MUNICIPAL MORTGAGE & EQUITY LLC
Form 10-K
April 29, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

o **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 001-11981

MUNICIPAL MORTGAGE & EQUITY, LLC
(Exact name of registrant as specified in its charter)

Delaware	**52-1449733**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
621 East Pratt Street, Suite 300 Baltimore, Maryland	**21202-3140**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code
(443) 263-2900

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares	None

Securities registered pursuant to Section 12(g) of the Act:
Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

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

Indicate by check mark whether the registrant (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No þ

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of our common shares held by non-affiliates was $112,130,694 based on the last sale price as reported in the over the counter market on June 30, 2008.

Number of shares of Common Shares outstanding as of December 31, 2008: 39,382,641.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents have been incorporated by reference into this Form 10-K as indicated: None.

Municipal Mortgage & Equity, LLC

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements intended to qualify for the safe harbor contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements often include words such as may, will, should, anticipate, estimate, expect, pro intend, plan, believe, seek, would, could, and similar words or are made in connection with discussions of fut operating or financial performance.

Forward-looking statements reflect our management s expectations at the date of this Report regarding future conditions, events or results. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ materially from what is anticipated in the forward-looking statements. There are many factors that could cause actual conditions, events or results to differ from those anticipated by the forward-looking statements contained in this Report. They include the factors discussed in Item 1A. Risk Factors.

Readers are cautioned not to place undue reliance on forward-looking statements in this Report or that we make from time to time, and to consider carefully the factors discussed in Item 1A. Risk Factors in evaluating these forward-looking statements. We have not undertaken to update any forward-looking statements.

EXPLANATORY NOTE

The 2004 and 2005 consolidated financial statements included in this Annual Report (**Report**) on Form 10-K have been restated from the consolidated financial statements for those years included in our Report on Form 10-K for the year ended December 31, 2005. Further, the 2004 consolidated financial statements have been restated from the 2004 consolidated financial statements included in our Report on Form 10-K for the year ended December 31, 2004.

The consolidated financial statements included in this Report, including the restated 2004 and 2005 consolidated financial statements, were audited by KPMG LLP (**KPMG** **).** The 2004 and 2005 consolidated financial statements included in our Report on Form 10-K for the year ended December 31, 2005 were audited by PricewaterhouseCoopers, LLP (**PwC**).

The principal changes resulting from the restatement of our 2004 and 2005 consolidated financial statements, include the following (see Notes to Consolidated Financial Statements-Note 2, Restatement of Previously Issued Financial Statements for more information):

Changes in our application of Financial Accounting Standards Board s Financial Interpretations No. FIN 46(R), *Consolidation of Variable Interest Entities-An Interpretation of ARB No. 51* (***FIN 46R***) and other similar accounting pronouncements resulting in the inclusion in our consolidated financial statements of the assets, liabilities and non-controlling interests as well as income and expense of over 200 additional entities, in which we have little or no ownership interest, but as to which under applicable accounting pronouncements, we are deemed to be the primary beneficiary or to have control, and thus require consolidation.

Changes to the accounting for our Tax Credit Equity business including changes to the timing of recognition of organization and acquisition costs, changes in the measurement of capitalized interest, as well as changes in the recognition of syndication fees.

Changes related to bond accounting including changes in the way we value our bond portfolio.

Changes related to loan accounting including the way we account for certain loan fees and deferred origination costs, changes in the identification of non-accrual loans, and changes related to the specific and unallocated allowance for loan losses.

Other changes in accounting relating to equity method investments, derivatives and mortgage servicing rights (**MSRs**).

As a result of the restatement, we substantially increased our deferred tax assets, primarily due to the significant deferral of income related to the Tax Credit Equity accounting changes. Furthermore, we

concluded that it was more likely than not that the deferred tax assets would not be realized resulting in the need for a valuation allowance against substantially all of our deferred tax assets.

Item 6. Selected Financial Data included in this Report presents consolidated income statement data for years ended December 31, 2006, 2005 and 2004 and consolidated balance sheet data at December 31, 2006, 2005, 2004, and 2003. Preparing restated standalone consolidated income statement data for years ended December 31, 2002 and 2003 (as well as consolidated balance sheet data at December 2002) would have been very costly and would have significantly delayed the filing of this Report. Because it has been more than five years since December 31, 2003, we believe that restated financial data related to 2003 and years prior would be only marginally beneficial and would not have justified either the cost or the delay that would have been required to prepare it. Accordingly, we did not deem it practical to include selected financial data for those years; however, as part of the restatement, we have properly reflected the cumulative effect of the restatement in our beginning balance of shareholders equity at December 31, 2003.

This Report does not contain quarterly information for years ended December 31, 2006 and 2005 nor do we plan to provide this information through subsequent Securities and Exchange Commission (**SEC**) filings. Preparing and providing this information would be costly, would be only marginally beneficial to our investors and would serve only to delay the filing of this Report as well as future filings which will provide our 2007 and 2008 financial position and results of operations.

