

CARNIVAL CORP
Form 10-K
January 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended November 30, 2013 or

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

For the transition period from _____ to _____

Commission file number: 001-9610

Carnival Corporation
(Exact name of registrant as

specified in its charter)

Republic of Panama

Commission file number: 001-15136

Carnival plc
(Exact name of registrant as

specified in its charter)

England and Wales

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(State or other jurisdiction of
incorporation or organization)

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

3655 N.W. 87th Avenue
Miami, Florida 33178-2428
(Address of principal

executive offices

and zip code)

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

including area code)

Securities registered pursuant

to Section 12(b) of the Act:

Title of each class

Common Stock

(\$0.01 par value)

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

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

(State or other jurisdiction of
incorporation or organization)

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

Carnival House, 5 Gainsford Street,
London SE1 2NE, United Kingdom
(Address of principal

executive offices

and zip code)

011 44 20 7940 5381
(Registrant's telephone number,

including area code)

Securities registered pursuant

to Section 12(b) of the Act:

Title of each class

Ordinary Shares each represented

by American Depositary Shares

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

GBP 1.00 par value and Trust Shares

of beneficial interest in the

P&O Princess Special Voting Trust

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

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

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

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

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

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

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

Large Accelerated Filers

Accelerated Filers

Non-Accelerated Filers

Smaller Reporting Companies

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was \$12.8 billion as of the last business day of the registrant's most recently completed second fiscal quarter.

At January 22, 2014, Carnival Corporation had outstanding 592,239,644 shares of its Common Stock, \$0.01 par value.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was \$6.2 billion as of the last business day of the registrant's most recently completed second fiscal quarter.

At January 22, 2014, Carnival plc had outstanding 215,712,872 Ordinary Shares \$1.66 par value, one Special Voting Share, GBP 1.00 par value and 592,239,644 Trust Shares of beneficial interest in the P&O Princess Special Voting Trust.

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CARNIVAL CORPORATION & PLC

FORM 10-K

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2013

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DOCUMENTS INCORPORATED BY REFERENCE

The information described below and contained in the Registrants' 2013 annual report to shareholders to be furnished to the U.S. Securities and Exchange Commission pursuant to Rule 14a-3(b) of the Securities Exchange Act of 1934 is shown in Exhibit 13 and is incorporated by reference into this joint 2013 Annual Report on Form 10-K (Form 10-K).

Part and Item of the Form 10-K

Part II

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

Portions of the Registrants' 2014 joint definitive Proxy Statement, to be filed with the U.S. Securities and Exchange Commission, are incorporated by reference into this Form 10-K under the items described below.

Part and Item of the Form 10-K

Part III

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

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PART I

Item 1. Business.

A. Overview

I. Summary

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

We are the largest cruise company with a global market share of 46% and are among the most profitable and financially strong leisure travel companies in the world with a market capitalization of \$32 billion at January 22, 2014. We operate 101 cruise ships within a portfolio of ten leading cruise brands that sell cruise products and services in all the world's major vacation markets. We are also a leading provider of vacations to all major cruise destinations throughout the world (see Part I, Item I, Business. A. Cruise Programs). A description of the principal vacation regions where we source substantially all of our guests and our brands that market primarily to these vacationers is discussed in Part I, Item I, Business. B. Cruise Business North America and Cruise Business Europe, Australia & Asia.

II. Mission and Related Strategies

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

In conjunction with our mission we are committed to:

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

Protecting the environment, including the marine environment in which our vessels sail and the communities in which we operate.

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

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

Our primary financial goals are to profitably grow our cruise business thus increasing our return on invested capital, while maintaining a strong balance sheet. Our ability to generate significant operating cash flows allows us to internally fund all of our capital investments. Over time, we expect to have higher levels of free cash flow, which we intend to return to shareholders in the form of additional dividends and opportune share buybacks. We are also committed to maintaining our strong investment grade credit ratings, which are among the highest in the leisure travel industry.

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We are building new innovative ships and continue to invest in our existing ships to strengthen the leadership position of each of our brands and to achieve our mission and primary financial goals. Our newbuilding program is the primary platform for our capacity growth. In 2013, we continued to enhance our fleet with the debut of Princess Cruises' 3,560-passenger *Royal Princess* and AIDA Cruises' 2,194-passenger *AIDAstella*. We currently have eight cruise ships scheduled to enter service between May 2014 and June 2016, some of which will replace existing capacity from the possible sales of older, smaller or less efficient ships. We strategically time the introduction of additional ships into our brands to allow ample time for those lines to further grow their guest base and absorb the new capacity. In addition, we will continue to focus on increasing our fleets' onboard revenues by adding new innovative products and services for our guests to enjoy.

Based on our current ship orders and announced ship withdrawals, our capacity growth rate is expected to be 4%, compounded annually through 2016. Our rate of growth has slowed in the more established regions of North America and Western Europe.

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We are committed to a measured pace of newbuilds to achieve an optimal balance of supply and demand to maximize our profitability in these established regions. In addition, we believe that we have significant opportunities to grow our presence in the emerging Asian cruise region and will continue to redeploy some of our existing ships to that region. In 2013, we more than doubled our presence in China and launched our first season of cruises originating from Japan. In 2013, we also opened ten sales offices throughout Asia to support our continued expansion plans in this important emerging cruise region.

Each of our major brands has its own operating team, which helps create an ownership culture that is an important driver of our performance. We believe this approach results in delivering products and services that are tailored to specific geographic areas and lifestyles, which allows us to penetrate each geographic area more effectively. With over 100 ships and more than 10 million guests, we have a scale advantage in the cruise industry and we are aggressively seeking opportunities to use it to drive top-line improvements and obtain economies of scale and synergies by utilizing our purchasing power and implementing cross-brand initiatives aimed at cost containment, such as common reservation systems, shared data centers and shared port facilities.

We recently realigned our leadership team and changed our work processes and our incentive structures to enable our brands to more efficiently collaborate and coordinate among each other, which will help us to further optimize our operations. Our leadership team has identified and will continue to identify opportunities to use our scale to drive initiatives to increase our revenues and optimize our cost structure with the goal of improving our return on invested capital. In addition, we have heightened our focus on the guest experience and further exceeding guest expectations.

Some of our most important cross-brand initiatives have been aimed at further improving our safety training, continuing to enhance our fleet to further increase our guest and crew safety and comfort, further reducing our fuel consumption and limiting the financial impact of low sulfur fuel usage requirements while achieving regulatory environmental objectives. In addition, we have streamlined certain support functions to gain efficiencies and achieve cost savings. In 2013, we furthered our environmental efforts through the successful testing of a new exhaust gas cleaning scrubber technology and plan to install scrubbers on most of our ships. In addition to exceeding stricter air emission standards, this technology will help mitigate higher fuel costs on these ships. As 2014 progresses, we will continue to implement a number of strategic initiatives designed to fuel our earnings power, drive cash flow and improve return on invested capital over time.

In 2012 and 2013, we had voyage disruptions that drew public attention to the safety and reliability of our products and services. Although the frequency of our incidents relative to our size is below the cruise industry average, the negative publicity we received significantly impacted the reputation and, accordingly, the demand for two of our largest brands, Costa Cruises (Costa) and Carnival Cruise Lines. We have, and continue to, take steps to help ensure that our cruise products and services are safe and reliable and that in the rare event of a ship incident, our guests and crew are comfortably returned to port. Safety of our guests and crew is our utmost concern and key to our continuing success. These incidents, in combination with the uncertain global economic conditions significantly impacted our results in 2012 and 2013. However, we are confident that our business will continue to recover over the next few years.

