financial institutions whose credit ratings are at least AA or meet other specified credit requirements. In such circumstances we would incur additional costs, although we estimate that they would be immaterial to our financial statements. All of the financial institution payment undertakers subject to this AA- credit rating threshold have credit ratings of AAA. If Carnival Corporation's credit rating, which is BBB+, falls below BBB, it will be required to provide a standby letter of credit for \$61 million, or, alternatively, provide mortgages for this aggregate amount on these two ships.

**Contingent Obligations Indemnifications**

Some of the debt agreements that we enter into include indemnification provisions that obligate us to make payments to the counterparty if certain events occur. These contingencies generally relate to changes in taxes and changes in laws that increase lender capital costs and other similar 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, under current circumstances, we do not believe a request for material future indemnification payments is probable.

**NOTE 4 Comprehensive (Loss) Income**

Comprehensive (loss) income was as follows (in millions):

	Three Months Ended May 31,		Six Months Ended May 31,	
	2010	2009	2010	2009
Net income	\$ 252	\$ 264	\$ 427	\$ 524
Items included in other comprehensive (loss) income				
Foreign currency translation adjustment	(690)	892	(1,391)	672
Other	(66)	62	(100)	58
Other comprehensive (loss) income	(756)	954	(1,491)	730
Total comprehensive (loss) income	\$ (504)	\$ 1,218	\$ (1,064)	\$ 1,254

**NOTE 5 Segment Information**

Our cruise segment includes all of our cruise brands, which have been aggregated as a single reportable segment based on the similarity of their economic and other characteristics, including the products and services they provide. Our tour and other segment represents the hotel, tour and transportation operations of Holland America Princess Alaska Tours and our ship charter operations to an unaffiliated entity, that currently operates two of our ships under its brand.

Selected segment information for our cruise and tour and other segments was as follows (in millions):

	Three Months Ended May 31,				
	Revenues	Operating expenses	Selling and admin- istrative	Depreciation and amortization	Operating income (loss)
<b>2010</b>					
Cruise	\$ 3,164	\$ 2,061	\$ 396	\$ 339	\$ 368
Tour and other	45	46	8	10	(19)
Intersegment elimination	(14)	(14)			
	\$ 3,195	\$ 2,093	\$ 404	\$ 349	\$ 349
<b>2009</b>					
Cruise	\$ 2,915	\$ 1,850	\$ 386	\$ 308	\$ 371
Tour and other	48	50	7	9	(18)
Intersegment elimination	(15)	(15)			
	\$ 2,948	\$ 1,885	\$ 393	\$ 317	\$ 353



	Six Months Ended May 31,				
	Revenues	Operating expenses	Selling and administrative	Depreciation and amortization	Operating income (loss)
<b>2010</b>					
Cruise	\$ 6,251	\$ 4,145	\$ 785	\$ 676	\$ 645
Tour and other	54	62	15	18	(41)
Intersegment elimination	(15)	(15)			
	\$ 6,290	\$ 4,192	\$ 800	\$ 694	\$ 604
<b>2009</b>					
Cruise	\$ 5,768	\$ 3,684	\$ 770	\$ 610	\$ 704
Tour and other	61	68	15	18	(40)
Intersegment elimination	(17)	(17)			
	\$ 5,812	\$ 3,735	\$ 785	\$ 628	\$ 664

**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,	
	2010	2009	2010	2009
Net income	\$ 252	\$ 264	\$ 427	\$ 524
Interest on dilutive convertible notes	3	3	6	6
Net income for diluted earnings per share	\$ 255	\$ 267	\$ 433	\$ 530
Weighted-average common and ordinary shares outstanding	788	787	788	787
Dilutive effect of convertible notes	15	15	15	15
Dilutive effect of equity plans	3	2	3	2
Diluted weighted-average shares outstanding	806	804	806	804
Basic earnings per share	\$ 0.32	\$ 0.34	\$ 0.54	\$ 0.67
Diluted earnings per share	\$ 0.32	\$ 0.33	\$ 0.54	\$ 0.66
Anti-dilutive shares excluded from diluted earnings per share computations				
Stock options	8.8	14.8	8.9	14.8
1.75% Convertible notes		5.1		5.1

**NOTE 7 Fair Value Measurements, Derivative Instruments and Hedging Activities****Fair Value Measurements**

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

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Level 1 measurements are based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2 measurements are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or market data other than quoted prices that are observable for the assets or liabilities.

Level 3 measurements are based on unobservable data that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that we believe market participants would use in pricing the asset or liability at the measurement date.

***Financial Instruments that ARE NOT measured at Fair Value on a Recurring Basis***

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

	May 31, 2010		November 30, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents(a)	\$ 368	\$ 368	\$ 324	\$ 324
Long-term other assets(b)	\$ 157	\$ 155	\$ 187	\$ 181
Debt, non-convertible(c)	\$ (9,156)	\$ (8,909)	\$ (9,443)	\$ (9,376)
Publicly-traded convertible notes(d)	\$ (604)	\$ (653)	\$ (604)	\$ (627)

- (a) Cash and cash equivalents are comprised of cash on hand and time deposits and, due to their short maturities, the carrying values approximate their fair values.
- (b) At May 31, 2010 and November 30, 2009, substantially all of our long-term other assets were comprised of notes and other receivables. The fair values of notes and other receivables were based on estimated future cash flows discounted at appropriate market interest rates.
- (c) The net difference between the fair value of our non-convertible debt and its carrying value was due to the market interest rates in existence at the respective measurement dates being higher than the current interest rates on these debt obligations, including the impact of changes in our credit ratings. The fair values of our publicly-traded notes were based on their quoted market prices. The fair values of our other debt were estimated based on appropriate market interest rates being applied to this debt.
- (d) The net difference between the fair values of our publicly-traded convertible notes and their carrying values was primarily due to the impact of changes in the Carnival Corporation common stock price underlying the value of these convertible notes. Their fair values were based on quoted market prices.

***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) that are measured at fair value on a recurring basis were as follows (in millions):

	May 31, 2010		November 30, 2009	
	Level 1	Level 2	Level 1	Level 2
Cash equivalents(a)	\$ 226		\$ 214	
Marketable securities held in rabbi trusts(b)	\$ 104	\$ 15	\$ 106	\$ 17
Derivatives				
Ship foreign currency forwards and options(c)		\$ (46)		\$ 41
Net investment hedges(d)		\$ 36		\$ (33)
Interest rate swaps(e)		\$ (3)		\$ 3

- (a) Cash equivalents are comprised of money market funds.
- (b) Level 1 and 2 marketable securities are held in rabbi trusts and are comprised primarily of mutual funds invested in common stocks and other investments, respectively. Their use is restricted to funding certain deferred compensation and non-qualified U.S. pension plans.
- (c) At May 31, 2010 and November 30, 2009, we have foreign currency forwards and options totaling \$1.2 billion and \$887 million, respectively, that are designated as foreign currency cash flow hedges for certain of our euro and sterling-denominated shipbuilding contracts. These foreign currency forwards and options mature through 2011.
- (d) At May 31, 2010 and November 30, 2009, we have foreign currency forwards and swaps totaling \$488 million and \$526 million, respectively, that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. These foreign currency forwards and swaps mature through 2017 and in 2010, respectively, and were principally entered into to effectively convert U.S. dollar-denominated debt into euro debt.
- (e) We have both U.S. dollar and sterling interest rate swaps designated as fair value hedges whereby we receive fixed interest rate payments in exchange for making floating interest rate payments. At May 31, 2010 and November 30, 2009, these interest rate swap agreements effectively changed \$585 million and \$625 million, respectively, of fixed rate debt to U.S. dollar LIBOR or GBP LIBOR-based floating rate debt. In addition, 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. At May 31, 2010, these interest rate swap agreements effectively changed \$322 million of EURIBOR-based floating rate debt to fixed rate debt. These interest rate swaps mature through 2022.