Item 9A. Controls and Procedures includes our Management s Report on Internal Control Over Financial Reporting. SEC rules require that management evaluate the effectiveness, as of the end of each fiscal year, of the Company s internal control over financial reporting on a suitable, recognized framework that is established by a body or group that has followed due process procedures, including broad distribution of the framework for public comments. Our management began its evaluation based on such a framework, but when, at a relatively early stage of the evaluation, it became clear that there were material weaknesses in our internal control over financial reporting at December 31, 2006 (which are described in Item 9A. Controls and Procedures) that made them not effective at that date, we terminated the process without completing the evaluation and focused our time and attention on the restatement effort. This allowed us the ability to more fully devote our accounting resources to restating our 2005 and 2004 financial statements and preparing our 2006 financial statements. However, as a result, our management did not complete its assessment of the effectiveness of our internal control over financial reporting at December 31, 2006 and our independent registered public accounting firm has not been able to render an opinion on the effectiveness of our internal control over financial reporting.

Although this Report relates to the year ended December 31, 2006, certain information is presented as of the time this Report is being filed, rather than as of December 31, 2006. In particular, except as expressly stated, the information in Item 1. Business, Item 1A. Risk Factors, Item 2. Properties and Item 3. Litigation, as well as information about prices of our common shares and dividends in Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities, is presented as of the time this Report is being filed or as close to the time this Report is filed as is practical. Our business and financial condition at the date this Report is being filed are very different from what they were at December 31, 2006.

PART I

Item 1. BUSINESS

Except as expressly indicated or unless the context otherwise requires, the Company, MuniMae, we, our or us m Municipal Mortgage & Equity, LLC, a Delaware limited liability company, and its majority owned subsidiaries.

Although this Report is for the year ended December 31, 2006, unless otherwise noted, the description below is of our business as it exists on the date of this Report.

Overview

We were organized in 1996 as a Delaware limited liability company and are classified as a partnership for federal income tax purposes. We have essentially the same limited liability, governance and management structures as a corporation, but we are treated as a pass-through entity for federal income tax purposes. Thus, our shareholders include their distributive shares of our income, deductions and credits on their tax returns. Among other things, this allows us to pass-through tax-exempt interest income to our shareholders. Many of our subsidiaries also are pass-through entities, and our taxable income, deductions and credits that are reflected on our shareholders tax returns include the income, deductions and credits of those subsidiaries. However, other of our subsidiaries are corporations that pay taxes on their own taxable income. Our income, deductions and credits that are reflected on our shareholders tax returns do not include the income of those subsidiaries, but include any taxable dividends or other taxable distributions we receive from them. Tax information is provided to our shareholders on Schedule K-1 rather than on Form 1099.

We have been severely affected by market conditions since late 2007. Because of these market conditions, many of the entities that in the past have been principal investors in funds we form were not interested in investing in 2008 (and continue not to be interested in investing in early 2009). That forced us to curtail many of our activities. It also deprived us of access to funds we had expected would be used to meet investment commitments we had made. Our access to funds was also reduced when markets for securitized financial assets essentially shut down beginning in the fall of 2007. Then, because of a sharp decline in the market value of both our tax-exempt debt securities and our interest rate hedges in February 2008 and subsequent months, we were required to post substantial amounts of additional collateral, including cash, to meet our collateral requirements. The combination of these factors led us to have serious liquidity problems during most of the second, third and fourth quarters of 2008, which continues into 2009. That, in turn, led us to curtail many of our operations, to engage in the sale of certain of our business segments and to sell assets at distressed prices, in many instances, for less than the amounts of the borrowings they secured. Because of our failure to provide consolidated financial statements to our lenders when required by applicable loan documents or to make periodic filings with the SEC when they are due, many of our lenders have the right to exercise default remedies which would allow them to demand repayment of our indebtedness or that we post additional collateral. We have little or no available funds or assets to post as collateral or with which to repay borrowings. These circumstances have led our independent registered public accounting firm to include in its February 11, 2009 auditors report, an explanatory paragraph stating that there is substantial doubt relating to our ability to continue as a going concern. Although we have been selling assets in order to meet our liquidity needs, (see Recent and Proposed Transactions and Termination of a Business and Notes to Consolidated Financial Statements-Note 21, Liquidity and Going Concern Uncertainty), we continue to have liquidity problems. The description of our business in this Report must be read with that in mind.

Our business consists primarily of activities involving investments and financings secured by, or otherwise related to, multifamily or commercial real estate, the majority of which generates tax-exempt income, tax credits or other tax benefits for investors. We have also been engaged in the financing of renewable energy generation projects, which also generates tax credits and other tax benefits for investors. In addition, we have, until very recently, provided investment management services to a limited number of institutional investors. Generally we invest for our own account by acquiring tax-exempt bonds secured by low income housing projects, in which we may have a very small equity investment through funds we sponsor and manage on