In order to achieve our financial goals, we are also committed to rebuilding the image and reputation of Costa and Carnival Cruise Lines by regaining the confidence of their guests and travel agents. The reputation of Costa has significantly improved during 2013 and we expect this improvement to continue in the future. In 2013, Costa did return to profitability, excluding the impact of ship impairment charges related to two of its smaller vessels, and we expect to see an increase in Costa's profitability in 2014 despite softer economies in Southern Europe.

After successfully up righting *Costa Concordia* in 2013, we are working with the insurers, local authorities and industry leading salvage experts to remove the ship from the coast of Italy in 2014 while minimizing any environmental impact from the 2012 ship incident. As of January 22, 2014, we have settled 94% and 75% of the crew and guest claims, respectively. Substantially all of the ship removal costs and the costs of these and future claims will be covered by insurance.

As of January 22, 2014 according to national market research data Carnival Cruise Lines, which is our largest cruise brand, has recovered more than 75% of the loss in its brand perception and more than 80% of the loss in its brand consideration among first-time cruisers, while its brand consideration among past cruisers has exceeded pre-incident levels. Having already implemented several strategies to enhance its operations and strengthen its public perception, we believe that over time the brand will continue to recover its reputation and increase its profitability. Earlier this year, Carnival Cruise Lines announced an estimated \$300 million vessel enhancement program, which is part of a corporate-wide program that will take place over the next several years and is expected to cost as much as \$700 million, to improve emergency power capabilities, to introduce new or enhanced fire safety technology and to increase the level of operating redundancies across its entire fleet.

In addition to the operational enhancements, Carnival Cruise Lines has launched a new travel agent outreach program designed to strengthen relationships by opening the lines of communication and implementing changes based on travel agent feedback. The most important goal of this program is to let travel agents know that Carnival Cruise Lines appreciates, needs and relies on them and values their insight and support. As part of the program, Carnival Cruise Lines has implemented a number of initiatives, including a simplified pricing structure, enhanced travel

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agent website capabilities and new group promotions. Further, they have launched a new nationwide advertising campaign to stimulate consumer interest by sharing memorable vacation moments from past guests. Carnival Cruise Lines has also introduced a new industry-leading vacation guarantee, whereby guests will receive a 110% refund of their cruise fare plus return travel arrangements if they are not satisfied with their cruise

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for any reason and provide notification within the first 24 hours of the voyage. We believe that Carnival Cruise Lines will successfully implement these and other strategies and programs, along with a number of innovative product enhancement initiatives, which will lead to continuing improvement in its reputation, which in turn will drive additional guest demand and increase profitability.

III. Cruise Programs

Our 101 ships sail to all of the world's major cruise destinations and the percentage of our passenger capacity deployed in each of these regions is as follows:

Region	2014	2013	2012
Caribbean	35%	33%	35%
Europe	29	31	29
Asia/Australia	12	10	8
Alaska	5	6	6
Other	19	20	22
	100%	100%	100%

B. Cruise Business**I. Overview****a. Summary**

The multi-night cruise industry has grown significantly but still remains relatively small compared to the wider global vacation industry, which includes a large variety of land-based vacation alternatives around the world. For example, there were only about 240,000 cabins in the global cruise industry at November 30, 2013, which is less than two percent of the number of worldwide hotel rooms. Within the global vacation industry, cruise companies compete for the discretionary income spent by vacationers. A 2013 Nielsen Global Consumer Confidence Survey found that after providing for savings and living expenses, the number one global spending priority is for vacations. As a result of these and other favorable cruise industry characteristics, we believe that the cruise industry has the opportunity to capture a greater share of consumers spending.

b. Favorable Characteristics of the Cruise Industry**1. Exceptional Value Proposition**

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

2. Relatively Low Penetration Levels

Based on industry data, the 2013 annual penetration rates when computed based on the number of annual cruise guests as a percentage of the total population are as follows:

- 3.4% for North America (a),
- 2.9% for Australia,
- 2.8% for the United Kingdom (UK) and
- 1.4% for continental Europe (Germany, Italy, France, Spain and Portugal).

(a) For the purpose of the penetration rate calculation, North America is only comprised of the United States of America (U.S.) and Canada. Based on industry data or our internal estimates, approximately 20% of the U.S. population and lower percentages of European and Australian populations have ever taken a cruise. In addition, Europeans and Australians have significantly more vacation days a year than North Americans, which presents opportunities for increases in these regions penetration levels compared to North America.

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

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3. Wide Appeal

Cruising appeals to a broad range of ages and income levels. The average age of a cruise guest varies by brand and ranges from approximately 40 years to 60 years across the contemporary, premium and luxury cruise categories. Cruising provides something for every generation, from kids clubs to an array of onboard entertainment provided to teens and adults. Cruising also offers transportation to a variety of destinations and a diverse range of ship types and sizes, as well as price points, to attract guests with varying tastes and from most income levels. To attract more first time cruisers, the duration of some cruises has been shortened, which has lowered the purchase price and thus broadened the appeal for cruising. Our brands have multiple pricing levels that vary by cruise line, by category of cabin, by ship, by season, by duration and by itinerary.

4. Positive Demographics

The average age of populations in established cruise regions is increasing. Between 2013 and 2023, the number of people in the cruise business primary age group of 45 years and older is expected to grow by 17 million, or 12%, in the U.S. and Canada and 15 million, or 10%, in the major Western European countries. We believe the cruise industry is well-positioned to take advantage of these favorable age demographics in its major markets.

Many emerging international markets are experiencing growing economies and a rapid growth in middle-class consumers. As their earnings power and disposable income increase, these middle-class consumers are becoming more eager to purchase entertainment, travel and discretionary products and services. This demand growth provides the cruise business the opportunity to expand its reach in these markets.

5. Ship Mobility

The mobility of cruise ships enables them to move between regions in order to maximize their profitability. Accordingly, cruise companies can redeploy their ships to other more profitable regions as guests' tastes change and if economic or other conditions warrant.

6. High Guest Satisfaction Rates

Cruise guests tend to rate their overall satisfaction with a cruise vacation higher than comparable land-based hotel and resort vacations. According to industry surveys, the cruise experience consistently exceeds expectations of repeat and first-time cruisers on a wide range of important vacation attributes. Cruising continues to receive high guest satisfaction rates because of the unique vacation experiences it offers, including visiting multiple destinations without having to pack and unpack, all-inclusive product offerings and state-of-the-art cruise ships with entertainment, relaxation and fun, all at an outstanding value.

7. Favorable Supply Versus Demand Balance

Over the last several years cruise operators have slowed their passenger capacity growth compared to historical levels. Furthermore, smaller, older or less efficient cruise ships will continue to be retired from service as they near the end of their economic lives or no longer provide sufficient cash flows. Over time we expect demand to accelerate as we rebuild our Carnival Cruise Lines and Costa brands, global economic conditions improve and emerging markets continue to develop. We believe this favorable supply versus demand balance will have a positive impact on our ability to profitably grow our cruise business.

c. Global Cruise Industry

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

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The passenger capacities that have been or are expected to be marketed are as follows:

Fiscal Year	Passenger Capacity (weighted-average)	
	Global Cruise Industry	Carnival Corporation & plc
2007	359,000	150,000
2008	377,000	162,000
2009	397,000	174,000
2010	423,000	186,000
2011	443,000	195,000
2012	455,000	200,000
2013	470,000	205,000
2014 (a)	482,000	210,000
2015 (a)	503,000	220,000
2016 (a)	525,000	228,000

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

The global cruise industry and our passenger capacity have increased at compound annual growth rates of 4.9% and 5.9%, respectively, from 2007 to 2012.

The global cruise industry and our compound annual passenger capacity growth rates are currently expected to be 3.6% and 3.3%, respectively, from 2012 to 2016.