We measure our derivatives using valuations that are calibrated to the initial trade prices. Subsequent valuations are based on observable inputs and other variables included in the valuation model such as interest rate yield curves, forward currency exchange rates, credit spreads, maturity dates, volatilities and netting arrangements. We use the income approach to value the derivatives, using observable market data for all significant inputs and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated, but not compelled to transact. The fair value measurement of a financial asset or financial liability must reflect the nonperformance risk of the entity and the counterparty. Therefore, the impact of our counterparty's creditworthiness was considered when in an asset position and our creditworthiness was considered when in a liability position in the fair value measurement of our derivative instruments. Creditworthiness did not have a material impact on the fair values of our derivative instruments at May 31, 2010 and November 30, 2009. Both the counterparties and us are expected to continue to perform under the contractual terms of the instruments.

***Nonfinancial Instruments that ARE measured at Fair Value on a Nonrecurring Basis***

We performed our annual goodwill impairment reviews as of July 31, 2009, by comparing the estimated fair value of each cruise line reporting unit to the carrying value of the net assets allocated to that reporting unit. All of our cruise line reporting units carry goodwill, except for Ocean Village and The Yachts of Seabourn. No goodwill was considered to be impaired because the estimated fair values of each cruise line reporting unit exceeded their respective carrying values and, accordingly, we did not proceed to step two of the impairment analysis.

We estimated cruise line reporting unit fair values based upon a combined weighting of the fair values determined using (a) discounted future cash flow analysis and (b) market multiples of comparable publicly-traded companies. The principal assumptions used in our cash flow analysis related to forecasting future operating results, including net revenue yields, net cruise costs including fuel prices, capacity changes, weighted-average cost of capital for comparable publicly-traded companies, adjusted for the risk attributable to the reporting unit including the geographic region in which it operates, and terminal values, which are all considered level 3 inputs. We compared the resulting estimated enterprise fair value to our observable capital market enterprise value.



We also performed our annual trademark impairment reviews as of July 31, 2009, by comparing the estimated fair values of our trademarks to their carrying values. The cruise brands that have trademark amounts recorded are AIDA Cruises, Ibero Cruises ( Ibero ), P&O Cruises, P&O Cruises Australia and Princess. The estimated fair values for each of our trademarks exceeded their respective carrying values and, therefore, none of our trademarks were impaired. We estimated fair values based upon a discounted future cash flow analysis, which estimated the amount of royalties that we are relieved from having to pay for use of the associated trademarks, based upon forecasted cruise revenues. The royalty rates are primarily based upon comparable royalty agreements used in similar industries.

We do not believe there have been any events or circumstances subsequent to July 31, 2009, which would require us to perform interim goodwill or trademark impairment reviews, except for the interim goodwill review we performed at Ibero as of September 30, 2009 because of a one-year acceleration of a ship transfer into Ibero. Based on this interim review, none of Ibero's \$169 million of goodwill at September 30, 2009 was considered impaired. We will continue to monitor the status of our Ibero operation since the Spanish economy and Spanish consumers' demand for vacations are among the most challenging in Europe.

The determination of our cruise line reporting unit fair values include numerous uncertainties. We believe that we have made reasonable estimates and judgments in determining whether our goodwill and trademarks have been impaired. However, if there is a material change in assumptions used in our determination of fair values or if there is a material change in the conditions or circumstances influencing fair values, we could be required to recognize a material impairment charge.

Changes to our goodwill carrying amounts since November 30, 2009 were all due to changes resulting from using different foreign currency translation rates at May 31, 2010.

#### **Derivative Instruments and Hedging Activities**

We utilize derivative and nonderivative financial instruments, such as foreign currency forwards, options and swaps, foreign currency debt obligations and foreign currency cash balances, to manage our exposure to fluctuations in certain foreign currency exchange rates, and interest rate swaps to manage our interest rate exposure in order to achieve a desired proportion of floating and fixed rate debt. Our policy is to not use any financial instruments for trading or other speculative purposes.

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

We classify the fair values of all our derivative contracts and the fair values of our hedged firm commitments as either current or long-term, which are included in prepaid expenses and other assets and accrued and other liabilities, depending on whether the maturity date of the derivative contract is within or beyond one year from the balance sheet date. The cash flows from derivatives treated as hedges are classified in our accompanying Consolidated Statements of Cash Flows in the same category as the item being hedged.

The effective portions of our net foreign currency derivative (losses) and gains on cash flow hedges recognized in other comprehensive (loss) income in the three and six months ended May 31, 2010 totaled \$(61) million (\$64 million in 2009) and \$(98) million (\$63 million in 2009), respectively.

The effective portions of our net foreign currency derivative gains and (losses) on net investment hedges recognized in other comprehensive income (loss) in the three and six months ended May 31, 2010 totaled \$39 million (\$(24) million in 2009) and \$86 million (\$(31) million in 2009), respectively.

There are no amounts excluded from the assessment of hedge effectiveness, and there are no credit risk related contingent features in our derivative agreements. The amount of estimated cash flow hedges' unrealized gains and losses which 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 financial statements as of May 31, 2010 and November 30, 2009 and for the three and six months ended May 31, 2010 and 2009 where such impacts are not significant.

#### **Foreign Currency Exchange Rate Risk**

#### **Operational and Investment Currency Risk**

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 nonderivative financial instruments. Our focus is to manage the economic risks faced by our operations, which are the ultimate foreign currency exchange risks that would be realized by us if we exchanged one currency for another, and not the accounting risks. Accordingly, we do not currently hedge these accounting risks with financial instruments. The financial impacts of the hedging instruments we do employ are generally offset by corresponding changes in the underlying exposures being hedged.

The growth of our European and Australian brands subjects us to an increasing level of foreign currency translation risk related to the euro, sterling and Australian dollar because these brands generate significant revenues and incur significant expenses in euro, sterling or the Australian dollar. Accordingly, exchange rate fluctuations of the euro, sterling or Australian dollar against the U.S. dollar will affect our reported financial results since the reporting currency for our consolidated financial statements is the U.S. dollar. Any strengthening of the U.S. dollar against these foreign currencies has the financial statement effect of decreasing the U.S. dollar values reported for cruise revenues and cruise expenses in our accompanying Consolidated Statements of Operations. Weakening of the U.S. dollar has the opposite effect.

Most of our brands have non-functional currency risk related to their international sales operations, which has become an increasingly larger part of most of their businesses over time, and primarily includes the same currencies noted above, as well as the U.S. and Canadian dollars. In addition, all of our brands have non-functional currency expenses for a portion of their operating expenses. Accordingly, a strengthening of the U.S. dollar against these currencies results in both decreased revenues and expenses, and the weakening of the U.S. dollar against these currencies has the opposite effect, resulting in some degree of natural offset due to currency exchange movements within our accompanying Consolidated Statements of Operations for these transactional currency gains and losses.

We consider our investments in foreign operations to be denominated in relatively stable currencies and of a long-term nature. We partially address our net investment currency exposures by denominating a portion of our debt, including the effect of foreign currency forwards and swaps, in our foreign operations' functional currencies (generally the euro or sterling). As of May 31, 2010 and November 30, 2009, we have designated \$880 million and \$2.0 billion of our euro debt and other obligations and \$319 million and \$362 million of our sterling debt and other obligations, respectively, which mature through 2022, as nonderivative hedges of our net investments in foreign operations. Accordingly, we have included \$368 million and \$(88) million of cumulative foreign currency transaction gains and (losses) in the cumulative translation adjustment component of AOCI at May 31, 2010 and November 30, 2009, respectively, which offsets a portion of the losses and gains recorded in AOCI upon translating our foreign operations' net assets into U.S. dollars.