behalf of institutional investors (**Low Income Housing Tax Credit Equity Funds** or **LIHTC Funds**). We also originate loans for our own account and for sale to others. The majority of our loan business is related to construction loans on multifamily projects that we hold until construction completion and then we provide permanent financing on these projects. Generally these permanent loans are sold to government sponsored enterprises (**GSEs**), primarily Federal National Mortgage Association (**Fannie Mae**) and Federal Home Loan Mortgage Corporation (**Freddie Mac**), or are insured by the U.S. Department of Housing and Urban Development (**HUD**) and sold to investors as securitized mortgage backed securities after they are guaranteed by the government agency Government National Mortgage Association (**Ginnie Mae**). After the sale we continue to service these loans, earning loan servicing fees over the life of the loan. At December 31, 2008 total loans that we serviced related to these GSEs and agencies was $6.9 billion. We also distribute and place commercial real estate loans into funds we manage for institutional investors, although we may hold these loans for short periods of time until they are placed in a fund. At December 31, 2008 we had approximately $2.5 billion in investments we directly owned, although some of these were to be held by us only for a short period of time until they were placed into a fund or sold. However, most of our activities have involved investments by funds we sponsor and manage. These funds are normally limited partnerships of which one of our subsidiaries is the general partner or limited liability companies of which one of our subsidiaries is the managing member. At December 31, 2008, funds or other entities we managed owned investment assets with unpaid principal balances and outstanding equity totaling $10.8 billion, the majority of which is related to the LIHTC Funds. Normally, we have taken small ownership interests in funds we manage and we have received fees for forming and managing the funds, as well as for finding, arranging and servicing investments for the funds. Typically, a small number of financial institutions or large companies have invested in funds we formed. However, in some instances a single investor has acquired the entire interest in a fund, other than our small interest as the general partner or manager. In addition, we have been managing investment pools for a number of pension funds and insurance companies. However, outside of our LIHTC Funds, most of our arrangements to manage assets for unrelated institutional investors have been, or are in the process of being, terminated.

There is a significant difference between the assets and liabilities reflected on our consolidated balance sheet prepared under U.S. generally accepted accounting principals (**GAAP**) and those assets that we view as legally owned by us or liabilities we are directly obligated on. Our December 31, 2006 consolidated balance sheet reflected consolidated total assets of $8.5 billion and consolidated shareholders equity of $667.9 million. However, our December 31, 2006 consolidated balance sheet included $4.9 billion of assets and $2.0 billion of liabilities of over 200 funds and partnerships in which we (MuniMae and its majority owned subsidiaries) had little or no ownership interest, but the assets and liabilities of which are required to be consolidated primarily due to FIN 46(R). Although it would not be in accordance with GAAP to exclude the impact of these consolidated funds and ventures from our consolidated financial statements, information that excludes these funds and ventures helps our management, and we believe will help investors, to understand which assets MuniMae has a direct or indirect economic interest in, and the liabilities that MuniMae or entities it owns could be required to pay. Without the assets and liabilities of these consolidated funds and ventures, (but including assets that were eliminated as part of the consolidation) MuniMae and its owned subsidiaries had at December 31, 2006, total assets of $3.9 billion and $3.2 billion in total liabilities, including perpetual preferred stock of a subsidiary. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Summary of GAAP-adjusted Results.

The consolidation of these entities also affects our reported revenues, because certain fees and other payments received from such consolidated entities are not reflected as revenues but are reflected as income allocated to us in the consolidated statement of operations. We must also record losses related to these entities even though the Company itself has no expectation to fund those losses, other than possible losses related to the actual investments we may already have in those entities. We have recorded cumulative pre-tax losses related to these entities totaling approximately $90.0 million through December 31, 2006. The majority of these losses would be reversed upon a qualifying sale of our interests that would allow us to deconsolidate these entities. However, that may not occur for a substantial period of time, if at all, because some of the interests are held to protect tax-exempt bonds we hold or to

protect the LIHTC Funds investments in these entities, and, indirectly, our guarantee of the yields of some LIHTC Funds.

Our principal offices are located at 621 E. Pratt Street, Suite 300, Baltimore, MD 21202. Our telephone number at those offices is (443) 263-2900. Our corporate website is located at *http://www.munimae.com,* and our filings under the Securities Exchange Act of 1934 are available through that site, as well as on the SEC s website *http://www.sec.gov.* The information contained on our corporate website is not a part of this Report.

Effect of Current Market Conditions on Us

Beginning early in 2008, there was a major deterioration in the market for low income housing tax credits, tax-exempt bonds and other assets that are a major part of our business. This, combined with the factors that have affected credit markets and financial institutions throughout the nation, had a severe effect upon us during 2008, causing us to have to curtail significant aspects of our business and to sell assets at substantial losses to obtain funds to meet our commitments or to satisfy lenders. The values at which our assets are reflected in the financial statements at December 31, 2006 and prior years does not reflect these losses or reductions in the market values of those assets due to the deterioration in credit markets and other changes in market conditions in late 2007 and 2008. As a result of these on-going market conditions, we anticipate that our 2007 and 2008 financial statements will include substantial losses related to the deterioration in the market value of our bond portfolio and impairments to the value of loans and other assets, including goodwill and other intangibles related to acquisitions of businesses in prior years. The 2007 and 2008 financial statements will also include the impact of reduced revenues due to market conditions in 2007 and 2008, and additional costs related to the development and application of our accounting policies, the preparation and audit of our financial statements and on-going maintenance of our accounting and finance functions. Therefore there will be a substantial reduction in our net worth from what is presented in our December 31, 2006 consolidated balance sheet.