The number of cruise guests carried are as follows:

Year (a)	Cruise Guests			Carnival Corporation & plc Total
	Global Cruise Industry			
	North America	Europe, Australia, Asia and Other	Total	
2007	10,450,000	5,500,000	15,950,000	7,672,000
2008	10,290,000	6,000,000	16,290,000	8,183,000
2009	10,400,000	7,190,000	17,590,000	8,519,000
2010	11,000,000	8,070,000	19,070,000	9,147,000
2011	11,440,000	9,050,000	20,490,000	9,559,000
2012	11,640,000	9,180,000	20,820,000	9,829,000
2013 (b)	11,790,000	9,750,000	21,540,000	10,061,000

- (a) The estimates of the total guests carried for 2007 through 2012 were obtained from G.P. Wild (International) Limited, an independent cruise research company, and are based upon where the guests were sourced and not the cruise brands on which they sailed.
- (b) The estimates of the total guests carried for 2013 are based on internally developed global guests growth rates.

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The number of cruise guests carried in the global cruise industry and by us have increased at compound annual growth rates of 5.5% and 5.1% from 2007 to 2012, respectively, and 3.5% and 2.4% from 2012 to 2013, respectively.

The North America regions' cruise guests have increased at a compound annual growth rate of 2.2% from 2007 to 2012 and 1.3% from 2012 to 2013.

The Europe, Australia, Asia and Other regions' cruise guests have increased at a compound annual growth rate of 10.8% from 2007 to 2012 and 6.2% from 2012 to 2013.

As we continue to expand our global presence, our revenues generated from guests sourced from outside the U.S. have grown to 56% in 2013, up from 46% in 2007.

II. Segment Information

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

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As of January 22, 2014, our cruise brands summary information is as follows:

Cruise Brands	Passenger Capacity (a)	Percentage of Total Capacity	Number of Cruise Ships	Primary Markets (b)
North America				
Carnival Cruise Lines	62,356	30%	24	North America
Princess Cruises (Princess)	40,502	20	17	North America
Holland America Line	23,540	11	15	North America
Seabourn	1,988	1	6	North America
North America Cruise Brands	128,386	62	62	
EAA				
Costa	32,136	16	14	Italy, France and Germany
AIDA Cruises (AIDA)	18,636	9	10	Germany
P&O Cruises (UK)	14,736	7	7	UK
Cunard	6,672	3	3	UK and North America
P&O Cruises (Australia)	4,804	2	3	Australia
Ibero Cruises (Ibero)	2,932	1	2	Spain and Argentina
EAA Cruise Brands	79,916	38	39	
	208,302	100%	101	

(a) In accordance with cruise industry practice, passenger capacity is calculated based on the assumption of two passengers per cabin even though some cabins can accommodate three or more passengers.

(b) Represents the primary regions or countries from where guests are sourced.

As of January 22, 2014, we had signed agreements with two shipyards providing for the construction of eight cruise ships, with two to be delivered in 2014, two in 2015 and four in 2016. These additions are expected to increase our passenger capacity by more than 24,700 lower berths. Our North America cruise brands have four ships with almost 10,800 lower berths scheduled to enter service by June 2016 and our EAA cruise brands have four ships with more than 13,900 lower berths scheduled to enter service by March 2016. It is possible that some of our smaller, older or less efficient ships may be sold, chartered or retired during the next few years. See Part I, Item 1. Business. B. Cruise Business Ships Under Contract for Construction and Note 6, Commitments and Note 10, Fair Value Measurements, Derivative Instruments and Hedging Activities to our Consolidated Financial Statements in Exhibit 13 to this Form 10-K for additional ship commitment information.

We also have a Cruise Support segment that includes our cruise port and related facilities located in Cozumel, Mexico; Grand Turk, Turks and Caicos Islands; Roatán, Honduras; and Puerto Plata, Dominican Republic (currently under development), which are or will be, operated for the benefit of our cruise brands. Cruise Support also includes other corporate-wide services that are provided for the benefit of our cruise brands.

In addition to our cruise operations, we own Holland America Princess Alaska Tours, the leading tour company in Alaska and the Canadian Yukon, which complements our Alaska cruise operations. Our tour company owns and operates 11 hotels or lodges, over 300 motorcoaches and 20 glass-domed railcars. This tour company and one cruise ship, which we own and charter-out under a long-term lease, comprise our Tour and Other segment.

See Note 11, Segment Information to our Consolidated Financial Statements in Exhibit 13 to this Form 10-K for additional segment and geographic information.

III. North America

Almost 55% of the cruise guests in the world are sourced from the North American region, where cruising is a mainstream alternative to land-based vacations. Approximately 11.6 million North American-sourced guests took multi-night cruise vacations in 2012, and we estimate that 11.8 million guests cruised in 2013. According to an internally developed survey, nearly 75% of Americans listed travel as their top lifetime goal. As a result of this and other favorable characteristics of the cruise industry, we expect increased demand in the cruise segment of the North America vacation market.

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The most popular location visited by North America-sourced cruise guests in 2013 was the Caribbean (including The Bahamas), followed by other locations, such as the Mediterranean Sea, Alaska, Northern Europe, Mexican Riviera, New England and Canada, Bermuda, Hawaii, the Panama Canal and other exotic locations, such as South and Central America, the South Pacific Islands, Australia, the Far East and India.

Carnival Cruise Lines, Princess, Holland America Line and Seabourn source their guests primarily from North America. Cunard also sources a large portion of its guests from North America.

CARNIVAL CRUISE LINES

Carnival Cruise Lines is a leader in contemporary cruising and operates 24 ships designed to provide fun and memorable vacation experiences at an outstanding value. Founded in 1972, Carnival Cruise Lines is one of the most recognizable brands in the cruise industry and carried 4.3 million guests in 2013, the most of any individual cruise brand. Carnival Cruise Lines identifies their target customers as "The Spirited" or those who like to live life to the fullest, look at the glass as half full, feel comfortable in their own skin, make their own fun and are open to considering a cruise. Their cruises have a broad appeal to families, couples, singles and seniors and have carried more than 700,000 children in 2013. Carnival Cruise Lines' 25 ship, the 3,972-passenger *Carnival Vista*, is scheduled to enter service in April 2016, which will grow the brand's existing passenger capacity by 6%.

Carnival Cruise Lines offers cruises generally from three to eight days in length with almost all of its ships departing from 12 convenient U.S. home ports located along the Eastern seaboard and the Gulf and West Coasts. Carnival Cruise Lines is the leading provider of year-round cruises in The Bahamas, Caribbean and Mexico and also operates seasonal cruises in New England and Canada, Alaska, Hawaii, and the Panama Canal.

The brand's focus continues to be on improving their product and services with innovations that appeal to new consumers, as well as past guests. In 2013, Carnival Cruise Lines continued the rollout of its fleet wide Fun Ship[®] 2.0 product enhancement initiative, which represents an initial investment of \$500 million. Fun Ship 2.0 is transforming the line's guest experience through innovative dining, bar and entertainment concepts, as well as partnerships with popular celebrities and brands. Entertainer George Lopez is the brand's creative director for comedy and is enhancing the line's fleet wide comedy clubs; Food Network star Guy Fieri has developed an onboard burger restaurant called Guy's Burger Joint; leading video game manufacturer EA SPORTS helped create the first-ever EA SPORTS Bars at sea; and through a partnership with toy and game leader Hasbro, Inc. the line has created Hasbro, The Game Show, with larger-than-life adaptations of Hasbro's iconic games. The many groundbreaking features of Fun Ship 2.0 are best reflected in *Carnival Breeze* and *Carnival Sunshine*. As of January 22, 2014, eight of Carnival Cruise Lines ships have some Fun Ship 2.0 features, with additional vessels scheduled to receive upgrades over the next few years.