### **Newbuild Currency Risk**

At May 31, 2010, 48% of our newbuild passenger capacity under contract is for those of our European or North American brands for which we do not have significant currency risk because all of these ships are contracted for in euros or U.S. dollars, which are the functional currencies of these brands. However, our U.S. dollar and sterling functional currency brands have foreign currency exchange rate risks related to our outstanding or possible future commitments under ship construction contracts denominated in euros. These foreign currency commitments are affected by fluctuations in the value of the functional currency as compared to the currency in which the shipbuilding contract is denominated. At May 31, 2010, 28% of our newbuild capacity under contract is exposed to currency risk. We use foreign currency contracts and have used nonderivative financial instruments to manage foreign currency exchange rate risk for some of our ship construction contracts. At May 31, 2010, 24% of our newbuild passenger capacity under contract that would otherwise be exposed to currency risk is hedged and, accordingly, changes in the fair value of these foreign currency contracts offset changes in the fair value of the foreign currency denominated ship construction commitments, thus resulting in the elimination of such risk.

Our decisions regarding whether or not to hedge a given ship commitment for our North American and UK brands are made on a case-by-case basis, taking into consideration the amount and duration of the exposure, market volatility, exchange rate correlation, economic trends and other offsetting risks.

The cost of shipbuilding orders that we may place in the future for our cruise lines that generate their cash flows in a currency that is different than the shipyard's operating currency, which is generally the euro, is expected to be affected by foreign currency exchange rate fluctuations. Given the movement in the U.S. dollar and sterling relative to the euro over the past several years, the U.S. dollar and sterling cost to order new cruise ships has been volatile. If the U.S. dollar or sterling declines against the euro, this may affect our desire to order future new cruise ships for U.S. dollar or sterling functional currency brands.

### **Interest Rate Risks**

We manage our exposure to fluctuations in interest rates through our investment and debt portfolio management strategies. These strategies include purchasing high quality short-term investments with floating interest rates, and evaluating our debt portfolio to make periodic adjustments to the mix of floating and fixed rate debt through the use of interest rate swaps and the issuance or early retirement of new or existing debt, respectively. At May 31, 2010, 73% and 27% (71% and 29% at November 30, 2009) of our debt bore fixed and floating interest rates, respectively, including the effect of interest rate swaps.

### **Fuel Price Risks**

We do not use financial instruments to hedge our exposure to fuel price risks.

### **Concentrations of Credit Risk**

As part of our ongoing control procedures, we monitor concentrations of credit risk associated with financial and other institutions with which we conduct significant business. Our maximum exposure under foreign currency contracts and interest rate swap agreements that are in-the-money is the replacement cost, which includes the value of the contracts, in the event of nonperformance by the counterparties to the contracts, all of which are currently our lending banks. We seek to minimize credit risk exposure, including counterparty nonperformance primarily associated with our cash equivalents, investments, committed financing facilities, contingent obligations, derivative instruments, insurance contracts and new ship progress payment guarantees, by normally conducting business with large, well-established financial institutions and insurance companies that have long-term credit ratings of A or above, and by diversifying our counterparties. In addition, we have established guidelines regarding credit ratings and investment maturities that we follow to help maintain liquidity and minimize risk. We normally do require collateral and/or guarantees to support notes receivable on significant asset sales, long-term ship charters and new ship progress payments to shipyards. We do not currently anticipate nonperformance by any of our significant counterparties.

We also monitor the creditworthiness of our travel agencies and tour operators in Europe and our credit card providers to which we extend credit in the normal course of our business. Concentrations of credit risk associated with these receivables are considered minimal, primarily due to their short maturities and the large number of unrelated accounts within our customer base. We have experienced only minimal credit losses on our trade receivables. We do not normally require collateral or other security to support normal credit sales.

Finally, if the shipyard with which we have contracts to build our ships is unable to perform, we would be required to perform under our foreign currency forwards and options related to these shipbuilding contracts. Accordingly, if the shipyard is unable to perform we may have to discontinue the accounting for these currency forwards and options as hedges. However, we believe that the risk of shipyard nonperformance is remote.

**NOTE 8 Shareholders Equity**

During the six months ended May 31, 2010, we sold 8.1 million Carnival plc ordinary shares held as treasury stock for \$317 million of net proceeds, substantially all of which was used to fund the repurchase of 8.1 million shares of Carnival Corporation common stock. In these UK offerings, we sold Carnival plc ordinary shares held in treasury, only to the extent we were able to purchase shares of Carnival Corporation in the U.S. on at least an equivalent basis under our Stock Swap program.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
Cautionary Note Concerning Factors That May Affect Future Results**

Some of the statements, estimates or projections contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this joint Quarterly Report on Form 10-Q are forward-looking statements that involve risks, uncertainties and assumptions with respect to us, including some statements concerning future results, outlooks, plans, goals and other events which have not yet occurred. These statements are intended to qualify for the safe harbors from liability provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We have tried, whenever possible, to identify these statements by using words like will, may, could, should, would, believe, expect, anticipate, forecast, future, intend, plan, estimate and similar expressions of negative of such terms.

Because forward-looking statements involve risks and uncertainties, there are many factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied in this joint Quarterly Report on Form 10-Q. Forward-looking statements include those statements which may impact, among other things, the forecasting of our earnings per share, net revenue yields, booking levels, pricing, occupancy, operating, financing and tax costs, fuel expenses, costs per available lower berth day (ALBD), estimates of ship depreciable lives and residual values, liquidity, goodwill and trademark fair values and outlook. These factors include, but are not limited to, the following:

- general economic and business conditions, including fuel price increases, high unemployment rates, increasing taxation, and declines in the securities, real estate and other markets, and perceptions of these conditions, may adversely impact the levels of our potential vacationers' discretionary income and net worth and this group's confidence in their country's economy;
- fluctuations in foreign currency exchange rates, particularly the movement of the U.S. dollar against the euro, sterling and the Australian and Canadian dollars;
- the international political climate, armed conflicts, terrorist and pirate attacks and threats thereof, and other world events affecting the safety and security of travel;
- competition from and overcapacity in both the cruise ship and land-based vacation industries;
- lack of acceptance of new itineraries, products and services by our guests;
- changing consumer preferences;
- our ability to attract and retain qualified shipboard crew and maintain good relations with employee unions;
- accidents, the spread of contagious diseases and threats thereof, adverse weather conditions or natural disasters, such as hurricanes, earthquakes and volcanic eruptions, and other incidents (including, but not limited to, ship fires and machinery and equipment failures or improper operation thereof), which could cause, among other things, individual or multiple port closures, injury, death, damage to property and equipment, oil spills, alteration of cruise itineraries or cancellation of a cruise or series of cruises or tours;
- adverse publicity concerning the cruise industry in general, or us in particular, including any adverse impact that cruising may have on the marine environment;
- changes in and compliance with laws and regulations relating to the protection of disabled persons, employment, environmental, health, safety, security, tax and other regulatory regimes under which we operate;
- increases in global fuel demand and pricing, fuel supply disruptions and other events impacting on our fuel and other expenses, liquidity and credit ratings;
- increases in our future fuel expenses from implementing approved International Maritime Organization regulations, which require the use of higher priced low sulfur fuels in certain cruising areas, including the establishment of a U.S. and Canadian Emissions Control Area in 2012, which will change fuel specifications, and correspondingly increase fuel prices, that ships will be required to use within these areas;

changes in financing and operating costs, including changes in interest rates and food, payroll, port and security costs; our ability to implement our shipbuilding programs and ship maintenance, repairs and refurbishments, including ordering additional ships for our cruise brands from shipyards, on terms that are favorable or consistent with our expectations;

the continued strength of our cruise brands and our ability to implement our brand strategies;

additional risks associated with our international operations not generally applicable to our U.S. operations;

the pace of development in geographic regions in which we try to expand our business;

whether our future operating cash flow will be sufficient to fund future obligations and whether we will be able to obtain financing, if necessary, in sufficient amounts and on terms that are favorable or consistent with our expectations;

our counterparties' ability to perform;

continuing financial viability of our travel agent distribution system, air service providers and other key vendors and reductions in the availability of and increases in the pricing for the services and products provided by these vendors;

our decisions to self-insure against various risks or our inability to obtain insurance for certain risks at reasonable rates;

disruptions and other damages to our information technology networks and operations;

lack of continuing availability of attractive, convenient and safe port destinations; and

risks associated with the DLC structure.