Some of the specific ways in which we were affected by conditions in credit markets generally and in our businesses specifically were as follows:

There was a major reduction in the willingness of the institutions that in the past had been investors in the funds we manage or lenders to those funds to invest in new investment funds or to provide financing to new investment funds.

We, like many companies, encountered increasing efforts by banks and other lenders to reduce their outstanding loans and loan commitments. Among other things, we were required to pay down or replace several short-term warehouse lines we used to accumulate certain types of assets until we could securitize or otherwise sell them, resulting in a net contraction in our warehouse borrowing capacity. As a result of the contraction of the warehouse borrowing capacity related to our Tax Credit Equity segment, during 2008 we had to sell assets into unfavorable markets, resulting in significant realized and expected losses.

Since the fall of 2007, there have been very few buyers of newly securitized tax-exempt bonds, and what buyers there are have required yields that make it unprofitable for us to securitize bonds. Therefore, we stopped using securitization as a source of financing. In substantial part because of that, we ceased originating tax-exempt bonds.

Due to a market anomaly that had led to a significant decline in the value both of our portfolio of state housing agency tax-exempt bonds and the interest rate swaps we had bought to hedge against such a decline, we were required to post $41.9 million of cash margin collateral between January 1, 2008 and early March 2008 (in addition to $13.0 million we had previously posted). In addition, we entered into collateral pledge arrangements in March 2008 whereby, we pledged our 100% common stock ownership interest in TE Bond Sub, a wholly owned subsidiary holding the majority of our tax-exempt bonds, to Merrill Lynch Capital Services, Inc. (**Merrill Lynch**), our principal margin lender, to reduce our margin call risk by providing Merrill Lynch with additional margin call collateral for a portion of our portfolio and for other obligations related to

our Tax Credit Equity business segment and our Merchant Banking business segment. Since March 2008, we have been liquidating assets and hedges that were the primary reasons for the collateral postings. At December 31, 2008 we did not have any liquid margin collateral posted for our portfolio of state housing agency tax-exempt bonds and related interest rate swaps; however, we still had our TE Bond Sub stock pledged to them. Merrill

Lynch is able to exercise their discretion in determining the value of TE Bond Sub s common stock as collateral, which may result in valuations that could require additional collateral pledges.

During 2008, in an effort to reduce our exposure to future margin calls and in an effort to recoup some or all of the cash margin collateral we had posted, we sold approximately $412.5 million of our state housing agency tax-exempt bonds for approximately $45.1 million less than we had paid for them and we lost another $12.3 million in liquidating hedging transactions that were designed to hedge our exposure to declines in value of the tax-exempt bonds. These losses consumed most of the cash margin collateral we had posted in and before early March 2008.

The overall credit risk on our tax-exempt bond portfolio has improved between December 31, 2007 and December 31, 2008 as we have made strategic sales of some of our underperforming bonds. The underlying collateral of the bond portfolio, which is primarily affordable housing properties, continues to perform well even in light of this difficult economic environment. Our overall December 31, 2008 credit risk on our loan portfolio reflects deterioration from December 31, 2007. As a result, we have had and probably will continue to have increases in our loan loss reserves and impairment charges related to this loan portfolio, of which, the unpaid principal balance was approximately $577.3 million at December 31, 2008.

We have encountered a significant need for cash so that we could fund construction loan commitments we had made, meet our lenders need for us to reduce our exposure to them, and meet operating expenses, including the costs of developing and applying our accounting policies and preparing and auditing our financial statements for 2006 and our restated financial statements for 2005 and 2004. In order to satisfy our cash needs, we have had to sell assets, including both tax-exempt bonds and segments of our businesses, into very unfavorable markets.

Currently, we are facing a significant shortage of liquid assets. The risks caused by this shortage are described under Item 1A. Risk Factors We have been forced to sell assets to raise funds we need to meet our cash needs and Risk Factors If we were forced to sell all our pledged assets, the total sales price might not be sufficient to enable us to repay all our borrowings. In addition, the fact that we do not have financial statements for any periods after December 31, 2006 is a default under many of our borrowing facilities and, in the absence of forbearance agreements, gives the lenders the right to require us to repay the sums we have borrowed, and if all of these loan amounts were currently declared due and payable, we would not have available resources sufficient to satisfy all of such loan amounts. This led our registered public accounting firm, KPMG, to include in its February 11, 2009 opinion regarding our financial statements an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern.

The Evolution of Our Business

When we became a public company in 1996, we were primarily engaged in originating, investing in and servicing tax-exempt mortgage revenue bonds issued by state and local government authorities to finance affordable multifamily housing developments. Since becoming a public company, the following acquisitions have significantly expanded our business; however, in 2008, due to current market conditions, we began contracting our business (see Recent and Proposed Transactions and Termination of a Business for further details):

In October 1999, we acquired Midland Financial Holdings, Inc., primarily a delegated underwriter and servicer for Fannie Mae, a tax credit syndicator and an asset manager, in a strategic acquisition that diversified our operations.