Fun Ship 2.0 played a central role in the refurbishment of the *Carnival Destiny*, which was renamed *Carnival Sunshine* following a groundbreaking 75 day makeover that was completed in May 2013 and was the line's largest ship transformation project. The refurbishment added all of the Fun Ship 2.0 innovations, as well as one-of-a-kind amenities such as a three-level Serenity adults-only retreat, the brand's first full-service Asian restaurant called Ji Ji Asian Kitchen and new food and beverage concepts such as Havana Bar, ShakeSpot and JavaBlue Cafe.

Furthermore, Carnival Cruise Lines recently entered into an exclusive partnership with Dr. Seuss Enterprises to create the new Carnival Seuss at Sea program, which will bring the beloved children's brand and favorite characters to the line's entire fleet. Seuss at Sea will begin rolling out aboard *Carnival Splendor* in February 2014 with implementation across the full fleet by 2015, as well as the new *Carnival Vista*. The brand has also recently introduced American Table and American Feast, which are new dining concepts in the main dining rooms designed to evoke a more contemporary restaurant experience with an emphasis on exceptional American cuisine, with updated menus, place settings, and serving and presentation styles, as well as expanded cocktail and wine lists.

On January 22, 2014, Carnival Cruise Lines announced Carnival LIVE[™] a new onboard offering that brings the best live music entertainment to the seas. The Carnival LIVE[™] Concert Series features a diverse roster of popular, well known music artists who will play a series of onboard concerts for its guests at select ports-of-call. The Carnival LIVE[™] initiative also includes enhancements to Carnival Cruise Lines' onboard lounge band experience, which is designed to provide guests with a very high caliber of music entertainment.

Carnival Cruise Lines sources a majority of its guests from North America but also sources some of its guests from Australia. See Part 1, Item 1. Business. B. Cruise Business - Australia for additional discussion of Carnival Cruise Lines' operations in Australia.

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PRINCESS

Princess, whose brand name was originally made famous by the *Love Boat* television show, has been providing cruises since 1965. Princess is the world's largest premium cruise line based on passenger capacity and operates a fleet of 17 ships. Princess offers 125 unique itineraries to more than 310 destinations, with cruises generally from seven to 14 days and two world cruises over 100 days. In 2013, Princess introduced a new range of three and four day cruises in order to provide customers an opportunity to experience the Princess products and services on shorter voyages.

In June 2013, her Royal Highness The Duchess of Cambridge named *Royal Princess*, the newest addition to the fleet. In addition, *Royal Princess*'s sister ship, *Regal Princess*, is scheduled to enter service in May 2014. These new ships each have a 3,560-passenger capacity, the largest in its fleet, and continue the evolution of the Princess products and services. These two newbuilds offer a variety of new features, including a unique over-the-water SeaWalk, which is a top-deck, glass-bottom walkway extending more than 28 feet beyond the ship's side. With the addition of *Regal Princess* in 2014, Princess' existing passenger capacity will grow by 9%.

Voted Best Itinerary Design in the 2013 *Travel Weekly Readers Choice Award*, Princess is a leading cruise line in international and exotic destinations, including Europe, Australia, Asia, the Panama Canal, Hawaii and South America. Princess will have five ships sailing in 2014 throughout Europe between the months of April and December, including the inaugural season of *Regal Princess*. Princess is also a leading cruise line in Alaska and in 2014 will continue to dedicate seven ships to sailing in this area between the months of May and September. Some of Princess' Caribbean cruise offerings feature a private island destination that Princess leases and operates, known as Princess Cay®, which is located on the island of Eleuthera in The Bahamas.

Princess is widely recognized as an innovative, premium cruise line committed to helping its guests Escape Completely® from their daily routine and responsibilities. Designed with a warm, welcoming comfortable elegance, Princess' ships provide a relaxed, rejuvenating retreat at sea, with signature amenities offered consistently across most of its fleet befitting its mission to be The Consummate Host® to its guests. Its Piazza main atrium serves as the heart of the ship, featuring its International Café and specialty coffee bar, its Vines wine and seafood bar and a variety of entertainment throughout the day and evening. Its Movies Under The Stars outdoor theaters recreate the drive-in movie experience out on deck, with first-run Hollywood hits and major sporting events shown on a 330 square-foot poolside LED screen, complete with fresh-made popcorn. Its adults-only Sanctuary retreat space and unique Ultimate Balcony Dining course-by-course dining option were industry firsts.

In January 2014, Princess introduced a new multi-media marketing campaign designed to redefine its brand and differentiate it from other cruise line competitors. The campaign positions Princess as being uniquely qualified to provide its guests with meaningful travel and life experiences, both in destinations and onboard, so that they will Come Back New from their Princess vacation. In addition, we continue to enhance our travel agent support with the Princess Academy educational program, voted *Best Travel Agent Educational Program* by Travel Weekly. More than 50,000 travel agents around the world have learned about Princess' product and service offerings and destinations through this program, making it one of the largest and most comprehensive travel industry training programs in the world.

Princess sources primarily all of its guests from North America but also sources more than a quarter of its guests from Australia and the UK. In addition, in recent years Princess has been growing its passenger sourcing from Asia. See Part I, Item 1. Business. B. Cruise Business Australia and Cruise Business Asia for additional discussion of Princess' operations in these regions.

HOLLAND AMERICA LINE

Holland America Line, which celebrated its 140th year anniversary in 2013, operates a fleet of 15 premium mid-sized ships. Holland America Line offers more than 500 cruises to over 400 ports in almost 100 countries and territories on all seven continents, including Antarctica. While the majority of cruises are from seven to 21 days, Holland America Line also offers four longer, exotic Grand Voyages up to 113 days, including a Grand World Voyage. Holland America Line is also a leading cruise line in Alaska and in 2014 will continue to dedicate seven ships to sailing in this area between the months of May and September. Europe also continues to be a key destination in 2014 with seven ships sailing there between the months of March and November, including *Rotterdam*, which is home ported year-round in Amsterdam, the Netherlands. In the Caribbean, most of Holland America Line's ships visit its private island in The Bahamas, Half Moon Cay. Holland America Line has one new 2,660-passenger capacity ship scheduled to enter service in February 2016, which will grow its existing passenger capacity by 11%.

Holland America Line's mission is to create once-in-a-lifetime experiences for its guests every time they cruise. The brand continues to enjoy one of the highest rates of repeat cruisers. Holland America Line's Signature of Excellence products and services emphasize its dedication to all aspects of the guest experience, including elegant accommodations, sophisticated five-star dining and award-winning service. Its mid-sized ships are designed for more intimate cruising and feature classically-designed interiors, wraparound teak decks and private verandas. In addition, Holland America Line ships have one of the most extensive collections of art and antiques at sea.

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All of Holland America Line's ships have Culinary Arts Centers presented by *Food & Wine* magazine, where guests enjoy cooking demonstrations, private cooking lessons, wine tastings and lifestyle seminars, as well as cuisine from the recipes of an esteemed Culinary Council including David Burke, Jacques Torres, Elizabeth Falkner, Jonnie Boer and Master Chef Rudi Sodamin. In addition, the Digital Workshop in collaboration with Microsoft® offers complimentary photo and video editing classes. Guests will find specialty coffees, an extensive library, music listening stations and internet access in the Explorations Café® in partnership with The New York Times®. The Greenhouse Spa and Salon has extensive wellness and beauty treatments, fitness classes and exercise equipment. Other marquee partnerships bring guests unique onboard experiences such as B.B. King's Blues Club and Dancing with the Stars at Sea, featuring theme cruises, dance lessons and guest dance competitions.