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 listing rules, we expressly disclaim any obligation to disseminate, after the date of this joint Quarterly Report on Form 10-Q, any updates or revisions to any such forward-looking statements to reflect any change in expectations or events, conditions or circumstances on which any such statements are based.

#### **Outlook for the Remainder of Fiscal 2010**

As of June 22, 2010, we said that we expected our fully diluted earnings per share for the third quarter and full year of 2010 would be in the ranges of \$1.43 to \$1.47 and \$2.25 to \$2.35, respectively. Our guidance was based on current fuel prices of \$493 per metric ton and \$495 per metric ton for the 2010 third quarter and full year. In addition, this guidance was also based on 2010 third quarter and full year currency rates of \$1.24 and \$1.29 to the euro and \$1.48 and \$1.51 to sterling, respectively.

The above forward-looking statements involve risks and uncertainties. Various factors could cause our actual results to differ materially from those expressed above including, but not limited to, economic and business conditions, foreign currency exchange rates, fuel prices, adverse weather conditions, spread of contagious diseases, regulatory changes, geopolitical and other factors that could adversely impact our revenues, costs and expenses. You should read the above forward-looking statement together with the discussion of these and other risks and uncertainties 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**, which is included in Carnival Corporation & plc's 2009 joint Annual Report on Form 10-K.

### Seasonality and Expected Capacity Growth

Our revenues from the sale of passenger tickets are seasonal. Historically, demand for cruises has been greatest during our third fiscal quarter, which includes the Northern Hemisphere summer months. This higher demand during the third quarter results in higher net revenue yields (see

Key Performance Non-GAAP Financial Indicators ) and, accordingly, the largest share of our operating income is earned during this period. The seasonality of our results is increased 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. Finally, the seasonality of our results will continue to increase as we expand our European brands which tend to be more seasonal.

The year-over-year percentage increases in our ALBD capacity for the third and fourth quarters of 2010 are currently expected to be 6.2% and 6.1%, respectively. Our annual ALBD capacity increase for fiscal 2010, 2011 and 2012 is currently expected to be 7.5%, 5.0% and 4.7%, respectively. The above percentage increases result primarily from contracted new ships entering service and exclude any unannounced future ship orders, acquisitions, retirements, charters or sales. Accordingly, the scheduled withdrawal from service of P&O Cruises *Artemis* in April 2011 has been reflected in these percentages.

### Selected Cruise and Other Information

Selected cruise and other information was as follows:

	Three Months Ended May 31,		Six Months Ended May 31,	
	2010	2009	2010	2009
Passengers carried (in thousands)	2,222	2,029	4,271	3,898
Occupancy percentage(a)	103.8%	103.3%	103.7%	103.6%
Fuel consumption (metric tons in thousands)	835	799	1,635	1,552
Fuel cost per metric ton(b)	\$ 498	\$ 304	\$ 497	\$ 291
<b>Currencies</b>				
U.S. dollar to 1	\$ 1.32	\$ 1.33	\$ 1.36	\$ 1.33
U.S. dollar to £1	\$ 1.50	\$ 1.48	\$ 1.55	\$ 1.47

(a) In accordance with cruise industry practice, occupancy is calculated using a denominator of 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.

(b) Fuel cost per metric ton is calculated by dividing the cost of fuel by the number of metric tons consumed.

**Three Months Ended May 31, 2010 ( 2010 ) Compared to the Three Months Ended May 31, 2009 ( 2009 )**

### Revenues

Almost 76% of 2010 total revenues is comprised of cruise passenger ticket revenues. Cruise passenger ticket revenues increased by \$185 million, or 8.3%, to \$2.4 billion in 2010 from \$2.2 billion in 2009. This increase was caused primarily by our 8.1% capacity increase in ALBDs, which accounted for \$182 million. Our capacity increased 4.0% for our North American cruise brands and 13.3% for our European cruise brands in 2010 compared to 2009, as we continue to implement our strategy of expanding in the European cruise marketplace. Our cruise passenger ticket revenues were adversely impacted by lower air transportation revenues due to fewer guests purchasing their air travel through us and from cruise vacation disruptions caused by the volcanic ash from Iceland and the earthquake in Chile (see Key Performance Non-GAAP Financial Indicators ).





The remaining 24% of 2010 total revenues is substantially all comprised of onboard and other cruise revenues. Onboard and other cruise revenues increased by \$64 million, or 9.5%, to \$737 million in 2010 from \$673 million in 2009. This increase was driven principally by our 8.1% capacity increase in ALBDs, which accounted for \$55 million. Onboard and other revenues included concession revenues of \$218 million in 2010 and \$199 million in 2009.

### **Costs and Expenses**

Operating costs increased \$208 million, or 11.0%, to \$2.1 billion in 2010 from \$1.9 billion in 2009. This increase was caused primarily by \$162 million of higher fuel prices and our 8.1% capacity increase in ALBDs, which accounted for \$150 million. These cost increases were partially offset by lower air transportation costs due to fewer guests purchasing their air travel through us, fewer dry-docks and benefits from cost reduction programs and economies of scale.

Selling and administration expenses increased \$11 million, or 2.8%, to \$404 million in 2010 from \$393 million in 2009. This increase was caused primarily by our 8.1% capacity increase in ALBDs, which accounted for \$32 million, and was partially offset by the benefits from economies of scale and cost reduction programs, as well as the timing of certain expenses.

Depreciation and amortization expense increased \$32 million, or 10.1%, to \$349 million in 2010 from \$317 million in 2009, driven by \$26 million from our 8.1% capacity increase in ALBDs through the addition of new ships, and additional ship improvement expenditures.

Our total costs and expenses as a percentage of revenues increased to 89.1% in 2010 from 88.0% in 2009.

### **Operating Income**

Our operating income decreased \$4 million, or 1.1%, to \$349 million in 2010 from \$353 million in 2009 primarily because of the reasons discussed above.

### **Nonoperating (Expense) Income**

Net interest expense, excluding capitalized interest, increased \$5 million to \$102 million in 2010 from \$97 million in 2009. On a current and constant dollar basis, as defined below, this increase was due to a \$5 million increase in interest expense from a higher level of average borrowings compared to 2009.

### **Key Performance Non-GAAP Financial Indicators**

ALBDs is a standard measure of passenger capacity for the period, which we use to perform rate and capacity variance 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.

We use net cruise revenues per ALBD ( net revenue yields ) and net cruise costs per ALBD as significant non-GAAP financial measures of our cruise segment financial performance. These measures enable us to separate the impact of predictable capacity changes from the more unpredictable rate changes that affect our business. We believe these non-GAAP measures provide a better gauge to measure our revenue and cost performance instead of the standard U.S. GAAP-based financial measures. There are no specific rules for determining our non-GAAP financial measures and, accordingly, it is possible that they may not be exactly comparable to the like-kind information presented by other cruise companies, which is a potential risk associated with using these measures to compare us to other cruise 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 transportation and certain other variable direct costs associated with onboard and other revenues. Substantially all of our remaining cruise costs are largely fixed, except for the impact of changing prices, once our ship capacity levels have been determined.