In July 2003, we acquired the Housing and Community Investment business (**HCI**) of Lend Lease Real Estate Investments, Inc., formerly the tax credit equity syndication division of Boston Financial Group, in a strategic acquisition that established us as a market leader in the tax credit equity syndication business.

In February 2005, we acquired MONY Realty Capital, Inc. (**MONY**) from AXA Financial, Inc., (**AXA**) formerly the investment manager for several of MONY Life Insurance Company s

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commercial real estate funds, in an acquisition that expanded our fund management business and brought us into the commercial real estate market with access to institutional investors.

In July 2005, we acquired Glaser Financial Group, Inc., (**Glaser**) a commercial mortgage lender for market rate multifamily and senior housing, in an acquisition that increased our access to lending transactions, geographically expanded our operations and further diversified our activities not related to affordable housing.

Beginning in December 2005, we reorganized our operations into an affordable housing business unit and a real estate finance business unit to:

better align our internal structure with our customer base;

expand our business opportunities and capital relationships; and

further consolidate our infrastructure to realize operational synergies and efficiencies to better support our strategic initiatives.

In May 2006, we acquired Reventures Management Company, LLC, a company that arranges financing for, and which develops, owns and operates renewable energy (e.g., solar energy, wind power and biomass) projects. This brought us into the renewable energy finance and development area.

In 2007, we acquired several new lines of business including the George Elkins Mortgage Banking brokerage business and the Sustainable Land Fund, a company that was formed to structure and manage investments in land with environmental attributes such as wetlands, as well as making additional investments in an international housing joint venture.

Historically, a significant portion of our income distributed to our shareholders has been tax-exempt. That is because we and many of our subsidiaries are treated as pass-through entities for federal income tax purposes, and therefore, our shareholders include their distributive shares of our income, deductions and credits, including our tax-exempt interest income and our tax credits, on their tax returns. However, certain aspects of our business are intended to generate taxable income through corporations that are themselves taxpayers, so only proceeds of dividends and interest we receive from them are taxable to our shareholders. During recent years, our business had increasingly involved activities that generated taxable income, and therefore the percentage of the distributions we made that was taxable to our shareholders was increasing. Then, in 2008, we incurred (and we passed onto our shareholders) capital losses for tax purposes due to bond sales and closing-out many of our derivative positions, income from tax-exempt interest and some taxable interest income. In May 2008, we suspended our long practice of paying quarterly dividends. However, despite the fact that we have suspended paying dividends, to the extent the activities we conduct through entities that are pass-through entities for federal income tax purposes generate taxable income, our shareholders will have to pay taxes on the portions of that taxable income that are allocable to their shareholdings. However, based on the share price paid by each investor, certain investors may have capital gains allocated to them.

Recent and Proposed Transactions and Termination of a Business

Agreement to sell Agency loan origination and servicing business

In December 2008, we agreed to sell our business of originating loans for sale to GSEs and servicing those loans to a newly formed subsidiary of Mud Duck Equities, LLC (**Mud Duck**). At the same time, we borrowed $10.0 million from the Mud Duck subsidiary for one year, at an interest rate of 20% per annum. In February 2009, we amended the transaction terms, and increased the sum we borrowed to $15.0 million. The total sale price will be $70.5 million, of

which $23.5 million will be paid partly by return of the note evidencing the $15.0 million loan and the balance in cash, and the remaining $47.0 million will be treated as a contribution to the purchaser in exchange for which we will receive $15.0 million of Series A Preferred units, which will entitle us to cumulative quarterly cash distributions at the rate of 17.5% per year, $15.0 million of Series B Preferred units, which will entitle us to cumulative quarterly cash distributions at the rate of 14.5% per year, and $17.0 million of Series C Preferred units, which will entitle us to cumulative quarterly cash distributions at the rate of 11.5% per year. All three series of Preferred units are redeemable at the option of the purchaser (but not

at our option) for their liquidation preference plus any unpaid distributions. We have agreed to reimburse the purchaser, up to a maximum of $30.0 million, for payments the purchaser may be required to make under loss sharing arrangements with Fannie Mae and other government sponsored enterprises or agencies with regard to loans we sold them. During the first four years after the closing, this reimbursement obligation (and some other possible indemnifications) will be satisfied by cancellation of Series C Preferred units and then Series B Preferred units. We will have the right to sell or pledge the Preferred units, but for four years any sale of the Series B or Series C Preferred units will be subject to the possibility that they will be cancelled to satisfy our reimbursement obligations. The transaction is subject to, among other things, approval by the government sponsored enterprises or agencies to which we sell loans we originate or which insure loans we originate.

Sale of renewable energy business

On April 1, 2009, we sold substantially all the assets of our Renewable Energy business to a subsidiary of Fotowatio S.L. for $19.7 million (subject to possible adjustment), of which $1.5 million was paid when the Purchase Agreement was signed, $13.6 million was paid at the April 1, 2009 closing, and the remainder, net of a reduction because we elected to retain a biomass facility was paid at a second closing on April 15, 2009. The sale did not include our interests in two solar energy investment funds we had sponsored.