SEABOURN

Seabourn provides ultra-luxury cruising vacations on smaller ships that focus on personalized service and guest recognition, spacious all-suite accommodations, award-winning gourmet dining and unique experiences. It was voted the Best-Small Ship Cruise Line by readers of *Travel + Leisure* for the past five years and *Condé Nast Traveler* for the last four years. Seabourn offers travelers a compelling value proposition that includes complimentary open bars throughout the ship, fine wines during lunch and dinner and gratuities that are neither required nor expected. Seabourn pampers its guests with value-added extras such as Massage MomentsSM on deck and Caviar in the SurfSM beach parties. Seabourn's ships cruise to destinations throughout the world, including Europe, South Africa, Asia, the South Pacific Islands, Australia, the Americas and Antarctica, with cruises generally from seven to 14 days, with some of longer length. In addition, Seabourn has introduced Extended Explorations, which is a novel way for travelers to enjoy longer cruises, with the added luxury of a wide range of choices regarding where and when they sail. The new, linked itineraries allow guests to deeply explore more extensive regions of the world on voyages ranging from 28 to 116 days.

Seabourn currently operates one 458-passenger capacity ship, two 450-passenger capacity ships and three 210-passenger capacity ships. The three larger ships offer more categories of luxury suites, more dining alternatives and 11,400 square-foot spa facilities that are among the largest on any ultra-luxury vessel. All of the Seabourn ships have a service ratio of nearly one staff member per guest and an intimate, sociable atmosphere that has been the hallmark of the Seabourn lifestyle since it began its operations in 1988. Seabourn has one new 604-passenger capacity ship scheduled to enter service in June 2016, which will replace the capacity of its three original smaller ships that were sold in 2013 and will be leaving its fleet by May 2015.

IV. Europe, Australia & Asia

a. Europe

We believe that Europe is the largest leisure travel vacation region in the world. However, cruising in Europe has achieved a much lower level of penetration than in North America and represents a relatively small percentage of the European vacation markets. Approximately 6.2 million European-sourced guests took multi-night cruise vacations in 2012 compared to 11.6 million North American-sourced guests. Additionally, we estimate that 6.5 million European-sourced guests cruised in 2013. Because of the relatively low penetration rates and other favorable characteristics of the cruise industry, we expect increased demand in the cruise segments of the European vacation markets.

The most popular location visited by European-sourced cruise guests in 2013 was the Mediterranean Sea, followed by other locations such as the Atlantic Isles (including the Canary Islands and Madeira), Northern Europe (including Scandinavia and the Baltic Sea), the Caribbean, Bermuda, the Arabian Gulf and Indian Ocean, the Far East, South America, New York, the Black Sea, New England and Canada.

1. United Kingdom

The UK provides the largest number of cruise guests sourced in Europe. Approximately 1.7 million UK-sourced guests took a multi-night cruise vacation in 2012, and we estimate that 1.8 million guests cruised in 2013. Cruising in the UK is an established alternative to land-based vacations. P&O Cruises (UK) sources substantially all its guests from the UK. Cunard sources more than half of its guests from the UK but also sources principally all of its other guests from North America, Germany and Australia.

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P&O CRUISES (UK)

P&O Cruises (UK) is the leading and most recognized cruise brand in the UK and can trace its roots back 175 years to the formation of the Peninsular Steam Navigation Company. Today, P&O Cruises (UK) is dedicated to providing the vacation of a lifetime to its largely British guests and operates a fleet of seven premium ships that vary in size from 700 to 3,100 lower berths. Three of its ships offer vacations exclusively for adults, while the other ships are well-suited for families. P&O Cruises (UK) has one new 3,647-passenger capacity ship, *Britannia*, scheduled to enter service in March 2015, which will grow its existing passenger capacity by 25%. *Britannia* will be the largest cruise ship built exclusively for the British market.

P&O Cruises (UK) s ships visit over 200 destinations worldwide, with cruises generally from seven to 15 days, with a number of longer voyages, including three world cruises of over 80 days in 2014. In the summer, cruises generally depart from Southampton, England to the Mediterranean Sea, Scandinavia and the Baltic Sea, New England and Canada, the Atlantic Isles and the Caribbean. Beginning in the summer of 2014, *Ventura* will offer a new cruise program for its seven or 14 day voyages departing from Venice and Savona, Italy. In the winter of 2014, P&O Cruises (UK) offers cruises in the Caribbean, cruises departing from Southampton, England primarily to the Mediterranean Sea and the Canary Islands and world cruises.

P&O Cruises (UK) s fleet reflects the tastes and trends of contemporary Britain in dining, entertainment, service and ambiance. This is enhanced through partnerships with British celebrity chefs Marco Pierre White, Atul Kochhar and Olly Smith, together with popular television programs, such as the British Broadcasting Corporation s *Strictly Come Dancing*. P&O Cruises (UK) provides an authentic, quality cruise experience and has an enviable reputation for trust and reliability, highlighted by high levels of customer loyalty.

CUNARD

Cunard, which was launched in 1840, operates three premium/luxury ships, *Queen Elizabeth*, *Queen Mary 2* and *Queen Victoria* and has one of the youngest fleets in the cruise business. During 2014, Cunard ships will principally sail a variety of seasonal itineraries in Northern Europe, the Mediterranean Sea and New England and Canada, as well as their iconic transatlantic voyages on *Queen Mary 2*. Most of Cunard s cruises are from seven to 14 days with three world cruises of over 105 days.

Cunard is an international cruise line that offers guests a unique experience that celebrates its British heritage. Cunard provides guests with the opportunity to relive the golden age of ocean travel featuring sophisticated five-star dining, luxurious accommodations and award-winning White Star Service. In addition, Cunard ships spotlight uniquely British shipboard amenities, such as libraries, traditional British pubs and theaters. Cunard ships also feature the Queen s Grill and Princess Grill categories, which are renowned for their extensive suites and intimate dining rooms. Cunard enjoys an enviable association with the British Royal Family. Her Majesty the Queen is Godmother to both *Queen Elizabeth* and *Queen Mary 2*. Together, these features further distinguish this historic brand from all others and have made Cunard ships the Most Famous Ocean Liners In The WorldSM.

2. Continental Europe

The main countries in continental Europe for sourcing cruise guests are Germany, Italy, France and Spain. Together, almost 3.5 million cruise guests were sourced from these countries for multi-night cruise vacations in 2012 and we estimate that approximately 3.6 million guests cruised in 2013. The German cruise industry reached more than 1.6 million guests in 2013 and is the second largest source market in Europe, after the UK. The Italian cruise industry is the third largest in Europe with 870,000 guests in 2013. The Spanish and French cruise industries are the fourth and fifth largest in Europe with 600,000 guests and 500,000 guests in 2013, respectively.

The primary sources for Costa s guests are from Italy, France and Germany, although it also sources a significant number of guests from China, Brazil and Argentina. AIDA sources substantially all of its guests from Germany and Ibero currently sources principally all of its guests from Spain and Argentina.

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COSTA

Costa is Europe's largest cruise line based on guests carried and passenger capacity. It is also the number one cruise line in Italy and France and a leading cruise line in Germany. Costa has been providing cruises for 66 years and operates a fleet of 14 contemporary ships. Costa has one new 3,708-passenger capacity ship, *Costa Diadema*, scheduled to enter service in October 2014, which will grow its existing passenger capacity by 12%. In Germany, where we also own and operate AIDA, Costa offers a more traditional cruise product and services catering to an older age demographic, which differentiates its product offerings from AIDA.