Net cruise costs per ALBD is the most significant measure we use to monitor our ability to control our cruise segment costs rather than gross cruise costs per ALBD. We exclude the same variable costs that are included in the calculation of net cruise revenues to calculate net cruise costs to avoid duplicating these variable costs in these two non-GAAP financial measures.

In addition, because a significant portion of our operations utilize the euro or sterling to measure their results and financial condition, the translation of those 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. Accordingly, we also monitor and report our two non-GAAP financial measures assuming the 2010 periods' currency exchange rates have remained constant with the 2009 periods' rates, or on a constant dollar basis, in order to remove the impact of changes in exchange rates on our non-U.S. dollar functional currency cruise operations. We believe that this is a useful measure since it facilitates a comparative view of the growth of our business in a fluctuating currency exchange rate environment.

Gross and net revenue yields were computed by dividing the gross or net revenues, without rounding, by ALBDs as follows:

	<b>Three Months Ended May 31,</b>		
	<b>2010</b>		
	<b>2010</b>	<b>Constant Dollar</b>	<b>2009</b>
	(in millions, except ALBDs and yields)		
<b>Cruise revenues</b>			
Passenger tickets	\$ 2,427	\$ 2,416	\$ 2,242
Onboard and other	737	733	673
<b>Gross cruise revenues</b>	<b>3,164</b>	<b>3,149</b>	<b>2,915</b>
<b>Less cruise costs</b>			
Commissions, transportation and other	(440)	(436)	(440)
Onboard and other	(106)	(106)	(110)
<b>Net cruise revenues</b>	<b>\$ 2,618</b>	<b>\$ 2,607</b>	<b>\$ 2,365</b>
<b>ALBDs</b>	<b>16,575,242</b>	<b>16,575,242</b>	<b>15,329,812</b>
<b>Gross revenue yields</b>	<b>\$ 190.90</b>	<b>\$ 190.00</b>	<b>\$ 190.19</b>
<b>Net revenue yields</b>	<b>\$ 157.97</b>	<b>\$ 157.30</b>	<b>\$ 154.24</b>

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Gross and net cruise costs per ALBD were computed by dividing the gross or net cruise costs, without rounding, by ALBDs as follows:

	Three Months Ended May 31, 2010		
	2010 (in millions, except ALBDs and costs per ALBD)	Constant Dollar	2009
Cruise operating expenses	\$ 2,061	\$ 2,047	\$ 1,850
Cruise selling and administrative expenses	396	393	386
Gross cruise costs	2,457	2,440	2,236
Less cruise costs included in net cruise revenues			
Commissions, transportation and other	(440)	(436)	(440)
Onboard and other	(106)	(106)	(110)
Net cruise costs	\$ 1,911	\$ 1,898	\$ 1,686
ALBDs	16,575,242	16,575,242	15,329,812
Gross cruise costs per ALBD	\$ 148.22	\$ 147.24	\$ 145.90
Net cruise costs per ALBD	\$ 115.29	\$ 114.54	\$ 109.95

Net cruise revenues increased \$253 million, or 10.7%, to \$2.6 billion in 2010 from \$2.4 billion in 2009. This was caused by our 8.1% capacity increase in ALBDs between 2010 and 2009 that accounted for \$192 million and a 2.4% increase in net revenue yields in 2010 compared to 2009 that accounted for \$61 million (gross revenue yields increased 0.4%). The net revenue yield increase in 2010 was due to stronger North American brand yields, partially offset by slightly weaker European brand yields driven by their challenging winter season in the Brazilian market, which had significant increases in industry capacity this past winter, and cruise vacation disruptions caused by volcanic ash from Iceland. In addition, the earthquake in Chile adversely impacted our North American brands' yield. Net revenue yields as measured on a constant dollar basis increased 2.0% in 2010 compared to 2009, which was comprised of a 1.6% increase in passenger ticket yields and a 3.1% increase in onboard and other revenue yields, which is in comparison to the lowest point of 2009 onboard and other revenue yields. Onboard and other revenue yields increased at both our North American and European brands, on an aggregated basis. Gross cruise revenues increased \$249 million, or 8.5%, to \$3.2 billion in 2010 from \$2.9 billion in 2009 for largely the same reasons as discussed above for net cruise revenues, partially offset by lower air transportation revenue.

Net cruise costs increased \$225 million, or 13.3%, to \$1.9 billion in 2010 from \$1.7 billion in 2009. This was caused by our 8.1% capacity increase in ALBDs between 2010 and 2009 that accounted for \$137 million, and a 4.9% increase in net cruise costs per ALBD, which accounted for \$88 million in 2010 compared to 2009 (gross cruise costs per ALBD increased 1.6%). The 4.9% increase in net cruise costs per ALBD was primarily the result of a 64% increase in fuel price to \$498 per metric ton in 2010, which resulted in an increase of \$162 million. Partially offsetting these increases were fewer dry-docks and benefits from cost reduction programs and economies of scale, as well as the timing of certain expenses. Net cruise costs per ALBD as measured on a constant dollar basis increased 4.2% in 2010 compared to 2009. On a constant dollar basis, net cruise costs per ALBD excluding fuel decreased 4.9% in 2010 compared to 2009. Gross cruise costs increased \$221 million, or 9.9%, to \$2.5 billion in 2010 from \$2.2 billion in 2009 for largely the same reasons as discussed above for net cruise costs, partially offset by lower air transportation costs.

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**Six Months Ended May 31, 2010 ( 2010 ) Compared to the Six Months Ended May 31, 2009 ( 2009 )**

**Revenues**

Over 76% of 2010 total revenues is comprised of cruise passenger ticket revenues. Cruise passenger ticket revenues increased by \$324 million, or 7.3%, to \$4.8 billion in 2010 from \$4.5 billion in 2009. This increase was caused primarily by our 8.9% capacity increase in ALBDs, which accounted for \$395 million, as well as another \$100 million due to a weaker U.S. dollar against the euro and sterling in 2010 compared to 2009. Our capacity increased 4.5% for our North American cruise brands and 13.9% for our European cruise brands in 2010 compared to 2009, as we continue to implement our strategy of expanding in the European cruise marketplace. Our cruise passenger ticket revenue increase was partially offset by a \$171 million decrease, primarily due to lower air transportation revenues from fewer guests purchasing their air travel through us and the adverse impact from cruise vacation disruptions as previously discussed (see Key Performance Non-GAAP Financial Indicators ).

The remaining 24% of 2010 total revenues is substantially all comprised of onboard and other cruise revenues. Onboard and other cruise revenues increased by \$159 million, or 12.2%, to \$1.5 billion in 2010 from \$1.3 billion in 2009. This increase was driven principally by our 8.9% capacity increase in ALBDs, which accounted for \$116 million, as well as another \$25 million due to a weaker U.S. dollar against the euro and sterling in 2010 compared to 2009. Onboard and other revenues included concession revenues of \$429 million in 2010 and \$375 million in 2009.

**Costs and Expenses**

Operating costs increased \$457 million, or 12.2%, to \$4.2 billion in 2010 from \$3.7 billion in 2009. This increase was caused primarily by \$338 million of higher fuel prices, our 8.9% capacity increase in ALBDs, which accounted for \$326 million, as well as another \$75 million due to a weaker U.S. dollar against the euro and sterling in 2010 compared to 2009. These cost increases were partially offset by lower air transportation costs due to fewer guests purchasing their air travel through us, fewer dry-docks and benefits from cost reduction programs and economies of scale.