Possible sale of tax credit equity business

We have engaged in discussions with a possible purchaser of our tax credit equity business. However, no transaction has been agreed upon.

Sale of recently acquired businesses

We disposed of our Sustainable Land Fund and our George Elkins Mortgage Banking businesses in late 2008 for essentially no consideration.

Termination of asset management business

In late 2008 and early 2009, we terminated substantially all of our Real Estate division s business of providing asset management services to institutional investors.

What will remain

If we complete the sales of our Agency Lending business and our Tax Credit Equity business, our only significant remaining activities will be owning and managing portfolios of tax-exempt and market rate bonds and loans. This will enable us to reduce significantly the number of people we employ (in addition to the personnel of the businesses we sell who become employees of the buyers or whose services are no longer required because we do not operate those businesses).

Our Business

As described under Recent and Proposed Transactions, we are in the process of selling two, and possibly three, aspects of our Business. If those transactions all take place, they will significantly alter the nature of our Business and substantially reduce both our assets and our revenues. The description below is of our business as it exists in April 2009, without giving effect to those transactions.

Until 2008, we and our subsidiaries were primarily involved in arranging and providing debt and equity financing for developers and owners of multifamily and commercial real estate and clean energy projects. Prior to 2008, we would find what we believed were attractive investment opportunities and investors (including ourselves) who were interested in those opportunities. During 2008 and the first part of 2009, we have been unable to form new funds, and in good part our business activities have been limited to providing multifamily loans in our business of originating mortgage loans for sale to, and servicing loans for, government sponsored enterprises and agencies, and new solar projects in our renewable ventures business (although even this aspect of our business was substantially reduced during 2008). We also have provided

investment management and advisory services for institutional investors, but this activity is in the process of being discontinued.

We generate income primarily through returns on financing we provide, and through fees and distributions from funds and other investment entities we manage.

We operate through three primary divisions. They are:

Our affordable housing division, which conducts activities related to affordable housing. Our affordable housing division is further subdivided into three reportable segments:

Tax Credit Equity, which creates investment funds, and finds investors for such funds, that receive tax credits for investing in affordable housing partnerships (referred to as syndication of low income housing tax credits) we are actively seeking a buyer of this business, but do not have an agreement to sell it;

Affordable Bonds, which originates, and invests in, tax-exempt bonds secured by affordable housing; and

Affordable Debt, which originates and invests in loans secured by affordable housing.

Our real estate division conducts real estate finance activities. We manage the activities of this division through two reportable segments:

Agency Lending, which originates both market rate and affordable housing multifamily loans with the intention of selling them to GSEs, including Fannie Mae and Freddie Mac, or through programs created by them, or sells the permanent loans to third party investors as securitized mortgage backed securities guaranteed by Ginnie Mae and insured by HUD. In December 2008, we signed a contract to sell this aspect of our business; and

Merchant Banking, which provides loan and bond originations and loan servicing and has been providing asset management, investment advisory and other services to institutional investors that finance or invest in various commercial real estate projects. In some cases we have originated commercial real estate loans for our own investment purposes. In late 2008 and early 2009 we ceased providing investment advisory services to institutional investors.

Our renewable ventures division, which finances, owns and operates renewable energy and energy efficiency projects. It is managed as a reportable segment of its own. On February 26, 2009, we signed a contract to sell substantially all of this business.

Beginning at the end of 2007, there was a major reduction in the willingness of the institutions that in the past had been investors in the funds we manage or lenders to those funds to invest in new investment funds or to provide financing to new investment funds. In addition, we, like many companies, were encountering increasing efforts by banks and other credit providers to reduce their outstanding loans, loan commitments and credit exposure to us. Further, since the fall of 2007, there have been fewer and fewer buyers of newly securitized bonds, and what buyers there are have been requiring yields that made it unprofitable for us to securitize the bonds we originate. Therefore, we have had to stop using securitization as a source of financing. Then, beginning early in 2008, there was a major deterioration in the market for tax-exempt bonds and other instruments that are a major part of our assets.

In response to these conditions, during the first quarter of 2008, we substantially reduced all our new business activities other than origination of mortgage loans for sale to Fannie Mae and Freddie Mac or to purchasers of

government guaranteed loans, activities related to renewable energy generation and the start up of an international housing fund. Subsequently, we reduced the rate at which we were investing in renewable energy projects, partly because of the lack of adequate capital to invest and partly because of a delay by Congress in finalizing legislation extending various energy related tax credits that were scheduled to reduce at the end of 2008 (but were finally extended late in 2008). In addition, as the market prices of the bonds we owned and hedges we held against certain bonds declined, our creditors began to require us to post additional collateral.

The effects of current market conditions on us and the steps we have taken or have been forced to take as a result of them is discussed in greater detail under the caption Effects of Current Market Conditions on Us.