Costa's 1.6 million guests in 2013 were sourced from over 200 countries. Costa calls on 250 ports around the world, with 150 different itineraries, with cruises generally from seven to 11 days. In the summer, Costa deploys its ships in the Mediterranean and Northern Europe areas. In the winter, Costa deploys its ships in Brazil and Argentina, the Mediterranean Sea, the Caribbean and the Arabian Gulf. See Part I, Item 1. Business. B. Cruise Business – Asia for additional discussion of Costa's operations in Asia.

During 2013, Costa expanded its international advertising campaign to support its sales activities. The campaign expresses Costa's brand position by perfectly combining Sea, Ship, and Shore in a new kind of holiday. Travelling on a Costa ship is seen as a personal journey, full of scents, taste sensations, scenery, places, cultures and the excitement of new destinations. The itinerary sets the cruise vacation apart not merely as a line connecting multiple destinations, but rather as a common theme linking the many new experiences awaiting discovery. Costa's website has also been enhanced to facilitate access to Costa's social media channels, such as Costa Cruise Tips where past guests can share their experiences and give recommendations and tips on its ships and destinations.

Costa's ships represent the best of Italy by offering beautiful Italian art, unique interior decorations with superb Italian mosaics, precious Murano chandeliers, fine Italian wines, excellent Mediterranean food selections and unique shops that carry well-known Italian fashion brands. Costa attracts international guests due to its multi-lingual service and is considered in Europe to be a top vacation provider. Costa is also known for offering innovative itineraries that combine the excitement of new destinations with pampering onboard service and ambiance. The spectacular Samsara spa wellness center includes a dedicated restaurant and cabins with direct access to the spa.

In November 2013, Costa announced the beginning of a new style of cruising onboard two of its smaller ships with the advent of Costa's neoCollection. The neoCollection cruises are an invitation to make the most of every minute and enjoy the holiday in a more leisurely way. This is a new type of Costa cruise experience that is tailored to suit individual tastes and allows each guest to go at their own pace, both onboard and ashore, making it an ideal vacation for couples and groups of friends. The cruise itineraries are exclusive with longer port calls and sailings to destinations inaccessible to larger cruise ships. The neoCollection cruises will offer a range of options, such as specially designed shore excursions for small groups and fine food and wine options based on the authentic cuisine of the regions visited. The neoCollection cruises will debut in February 2014 and offer 12 day itineraries to the most attractive destinations in the Mediterranean Sea during spring and summer, as well as 13 and 15 day cruises in Northern Europe during summer.

AIDA

AIDA, which began operating in 1996, is the leader and most recognized cruise brand in the German cruise industry. Germany is our fastest growing European market and AIDA is our fastest growing cruise brand. AIDA has taken delivery of seven ships in the past seven years including the 2013 delivery of *AIDAstella* and now operates ten contemporary ships. AIDA has one new ship scheduled to enter service in March 2015 and another one in March 2016, which together will grow its existing passenger capacity by 35%.

AIDA's two newbuilds are a new design, larger than AIDA's current generation of vessels and combine an advanced technological platform with innovative guest features. These 3,286-passenger capacity ships will also further develop AIDA's hallmark Theatrium and Brauhaus micro-brewery features. In 2013, AIDA refreshed its brand image to underline its leadership in the German speaking vacation market and highlighted its product's individuality, which is Unique. Every time.

AIDA offers its guests cruises generally from five to 14 days, while calling on approximately 185 ports. In the summer, AIDA ships sail in the North Sea, the Baltic Sea, the Mediterranean Sea, the Black Sea and New England and Canada. In the winter, AIDA ships sail in the Caribbean, Central America, South America, Southeast Asia, the Atlantic Isles, the Western Mediterranean Sea and the Arabian Gulf.

AIDA's product is especially tailored for German-speaking guests and includes a German-speaking crew as well as German-style food and entertainment. AIDA offers an exceptionally relaxed, yet active, cruising experience with an emphasis on a healthy and youthful lifestyle, choice, informality, family friendliness and activity. In addition, AIDA's ships include a variety of informal and formal dining options, including buffets, grills and exclusive restaurants.

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IBERO

Ibero began operations in Spain in 2003. Ibero's two contemporary ships are especially tailored for Spanish-speaking guests, which includes a Spanish-speaking crew as well as Mediterranean and Spanish-style food and entertainment. One of Ibero's ships offers year-round Mediterranean Sea sailings ranging from seven to 11 days. Its other ship sails in the Mediterranean Sea from spring until fall while in the winter season its areas of operations are Argentina and Brazil.

b. Australia

Approximately 700,000 Australian and New Zealand guests took multi-night cruise vacations in 2012, and we estimate that 760,000 guests cruised in 2013. Of these 2013 guests, 72% sailed on Carnival Corporation & plc branded vessels. Cruising in Australia is an established alternative to land-based vacations. However, due to the favorable characteristics of the cruise industry, we expect increased demand in the cruise segment of the Australian vacation market. In 2014, we have dedicated six ships year round and three ships on a seasonal basis to serve this market through our P&O Cruises (Australia), Princess and Carnival Cruise Lines brands. Some of our other brands also source guests from Australia and New Zealand but to a lesser extent. Carnival Cruise Lines and Princess are primarily marketed in North America, so we consider them North America cruise brands for our cruise segment reporting, even though some of their ships are marketed principally to Australians and New Zealanders during certain deployments.

P&O CRUISES (AUSTRALIA)

P&O Cruises (Australia) is the leading Australian cruise line, recognized by nine out of ten Australians as the brand synonymous with cruising. With close to 260,000 guests annually, P&O Cruises (Australia) carried almost 35% of all Australia and New Zealand cruise guests on its three contemporary ships in 2013. Its ships offer cruises generally from three day themed seabreaks to ten day explorer trips for guests of all ages and have broad appeal to families, friends and couples.

P&O Cruises (Australia) sails to more South Pacific Island destinations than any other cruise line, which enables guests to discover the islands of the South Pacific from New Caledonia to Fiji. In 2013, remote idyllic parts of Papua New Guinea were also added to their itineraries. P&O Cruises (Australia) also offers year round itineraries to Australia's magnificent coast line and New Zealand.

With almost 80 years of cruising experience, P&O Cruises (Australia) provides a quintessential holiday experience for Australians and New Zealanders. The onboard atmosphere is laid back with a focus on great food, friendly service and exciting entertainment. In 2013, P&O Cruises (Australia) launched P&OEdge™, one of the most comprehensive adventure programs on the high seas. The P&OEdge™ program gives its guests the opportunity to climb, swing, race and jump their way to parts of the ship never seen before by guests. The activities, which include repelling, ziplining, tight-rope balancing, Segway obstacle courses, rock wall climbing and many more, have been specifically designed to make use of the ship's existing architecture to create one of the largest adventure parks at sea.

PRINCESS

In 2014, Princess will deploy two premium ships on a year-round basis and another two on a seasonal basis from Australia. During 2014, Princess will have the largest Australian and New Zealand passenger capacity deployment of any cruise brand. Princess' ships visit the South Pacific Islands, Australia, New Zealand and Asia and the cruises generally are from 11 to 17 days, with one world cruise of over 100 days.

CARNIVAL CRUISE LINES

In 2014, Carnival Cruise Lines will deploy one year-round ship and one seasonally-based ship from Australia. These ships offer cruises from eight to 12 days to the South Pacific Islands and New Zealand.

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c. Asia

Although in the early stages of development, we believe the cruise segment of the Asian vacation markets has significant long-term potential for growth. Accordingly, we view Asia as an important part of our global strategy and remain committed to capacity growth focused on the emerging vacation markets in this region. Over the past two years, we have increased our presence in the region by opening 12 sales and marketing offices in six Asian countries and establishing a corporate office in Singapore.