Selling and administration expenses increased \$15 million, or 1.9%, to \$800 million in 2010 from \$785 million in 2009. This increase was caused primarily by our 8.9% capacity increase in ALBDs, which accounted for \$70 million, almost all of which was offset by the benefits from economies of scale, cost reduction programs, as well as the timing of certain expenses.

Depreciation and amortization expense increased \$66 million, or 10.5%, to \$694 million in 2010 from \$628 million in 2009, driven by \$54 million from our 8.9% capacity increase in ALBDs through the addition of new ships, and additional ship improvement expenditures.

Our total costs and expenses as a percentage of revenues increased to 90.4% in 2010 from 88.6% in 2009.

**Operating Income**

Our operating income decreased \$60 million, or 9.0%, to \$604 million in 2010 from \$664 million in 2009 primarily because of the reasons discussed above.

**Nonoperating (Expense) Income**

Net interest expense, excluding capitalized interest, increased \$2 million to \$201 million in 2010 from \$199 million in 2009. On a current and constant dollar basis, as defined below, this increase was principally due to a \$6 million increase in interest expense from a higher level of average borrowing, partially offset by a \$3 million decrease in interest expense from lower average interest rates on average borrowings compared to 2009.

Other expense increased \$29 million to \$5 million in 2010 from other income of \$24 million in 2009, the majority of which resulted from the nonrecurrence of the \$15 million gain recognized in 2009 upon the unwinding of one of our LILO transactions.

**Key Performance Non-GAAP Financial Indicators**

Gross and net revenue yields were computed by dividing the gross or net revenues, without rounding, by ALBDs as follows:

	<b>Six Months Ended May 31</b>		
	<b>2010</b>	<b>2010 Constant Dollar</b>	<b>2009</b>
	(in millions, except ALBDs and yields)		
<b>Cruise revenues</b>			
Passenger tickets	\$ 4,785	\$ 4,685	\$ 4,461
Onboard and other	1,466	1,441	1,307
<b>Gross cruise revenues</b>	<b>6,251</b>	<b>6,126</b>	<b>5,768</b>
<b>Less cruise costs</b>			
Commissions, transportation and other	(937)	(910)	(954)
Onboard and other	(219)	(214)	(214)
<b>Net cruise revenues</b>	<b>\$ 5,095</b>	<b>\$ 5,002</b>	<b>\$ 4,600</b>
<b>ALBDs</b>	<b>32,465,324</b>	<b>32,465,324</b>	<b>29,822,062</b>
<b>Gross revenue yields</b>	<b>\$ 192.53</b>	<b>\$ 188.71</b>	<b>\$ 193.42</b>
<b>Net revenue yields</b>	<b>\$ 156.91</b>	<b>\$ 154.07</b>	<b>\$ 154.25</b>

Gross and net cruise costs per ALBD were computed by dividing the gross or net cruise costs, without rounding, by ALBDs as follows:

	<b>Six Months Ended May 31,</b>		
	<b>2010</b>	<b>2010 Constant Dollar</b>	<b>2009</b>
	(in millions, except ALBDs and costs per ALBD)		
<b>Cruise operating expenses</b>	<b>\$ 4,145</b>	<b>\$ 4,070</b>	<b>\$ 3,684</b>
Cruise selling and administrative expenses	785	769	770
<b>Gross cruise costs</b>	<b>4,930</b>	<b>4,839</b>	<b>4,454</b>
<b>Less cruise costs included in net cruise revenues</b>			
Commissions, transportation and other	(937)	(910)	(954)
Onboard and other	(219)	(214)	(214)
<b>Net cruise costs</b>	<b>\$ 3,774</b>	<b>\$ 3,715</b>	<b>\$ 3,286</b>
<b>ALBDs</b>	<b>32,465,324</b>	<b>32,465,324</b>	<b>29,822,062</b>
<b>Gross cruise costs per ALBD</b>	<b>\$ 151.87</b>	<b>\$ 149.06</b>	<b>\$ 149.36</b>
<b>Net cruise costs per ALBD</b>	<b>\$ 116.25</b>	<b>\$ 114.42</b>	<b>\$ 110.18</b>

Net cruise revenues increased \$495 million, or 10.8%, to \$5.1 billion in 2010 from \$4.6 billion in 2009. This was caused by our 8.9% capacity increase in ALBDs between 2010 and 2009 that accounted for \$408 million and a \$87 million, or 1.7%, increase in net revenue yields in 2010 compared to 2009 (gross revenue yields decreased by 0.5%). The net revenue yield increase in 2010 was due to a weaker U.S. dollar against the

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euro and sterling compared to 2009. Net revenue yields as measured on a constant dollar basis were flat in 2010 compared to 2009, which was comprised of a 1.1% decrease in passenger ticket yields, offset by a 3.1% increase in onboard and other revenue yields. This increase in onboard and other revenue yields was driven in part by concessionaire minimum guarantee revenues for calendar year 2009 that were recognized in 2010 and a litigation settlement. Without these two items our 2010 onboard and other revenue yields would have increased by 1.3%. Gross cruise revenues increased \$483 million, or 8.4%, to \$6.3 billion in 2010 from \$5.8 billion in 2009 for largely the same reasons as discussed above for net cruise revenues, partially offset by lower air transportation revenue.

Net cruise costs increased \$488 million, or 14.9%, to \$3.8 billion in 2010 from \$3.3 billion in 2009. This was caused by our 8.9% capacity increase in ALBDs between 2010 and 2009 that accounted for \$291 million, and a 5.5% increase in net cruise costs per ALBD, which accounted for \$197 million in 2010 compared to 2009 (gross cruise costs per ALBD increased 1.7%). The 5.5% increase in net cruise costs per ALBD was primarily the result of a 71% increase in fuel price to \$497 per metric ton in 2010, which resulted in an increase of \$338 million and a weaker U.S. dollar against the euro and sterling. Partially offsetting these increases were the \$44 million (\$40 million on a constant dollar basis) gain recognized on the sale of P&O Cruises *Artemis*, fewer dry-docks benefits from cost reduction programs and economies of scale, as well as the timing of certain expenses. Net cruise costs per ALBD as measured on a constant dollar basis increased 3.8% in 2010 compared to 2009. On a constant dollar basis, net cruise costs per ALBD excluding fuel and the *Artemis* gain decreased 4.7% in 2010 compared to 2009. Gross cruise costs increased \$476 million, or 10.7%, in 2010 to \$4.9 billion from \$4.5 billion in 2009 for largely the same reasons as discussed above for net cruise costs, partially offset by lower air transportation costs.

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

As discussed under Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2009 joint Annual Report on Form 10-K, we believe maintenance of a strong balance sheet, which enhances our financial flexibility, has always been and continues to be the primary objective of our capital structure policy. Our overall strategy is to maintain an acceptable level of liquidity with our available cash and cash equivalents and committed financings for immediate and future liquidity needs, and a reasonable debt maturity profile that is spread out over a number of years.

At November 30, 2009, the U.S. dollar to sterling, euro and Australian dollar exchange rates were \$1 to 1.65, 1.50, and 0.91, respectively. Had these November 30, 2009 currency exchange rates been used to translate our May 31, 2010 non-U.S. dollar functional currency operations' assets and liabilities instead of the May 31, 2010 currency exchange rates, our total assets and liabilities would have been higher by \$2.6 billion and \$1.2 billion, respectively.

Our cash from operations and committed financings along with our available cash and cash equivalent balances are forecasted to be sufficient to fund our expected 2010 cash requirements and result in an acceptable level of liquidity throughout 2010. Although we do not believe we will be required to obtain additional new financings during 2010, we may choose to do so if favorable opportunities arise.