Affordable Housing Division

Affordable housing typically refers to multifamily apartment developments with below market rents that are intended to be affordable to lower income families (typically families earning 60% or less of the area median income). In most instances, the owners of the affordable housing projects are entitled to special federal income tax benefits, and in some instances state and local tax benefits, to help defray development and operating costs and therefore make possible below market rents. In order to qualify for special federal income tax benefits, at least a specified portion of the units in a project must be set aside to be rented to lower income families. While most of our affordable housing related activities involve investments that entitle the holders to special tax benefits, we also are involved with some investments in affordable housing that do not provide special tax benefits. A significant portion of our revenues from our affordable housing division comes from interest on debt instruments we hold (including interests in tax-exempt bonds) or proceeds of sales of debt instruments or of equity interests in affordable housing related entities. However, a large portion of our revenues related to affordable housing projects comes from fees, including:

- origination fees;
- construction administration fees;
- servicing fees;
- syndication fees;
- asset management fees, and
- guarantee fees

Asset management and guarantee fees paid by funds that are consolidated are eliminated in consolidation, as they represent an expense to the LIHTC Funds, and revenue to us. However, these amounts are included as a component of the GAAP net income (loss) that results from the consolidation of these funds.

Tax Credit Equity Segment

Normally, the developer of an affordable housing development prefers to sell the tax credits related to the development rather than using them itself. To make this possible, the developer usually forms a limited partnership (**Lower Tier Property Partnership**) to develop or hold and operate the affordable housing project and then sells the limited partnership interests in the Lower Tier Property Partnership to investors who want to benefit from the partnership s low income housing tax credits. We syndicate tax credits by forming LIHTC Funds that purchase directly or indirectly the limited partnership interests in multiple Lower Tier Property Partnerships. We attract capital from institutional investors which will comprise virtually all of the equity of the LIHTC Funds, and the LIHTC Funds use this capital, and sometimes interim debt financing (that we provided in some cases), to purchase the limited partner interests in the Lower Tier Property Partnerships. Because both the Lower Tier Property Partnerships and the LIHTC Funds (as well as any intermediate entities) are pass-through entities for federal income tax purposes, the equity owners of the LIHTC Funds receive the tax benefit of the credits generated by the Lower Tier Property Partnerships. We are the general partner of, and manage, the LIHTC Funds, and usually have an interest of between 0.01% and 1.0% in each of them. Investors in the LIHTC Funds typically have been large financial institutions, including certain GSEs, as well as banks and insurance companies. At December 31, 2008, we were managing 129 LIHTC Funds that

held limited partner interests in 1,673 Lower Tier Property Partnerships.

In almost all instances, when a Lower Tier Property Partnership is formed, the developer is the general partner of the limited partnership. However, in some instances in which the Lower Tier Property Partnership is suffering from financial or operating challenges, we form a subsidiary which takes over the general partner role (**GP Take Backs**). Generally, when this occurs we consolidate these entities under FIN 46(R).

Within the Tax Credit Equity segment, we provided two general types of guarantees: (1) either single investor or multi-investor LIHTC Fund level guarantees where MuniMae, directly and indirectly, guaranteed the investor s return on investment (**guaranteed funds**); and (2) individual indemnifications to specific investors in non-guaranteed LIHTC Funds related to the performance of specific Lower Tier Property Partnerships.

In late 2007 and early 2008, several of the entities that historically had been the principal investors in the LIHTC Funds we form indicated that during all or most of 2008, they would not be making investments in order to obtain the benefit of low income housing tax credits. This made it impracticable for us to try to form new LIHTC Funds, and therefore early in 2008 we suspended our efforts to form new LIHTC Funds or to invest in Lower Tier Property Partnerships for LIHTC Funds until we see an improvement in this market. In addition, because we frequently committed to purchase equity interests in Lower Tier Property Partnerships so those interests would be available for new LIHTC Funds we expected to form, the inability to form LIHTC Funds left us with equity purchase commitments we had to fund ourselves. We have had difficulty obtaining the capital needed to meet those commitments, and in some instances have not been timely in meeting them, which could put us in breach of our commitments.

In late 2008, we began to actively seek a purchaser of our Tax Credit Equity business.

Affordable Bond Segment

We originate and purchase private placement tax-exempt bonds issued by agencies of state or local governments to finance affordable housing projects. Typically, these bonds are secured by mortgages on the real estate to which they relate, but are not supported by governmental taxing power.

Until the fall of 2007, we financed our investments in these bonds by selling them individually or as portfolios into securitization trusts from which senior and junior interests were issued. The senior interests were sold to investors, and we retained the junior interests. To increase the creditworthiness of the interests in these trusts, we, in most instances, caused the bonds held in the trusts to be guaranteed by entities with very high credit ratings, including, in some instances, the GSEs. The junior interests we retained entitle us to the residual payments after all fees and expenses, and all principal and interest due with regard to the senior interests, have been paid. Since the fall of 2007, the market for interests in these types of bond pools has dried up and therefore, we have been unable to finance our investments in this manner. Early in 2008, we suspended until markets return to normal acquiring bonds of this type or entering into new funding commitments.