1. China

We began sourcing guests from China in 2006. We source most of our Chinese guests from major cities, such as Shanghai, Beijing and Guangdong, which have a combined population of approximately 150 million people. Over the past decade China has been, by far, the world's fastest growing tourism source market. China's consumer expenditures on travel abroad reached over \$100 billion in 2012, making it the number one tourism source market in the world based on spending, according to the United Nations World Tourism Organization. Tourism is one of the most rapidly growing sectors in the Chinese economy as Chinese discretionary income has increased at a compound average annual growth rate of over 10% over the past five years. More than 94 million Chinese tourists are expected to have travelled abroad in 2013. We believe the cruise segment of the Chinese vacation market has significant long-term growth potential given its early stage of development, the large and growing middle-class population, the easing of travel restrictions and expansion of international tourist travel. We serve this market substantially through our Costa and Princess brands although some of our other brands also source guests from China.

COSTA

Costa began its China operations in 2006 and was the first international cruise line to home port a ship there. Costa operates two contemporary ships from China that are primarily marketed to the Chinese and surrounding vacation markets. The second ship was deployed to China in May 2013 and more than doubled Costa's capacity. These ships offer a unique product by providing a blend of both Italian-style hospitality, design, shopping experience and cuisine, as well as catering to Chinese-speaking guests' desires for local cuisine and entertainment, gaming options and well-known luxury brands in their retail shops.

Costa offers its guests cruises generally from four to seven days. One of its ships will offer cruises to South Korea year round. Costa's other ship will also sail from China to South Korea from the spring through the fall months. During the winter months, it will sail from Singapore calling on ports in Malaysia and Thailand and from Hong Kong calling on ports in mainland China, Vietnam and the Philippines.

PRINCESS

In 2014, Princess will enter the cruise segment of the Chinese vacation market with its four-month deployment of the 2,678-passenger capacity *Sapphire Princess* on cruises departing from Shanghai. *Sapphire Princess* will bring a new international premium cruise experience to the Chinese vacation market with an onboard product that is customized to meet the needs of its Chinese guests. The 2014 China season will feature itineraries ranging from three to seven days and includes calls at several South Korean ports.

From fall 2014 to spring 2015, Princess will bring *Sapphire Princess* to Singapore in the largest deployment ever by a premium cruise line in the Southeast Asia region. *Sapphire Princess* will feature 15 cruises from three to 11 days, visiting seven countries and 16 ports including some of this region's major cities such as Bangkok, Ho Chi Minh City and Kuala Lumpur, along with smaller, off-the-beaten path resort destinations including Penang, Ko Samui and Langkawai. Guests will be sourced from Singapore and throughout Asia, in addition to other international markets including Australia, North America and the UK.

2. Japan

Japan has the world's eleventh largest population with 127 million people and fifth largest economy at \$4.6 trillion. In addition, Japan has numerous highly developed ports-of-call with sight-seeing attractions, shopping, shoreside transportation and infrastructure making them one of the more attractive destinations in the Asia region. We believe the cruise segment of the Japanese vacation market has significant long-term growth potential given its early stage of development, relatively large market, with 25% of its population over 65 years old, developed economy and a relatively large number of interesting ports-of-call. We serve this market substantially all through Princess although some of our other

brands also source guests from Japan.

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In April 2013, Princess entered the cruise segment of the Japanese vacation market with its three-month deployment of the 2,022-passenger capacity *Sun Princess* on cruises that departed from home ports in Yokohama and Kobe, Japan. This ship offers Princess international products and services with Japanese touches to appeal to the tastes of its Japanese guests. In 2014, Princess will expand its Japanese deployments to two ships. One ship will offer cruises departing from Kobe and Otaru, Japan from April to August and the other ship will offer cruises departing from Yokohama, Japan from April to October. These 2014 cruises will range from seven to nine days. The two ships will visit Japan, South Korea, Taiwan and Russia.

V. Ships Under Contract for Construction

As of January 22, 2014, summary information of our ships under contract for construction is as follows (a):

	Expected Service Date (b)	Passenger Capacity
Cruise Brands and Ships		
<u>North America</u>		
<u>Carnival Cruise Lines</u>		
<i>Carnival Vista</i>	4/16	3,972
<u>Holland America Line</u>		
Newbuild	2/16	2,660
<u>Princess</u>		
<i>Regal Princess</i>	5/14	3,560
<u>Seabourn</u>		
Newbuild	6/16	604
North America Cruise Brands		10,796
<u>EAA</u>		
<u>AIDA</u>		
<i>AIDAprima</i>	3/15	3,286
Newbuild	3/16	3,286
<u>Costa</u>		
<i>Costa Diadema</i>	10/14	3,708
<u>P&O Cruises (UK)</u>		
<i>Britannia</i>	3/15	3,647
EAA Cruise Brands		13,927
		24,723

- (a) Our ship construction agreements cannot be cancelled by either party without cause, and such cancellation will subject the defaulting party to contractual liquidated damages.
- (b) The expected service date is the month that the ship is currently expected to begin its first revenue generating cruise. All of our ship construction contracts except AIDA's are with Fincantieri in Italy. Our AIDA ship construction contracts are with Mitsubishi Heavy

Industries in Japan.

VI. Cruise Ports and Destination Developments

Our cruise brands provide guests with unique vacation experiences and additional home and transit ports through the development and management of new or enhanced cruise port facilities. Our involvement is usually in cooperation with governmental entities and typically includes providing development and management expertise and financial commitments that are connected to long-term port usage and preferential berthing agreements. However, sometimes we provide direct financial support or develop the port infrastructure ourselves, including the development and operation of mixed-use commercial properties.

During 2013, we were in various stages of involvement with the development, enhancement and/or financing of government-owned and operated cruise port facilities in Galveston, Texas; Miami, Florida; New York City, New York; Port Everglades, Florida; San Juan, Puerto Rico and St. Maarten, Kingdom of the Netherlands. We also operate leased or owned port facilities or have interests in joint ventures that operate leased or owned port facilities in Barcelona, Spain; Civitavecchia, Naples, Savona and Trieste, Italy; Hamburg, Germany; Juneau, Alaska; Long Beach, California and Marseilles, France for the benefit of our cruise brands.

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We also operate leased or owned port facilities that we have developed as destinations in Cozumel, Mexico; Grand Turk, Turks and Caicos Islands and Roatán, Honduras, as well as private island destinations in The Bahamas primarily for the benefit of our North America cruise brands. We are also developing a port facility destination in Puerto Plata, Dominican Republic, known as Amber Cove, that is expected to be operational in 2015. These destinations offer a variety of features, including shore excursions, cultural and historic exhibits, water sports, beaches, duty-free shopping and a variety of themed-dining options. These features come together to make each of these ports-of-call an all-encompassing unique vacation experience.

VII. Cruise Ship Repair Facility

We own a 40% interest in Grand Bahamas Shipyard Ltd. (GBSL), which is the largest cruise ship dry-dock repair facility in the world, to support our ship repair and maintenance programs. We utilize this facility, as well as other ship repair facilities, for our dry-dockings. This repair facility, located in Freeport, Grand Bahamas, has three dry-docks and can accommodate almost all of our ships. As a result, our North America brand ships based in the Caribbean primarily use this facility given its proximity to their home ports. During 2013, we had 13 ships serviced at this facility. In addition, unaffiliated cruise ships and other types of ships, such as cargo and oil and gas tankers, were serviced at this facility. GBSL generated total revenues of over \$60 million in 2013, with a large portion being derived from work on our cruise ships.