### **Sources and Uses of Cash**

Our business provided \$1.8 billion of net cash from operations during the six months ended May 31, 2010, an increase of \$353 million, or 24.5%, compared to fiscal 2009. This increase was caused principally by the increase in customer deposits, partially offset by more cash being used for our working capital needs and less cash derived from our results of operations versus the comparable prior year period.

At May 31, 2010, we had a working capital deficit of \$5.2 billion. This deficit included \$3.2 billion of customer deposits, which represent the passenger revenues we collect in advance of sailing dates and, accordingly, are substantially more like deferred revenue transactions rather than actual current cash liabilities. We use our long-term ship assets to realize a portion of this deferred revenue in addition to consuming current assets. In addition, our May 31, 2010 working capital deficit included \$2.1 billion of current debt obligations, which included \$808 million outstanding under our commercial paper programs and other short-term borrowings and \$1.3 billion outstanding under our convertible notes, export credit facilities, bank loans and other debt. Our principal revolver is available to provide long-term rollover financing for certain of our current debt and we have the option of issuing common stock to repay our convertible notes. As for the repayment of our other currently due debt, we continue to generate substantial cash from operations and have an investment grade credit rating, which provides us with financial flexibility, in most financial credit market environments, to meet these current debt obligations as they become due. After excluding customer deposits and current debt obligations from our May 31, 2010 working capital deficit balance, our non-GAAP adjusted working capital was \$110 million. As explained above, our business model allows us to operate with a significant working capital deficit and, accordingly, we believe we will continue to have a working capital deficit for the foreseeable future.

During the six months ended May 31, 2010, our net expenditures for capital projects were \$2.2 billion, of which \$1.8 billion was spent on our ongoing new shipbuilding program, including \$1.6 billion for the final delivery payments for *Costa Deliziosa*, *AIDAblu*, *Azura* and *Seabourn Sojourn*. In addition to our new shipbuilding program, we had capital expenditures of \$329 million for ship improvements and replacements and \$53 million primarily for cruise port facilities, information technology and other assets.

During the six months ended May 31, 2010, we borrowed a net of \$702 million of short-term borrowings. In addition, during the six months ended May 31, 2010, we repaid \$323 million and borrowed \$89 million under our revolvers in connection with our needs for cash at various times throughout the period. During the six months ended May 31, 2010, we also borrowed \$806 million of new other long-term debt, under two export credit facilities and two bank loans. In addition, we repaid \$796 million of other long-term debt substantially all for scheduled export credit facilities and the early repayment of a bank loan and an export credit facility during the six months ended May 31, 2010. Finally, we paid cash dividends of \$79 million during the six months ended May 31, 2010.

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

Our contractual cash obligations as of May 31, 2010 have changed compared to November 30, 2009, primarily as a result of our debt borrowings and repayments and ship delivery and progress payments as noted above, as well as contracting to purchase two 3,600-passenger capacity ships for Princess. These two Princess newbuilds have an all-in euro-denominated aggregate cost of approximately \$1.4 billion and are scheduled to be delivered in May 2013 and May 2014. We continue to generate substantial cash from operations and have investment grade credit ratings of A3 from Moody's Investors Service and BBB+ from Standard & Poor's Rating Services, which provide us with flexibility in most financial credit market environments to obtain debt funding, as necessary.

At May 31, 2010, we had liquidity of \$5.5 billion. Our liquidity consisted of \$336 million of cash and cash equivalents, excluding cash on hand of \$258 million used for current operations, \$1.8 billion available for borrowing under our revolving credit facilities and \$3.4 billion under committed financings. Of this \$3.4 billion of committed facilities, \$432 million, \$1.0 billion, \$918 million, \$496 million and \$496 million is expected to be funded in the last six months of fiscal 2010 and in fiscal 2011, 2012, 2013 and 2014, respectively. Over 86% of our revolving credit facilities mature in 2012 and thereafter. We rely on, and have banking relationships with, numerous banks that have credit ratings of A or above, which we believe will assist us in accessing multiple sources of funding in the event that some lenders are unwilling or unable to lend to us. However, we believe that our revolving credit facilities and committed financings will be honored as required pursuant to their contractual terms.

Substantially all of our debt agreements contain financial covenants as described in Note 5 to the financial statements, which is included within Exhibit 13 to our 2009 joint Annual Report on Form 10-K. 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.

At May 31, 2010, we believe we were in compliance with all of our debt covenants. In addition, based on our forecasted operating results, financial condition and cash flows for fiscal 2010, we expect to be in compliance with our debt covenants during the remainder of fiscal 2010. However, our forecasted cash flow from operations and access to the capital markets can be adversely impacted by numerous factors outside our control including, but not limited to, those noted under Cautionary Note Concerning Factors That May Affect Future Results.



Based primarily on our historical results, current financial condition and forecasts, we believe that our existing liquidity (assuming we can refinance our principal revolver before its 2012 maturity) and cash flow from future operations will be sufficient to fund all of our expected capital projects (including shipbuilding commitments), debt service requirements, convertible note redemptions, working capital needs and other firm commitments over the next several years.

#### **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 financial statements.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

During December 2009, we entered into a foreign currency forward that was designated as a cash flow hedge of the remaining unhedged final P&O Cruises *Azura* euro-denominated shipyard payment that matured in March 2010 at a rate of 0.89 sterling to the euro, or \$187 million.

During February 2010, we entered into a foreign currency forward that is designated as a cash flow hedge of half of the final *Queen Elizabeth* euro-denominated shipyard payment that matures in September 2010 at a rate of 0.87 sterling to the euro, or \$229 million.

During February 2010, we entered into two cash flow interest rate swaps that effectively changed \$322 million of EURIBOR-based floating rate debt to fixed rate debt.

During May 2010, we entered into a foreign currency forward that was designated as a cash flow hedge of the final *Seabourn Sojourn* euro-denominated shipyard payment that matured in May 2010 at a rate of \$1.27 to the euro, or \$194 million.

During May 2010, we entered into a foreign currency forward and three zero cost collars that are designated as cash flow hedges of the remaining *Carnival Magic* euro-denominated shipyard payments. The foreign currency forward matures in July 2010 at a forward rate of \$1.27 to the euro or \$33 million, and the zero cost collars mature in April 2011, at a weighted-average ceiling rate of \$1.36 to the euro, or \$593 million, and a floor of \$1.26 to the euro, or \$548 million.

At May 31, 2010, 63%, 34% and 3% (57%, 40% and 3% at November 30, 2009) of our debt was U.S. dollar, euro and sterling-denominated, respectively, including the effect of foreign currency forwards and swaps.

For a further discussion of our market risk, see Note 7 in the accompanying financial statements, and Note 10 to the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations both within Exhibit 13 to our joint 2009 Annual Report on Form 10-K.

#### **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, 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 Chief Executive Officer, Chief Operating Officer and Chief Financial Officer have evaluated our disclosure controls and procedures and have concluded, as of May 31, 2010, that they are effective 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, 2010 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.**

On June 8, 2010, P&O Cruises settled a matter raised by the Ministry of the Environment for the Dominican Republic regarding possible environmental damage caused by the *Ventura*'s accidental grounding off Catalina Island in the Dominican Republic in March 2009. The matter was settled for \$0.5 million due currently and \$0.2 million to be paid over the next two years for agreed upon environmental projects.

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

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

In June 2006, the Boards of Directors authorized the repurchase of up to an aggregate of \$1 billion of Carnival Corporation common stock and Carnival plc ordinary shares subject to certain restrictions. On September 19, 2007, the Boards of Directors increased the remaining \$578 million general repurchase authorization back to \$1 billion. The general repurchase authorization does not have an expiration date and may be discontinued by our Boards of Directors at any time.

In addition to the general repurchase authorization, the Boards of Directors have authorized the repurchase of up to 19.2 million Carnival plc ordinary shares and up to 25 million shares of Carnival Corporation common stock under the Stock Swap programs described below.

At March 31, 2010, the remaining availability under the general repurchase authorization was \$787 million and the remaining availability under the Stock Swap program repurchase authorizations were 18.1 million Carnival plc ordinary shares and 11.1 million Carnival Corporation shares. All Carnival plc ordinary share repurchases under both the general repurchase authorization and the Stock Swap authorizations require annual shareholder approval. The existing shareholder approval is limited to a maximum of 21.3 million ordinary shares and is valid until the earlier of the conclusion of the Carnival plc 2011 annual general meeting, or October 12, 2011. It is not our present intention to repurchase shares of Carnival Corporation common stock or Carnival plc ordinary shares under the general repurchase authorization, except for any repurchases made with net proceeds resulting from our Stock Swap programs described below.

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

We use the Stock Swap programs in situations where we can obtain an economic benefit because either Carnival Corporation common stock or Carnival plc ordinary shares are trading at a price that is at a premium or discount to the price of Carnival plc ordinary shares or Carnival Corporation common stock, as the case may be.

In the event Carnival Corporation common stock trades at a premium to Carnival plc ordinary shares, we may elect to issue and sell Carnival Corporation common stock through an At The Market equity offering ( ATM Offering ) with Merrill Lynch, Pierce, Fenner & Smith, Incorporated ( Merrill Lynch ) as sales agent, and use the sale proceeds to repurchase Carnival plc ordinary shares in the UK market on at least an equivalent basis, with the remaining net proceeds used for general corporate purposes. In the ATM Offering, Carnival Corporation may issue and sell up to 19.2 million of its common stock in the U.S. market, which shares are to be sold from time to time at prevailing market prices in ordinary brokers transactions by Merrill Lynch. Any sales of Carnival Corporation shares have been and will be registered under the Securities Act.

In the event Carnival Corporation common stock trades at a discount to Carnival plc ordinary shares, we may elect to sell existing ordinary shares of Carnival plc, with such sales made by Carnival Investments Limited, a subsidiary of Carnival Corporation, and with Merrill Lynch International ( MLI ) as sales agent, from time to time in at the market transactions, and use the sale proceeds to repurchase Carnival Corporation common stock in the U.S. market on at least an equivalent basis, with the remaining net proceeds used for general corporate purposes. In the offering, Carnival Investments Limited may sell up to 25 million Carnival plc ordinary shares in the UK market, which shares are to be sold from time to time at prevailing market prices in ordinary brokers transactions by MLI. Any sales of Carnival plc shares have been and will be registered under the Securities Act.

Under the Stock Swap program from December 1, 2009 through May 31, 2010, Carnival Investments Limited sold 8.1 million Carnival plc ordinary shares, at an average price of \$39.48 per share for gross proceeds of \$319 million and paid MLI fees of \$2 million and paid other expenses of \$123 thousand for total net proceeds of \$317 million. Substantially all of the net proceeds of these sales were used to purchase 8.1 million shares of Carnival Corporation common stock. During the six months ended May 31, 2010, no Carnival Corporation common stock was sold under the Stock Swap program.

The purchases of Carnival Corporation common stock during the three months ended May 31, 2010 pursuant to the Stock Swap program were as follows:

Period	Total Number of Carnival Corporation Common Stock Purchased	Average Price Paid per Share of Carnival Corporation Common Stock	Maximum Number of Carnival Corporation Common Stock That May Yet Be Purchased Under the Carnival Corporation Stock Swap Program
March 1, 2010 through March 31, 2010	615,000	\$ 35.11	16,825,000
April 1, 2010 through April 30, 2010	3,525,000	\$ 39.84	13,300,000
May 1, 2010 through May 31, 2010	2,180,000	\$ 38.58	11,120,000
Total	6,320,000	\$ 38.95	

During the quarter ended May 31, 2010, there were no stock repurchases of Carnival Corporation common stock or Carnival plc ordinary shares under the general stock repurchase authorization and no repurchases of Carnival plc ordinary shares under the Stock Swap program repurchase authorization.

**Item 6. Exhibits.****INDEX TO EXHIBITS**

Exhibit		Incorporated by Reference			Filed/
Number	Exhibit Description	Form	Exhibit	Filing Date	Furnished Herewith
<b><u>Articles of incorporation and by-laws</u></b>					
3.1	Third Amended and Restated Articles of Incorporation of Carnival Corporation.	8-K	3.1	4/17/03	
3.2	Third Amended and Restated By-Laws of Carnival Corporation.	8-K	3.1	4/20/09	
3.3	Articles of Association of Carnival plc.	8-K	3.3	4/20/09	
3.4	Memorandum of Association of Carnival plc.	8-K	3.4	4/20/09	
<b><u>Material contracts</u></b>					
10.1*	Amendment to the Carnival Corporation Fun Ship Nonqualified Savings Plan.				X
<b><u>Statement regarding computations of ratios</u></b>					
12	Ratio of Earnings to Fixed Charges.				X
<b><u>Rule 13a 14(a)/15d-14(a) Certifications</u></b>					
31.1	Certification of Chief Executive Officer of Carnival Corporation pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Operating Officer of Carnival Corporation pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.3	Certification of Senior Vice President and Chief Financial Officer of Carnival Corporation pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.4	Certification of Chief Executive Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed/
		Form	Exhibit	Filing Date	Furnished Herewith
31.5	Certification of Chief Operating Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.6	Certification of Senior Vice President and Chief Financial Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
<b><u>Section 1350 Certifications</u></b>					
32.1**	Certification of Chief Executive Officer of Carnival Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2**	Certification of Chief Operating Officer of Carnival Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.3**	Certification of Senior Vice President and Chief Financial Officer of Carnival Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.4**	Certification of Chief Executive Officer of Carnival plc pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.5**	Certification of Chief Operating Officer of Carnival plc pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.6**	Certification of Senior Vice President and Chief Financial Officer of Carnival plc pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X

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Exhibit Number	Exhibit Description	Incorporated by Reference		Filed/	
		Form	Exhibit	Filing Date	Furnished Herewith
<b><u>Interactive Data File</u></b>					
101**	The financial statements from Carnival Corporation & plc's joint Quarterly Report on Form 10-Q for the quarter ended May 31, 2010, as filed with the SEC on July 1, 2010 formatted in XBRL, as follows:				
	(i) the Consolidated Statements of Operations for the three and six months ended May 31, 2010 and 2009;				
	(ii) the Consolidated Balance Sheets at May 31, 2010 and November 30, 2009;				
	(iii) the Consolidated Statements of Cash Flows for the six months ended May 31, 2010 and 2009; and				
	(iv) the notes to the consolidated financial statements, tagged as blocks of text.				X

\* Indicates a management contract or compensation plan arrangement.

\*\* These items are furnished and not filed.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, each of the registrants has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CARNIVAL CORPORATION**

By: /s/ Micky Arison  
Micky Arison  
Chairman of the Board of Directors  
and Chief Executive Officer

By: /s/ Howard S. Frank  
Howard S. Frank  
Vice Chairman of the Board of Directors  
and Chief Operating Officer

By: /s/ David Bernstein  
David Bernstein  
Senior Vice President  
and Chief Financial Officer

Date: July 1, 2010

**CARNIVAL PLC**

By: /s/ Micky Arison  
Micky Arison  
Chairman of the Board of Directors  
and Chief Executive Officer

By: /s/ Howard S. Frank  
Howard S. Frank  
Vice Chairman of the Board of Directors  
and Chief Operating Officer

By: /s/ David Bernstein  
David Bernstein  
Senior Vice President  
and Chief Financial Officer

Date: July 1, 2010