Royal Caribbean Cruises Ltd. (RCCL), our largest cruise competitor, also owns a 40% interest in GBSL and an unaffiliated entity owned by Grand Bahamas Port Authority owns the remaining 20%. We account for our investment in GBSL using the equity method, with our share of income or loss recorded in other nonoperating income or expense. Our total net investment in, including notes receivable from GBSL was \$71 million at November 30, 2013. GBSL had an aggregate of \$102 million of outstanding debt to RCCL and us at November 30, 2013.

VIII. Cruise Pricing and Payment Terms

Each of our cruise brands publishes prices for the upcoming seasons primarily through the internet, although published materials such as brochures and direct mailings are also used. Our brands have multiple pricing levels that vary by cruise line, by category of cabin, by ship, by season, by duration and by itinerary. Cruise prices frequently change in a dynamic pricing environment. Some cruise prices are reduced through special promotions and early booking, past guest recognition and other programs. Conversely, some cruise prices are increased due to higher demand.

Our bookings are generally taken several months in advance of the cruise departure date. Typically, the longer the cruise itinerary the further in advance the bookings are made. This lead time allows us to manage our prices in relation to demand for available cabins through the use of advanced revenue management capabilities and other initiatives, with the strategy of filling our ships while achieving the highest possible overall net revenue yields. In addition, we have the ability to change ship itineraries and cruise durations over time to maximize our net revenue yields. See Key Performance Non-GAAP Financial Indicators in our Management Discussion and Analysis of Financial Condition and Results of Operations in Exhibit 13 to this Form 10-K for a discussion of net revenue yields.

The cruise ticket price typically includes accommodations, most meals, some non-alcoholic beverages and most onboard entertainment such as the use of, or admission to, a wide variety of activities and facilities including nightclubs, lounges, bars, theatrical shows, movies, comedy and music acts, parties, supervised youth programs, swimming pools, water slides, water parks, whirlpools, saunas, a health club, a jogging track, basketball, table tennis, sun decks, libraries, cooking demonstrations and a planetarium. Our brands' payment terms generally require that a guest pay a deposit to confirm their reservation and pay the balance due before the departure date. In addition, some of our European brands extend certain of their travel agents and tour operators with credit that allow them to pay us a certain period of time after they collect cruise ticket payments from our guests but typically prior to sailing.

Our guests are subject to a cancellation fee if they cancel their cruise within a pre-defined period before sailing, unless they purchase a vacation protection premium for the ability to obtain a refund. We include this cancellation fee income in cruise passenger ticket revenues upon cancellation. Guests who pay a vacation protection premium will receive all or a portion of their deposit value back in cash or in the form of a future cruise credit, in accordance with the terms of the programs. We include this vacation protection premium in other cruise revenues.

As a convenience to our guests, we offer to arrange air transportation to and from airports near the ship's home port. When a guest elects to purchase air transportation from us, both our revenues and expenses generally increase by approximately the same amount. Air transportation prices typically vary by gateway, ticket class, destination and other ticket restrictions. In 2013, approximately 10% of our guests purchased air transportation from us. In order to increase the level of our air transportation services, certain of our brands offer an air program that includes competitive air prices (for both restricted/non-refundable and flexible fares) and provides our guests with next port protection, which enables

them to get to the next appropriate cruise port at no additional air cost if they miss their original port embarkation due to

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airline delays or other airline service disruptions. In addition, for some of our European brands' cruise itineraries we charter aircraft to facilitate our guests' travel to distant locations. We also offer ground transfers from and to the airport near the ship's home port as part of our transfer programs. When a guest elects to purchase these transfer services these revenues are included in cruise passenger ticket revenues.

IX. Onboard and Other Revenues

Onboard and other activities are provided either directly by us or by independent concessionaires, from which we receive either a percentage of their revenues or a fee. In 2013, we earned 23% of our revenues from onboard and other revenue activities and services not included in the cruise ticket price including substantially all liquor and some non-alcoholic beverage sales, casino gaming, shore excursions, gift shop sales, photo sales, full service spas, communication services, a wide variety of dining options, art sales and laundry services. Our brands are always working on innovative ways to enhance our guests' onboard experience and increasing our onboard revenues, such as offering all-inclusive beverage packages and prepaid gift cards. We use various marketing and promotional tools and are supported by point-of-sale systems permitting cashless transactions for the sale of these onboard and other products and services. As a convenience to our guests, all our brands allow their guests to pre-book, and in some cases pre-pay, certain of their onboard and other revenue-producing activities in advance of the cruise.

We offer a variety of shore excursions at each ship's ports-of-call that include general sightseeing, cultural tours, adventure outings and local boat rides and beach experiences. We typically utilize local operators who provide shore excursions with guides who speak the same languages as most of our shore excursion guests. For our sailings to destinations in Alaska, shore excursions are operated by Holland America Princess Alaska Tours or provided by local operators. We also offer revenue-producing activities on the private islands and port destinations that we operate that include beach bars and restaurants, water sports, sky lifts, cabana rentals and a surf rider attraction.

Our casinos are all owned and operated directly by us and are equipped according to the needs of the individual brands, ships and itineraries. We offer a wide variety of slot and gaming machines and a diverse mix of both traditional and specialty table games designed to meet the needs of our guests. The casinos are only open when our ships are at sea in international waters or when otherwise permitted by law.

In conjunction with our cruise vacations, many of our cruise brands sell pre-and post-cruise land packages of one to four days that include guided tours, hotel accommodations and related transportation services. In Alaska and the Canadian Yukon, we utilize, to a large extent, our own hotel and transportation assets. The land portion of these Alaska and Yukon vacations vary in length from three to 13 days.

X. Sales Relationships

We sell our cruises mainly through travel agents, including retail, online, and home-based agents, as well as wholesalers, general sales agents and tour operators that serve our guests in their local markets. Travel agents are an integral part of our long-term cruise distribution network and are critical to our success. Our individual cruise brands' relationships with their travel agents are generally independent of each of our other brands. Our travel agent relationships are generally not exclusive and travel agents generally receive a base commission, plus the potential of additional commissions based on the achievement of pre-defined sales volumes. Most travel agents also sell cruises and other vacations provided by our competitors. We utilize local sales teams to motivate travel agents to support our products and services with competitive sales and pricing policies and joint marketing and advertising programs. We also employ a wide variety of trade marketing techniques, including websites, training seminars and videos, to familiarize agents with our cruise brands and their products and services. Substantially all of our cruise brands offer interactive online and other education courses for travel professionals who want to continue learning about the cruise industry and how to effectively sell our cruise products and services. During fiscal 2013, no controlled group of travel agencies accounted for 10% or more of our revenues.

We are a customer service driven company and continue to invest in our service organization to assist travel agents and guests. We believe that our support systems and infrastructure are among the strongest in the vacation industry. Our investment in customer service includes the development of employees, processes and systems. We continually improve our systems within the reservations and customer relationship management functions, emphasizing the continuing support and training of the travel agency community, while simultaneously developing greater contact and interaction with our guest base.

All of our brands have developed internet booking engines to allow travel agents to book our cruises. We also support travel agent booking capabilities through global distribution systems. We estimate that almost 75% of our bookings from travel agents are made electronically.

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All of our cruise brands have their own consumer websites that provide access to information about their products and services to users and enable their guests to quickly and easily book cruises and other products and services online. These sites interface with their social networks, blogs and other social media sites. We also employ vacation planners who support our direct sales initiatives by offering our guests cruise planning expertise and other services.

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XI. Marketing Activities

Guest feedback and research is a critically important element in the development of our overall marketing and business strategies. We measure and evaluate key drivers of guest loyalty and satisfaction that provide valuable insights about the cruise experience. We regularly initiate customer research studies among guests, travel agents, tour operators and others to assess the impact of various programs and to solicit feedback to help make business decisions.