In April 2006, we began investing in highly rated state housing agency tax-exempt bonds. Due to a decrease in demand as a result of adverse capital market conditions, we stopped all acquisition activity related to these types of bonds in the fall of 2007 and during 2008 we liquidated nearly all of our positions in them, usually at a loss and frequently for less than the amounts we had borrowed to acquire the bonds.

Affordable Debt Segment

We provide construction and permanent financing to developers of affordable housing projects. We convert our construction loans into permanent mortgage loans, which we either retain or sell. Frequently we arrange for Fannie Mae or Freddie Mac to purchase the permanent debt financing.

As of December 31, 2008, we had an outstanding balance of loans to developers of affordable housing totaling $143.0 million.

Real Estate Division

We have originated mortgage loans secured by market rate multifamily apartment properties and other commercial properties built by a wide variety of developers. A small portion of these loans have been in the form of purchases of tax-exempt debt instruments issued by state or local government agencies to finance infrastructure or other projects. However, in most instances, we have made taxable mortgage loans to entities formed by developers of conventional multifamily or commercial properties, which have been secured by the real estate and sometimes, but not always, were guaranteed by the developers. Usually, we have retained construction period loans until projects are completed, at which time we have arranged funds to provide the

permanent financing or we originate and sell the permanent loans to GSEs (i.e., Fannie Mae and Freddie Mac) or programs created by them. At December 31, 2008, we owned market rate commercial mortgage loans with an unpaid principal balance of approximately $383.3 million, of which approximately 75.5% were senior mortgage loans and approximately 24.5% were subordinated mortgage loans.

The sources of our revenues from real estate finance not involving affordable housing are:

- net interest income on loans we own;
- proceeds of sales of loans to GSEs and other institutional investors;
- origination fees;
- asset management fees;
- servicing fees; and
- fees for miscellaneous services.

A more detailed description of our market rate commercial real estate finance activities is as follows:

Agency Lending Segment

We originate multifamily housing loans with the intention of selling them to GSEs. We are an approved seller and servicer of Ginnie Mae mortgage-backed securities, an approved seller and servicer of Fannie Mae Delegated Underwriting and Servicing (**DUS**) Loans, and an approved seller and servicer of Freddie Mac mortgage loans. We are also a Federal Housing Administration (**FHA**)/HUD Multifamily Accelerated Processing approved lender, and a FHA Traditional Application Processing Lender.

Loans we originate in connection with these programs must be underwritten and structured in accordance with financial requirements established by the GSEs to which we expect to sell particular loans or the government agencies which we expect will credit enhance the loans. In addition, we are required to maintain minimum net worth, liquidity and insurance coverage. Because the GSEs are secondary market purchasers, we cannot sell loans to the GSEs until we have held them for a period of time. Typically, we hold loans for less than 60 days before selling them to the GSEs. In addition Fannie Mae requires us to bear up to 20% (and in some instances an even higher percentage) of the losses on loans we sell to it, based on various loss sharing formulae. We also have loss sharing arrangements with Freddie Mac. When we sell loans to the GSEs, we retain the right to service them, for which we receive fees.

Although we curtailed many of our activities during 2008, we did not curtail this aspect of our businesses. However, in December 2008, due to liquidity needs, we agreed to sell this aspect of our business, and we expect to complete that sale during the second quarter of 2009. See Item 1. Business Recent and Proposed Transactions.

Merchant Banking Segment

Prior to 2008, we made construction, interim and permanent loans to developers of multifamily and commercial real estate projects that do not entitle holders to any special tax benefits. The loans were typically secured by mortgages on the properties to which they relate and sometimes were guaranteed by the developers. Sometimes we retained these loans as investments and sometimes we securitized them or we sold them to investment funds we sponsored and managed. When we retain loans, we typically borrow most of the funds we loan to the developers, and make most of

our profit from the amount by which the interest on our loans to the developers exceeds the interest we pay for the sums we borrow.

1,279

1,275

Other Assets
588

578

$
38,703

$
38,881

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Short-term borrowings
$
169

$
457

Current portion of long-term debt
1,127

640

Accounts payable
669

713

Accrued liabilities and other

1,766

1,740

Customer deposits
3,734

3,522

Total current liabilities
7,465

7,072

Long-Term Debt
7,796

8,302

Other Long-Term Liabilities
782

910

Contingencies

Shareholders’ Equity

Common stock of Carnival Corporation, $0.01 par value; 1,960 shares authorized; 655 shares at 2017 and 654 shares at 2016 issued
7

7

Ordinary shares of Carnival plc, $1.66 par value; 217 shares at 2017 and 2016 issued
358

358

Additional paid-in capital

8,660

8,632

Retained earnings
21,939

21,843

Accumulated other comprehensive loss
(2,440
)

(2,454
)
Treasury stock, 118 shares at 2017 and 2016 of Carnival Corporation and 28 shares at 2017 and 27 shares at 2016 of Carnival plc, at cost
(5,864
)

(5,789
)
Total shareholders’ equity
22,660

22,597

$
38,703

$
38,881

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

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

	Three Months Ended February 28/29,	
	2017	2016
OPERATING ACTIVITIES		
Net income	$352	$142
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	439	423
(Gains) losses on fuel derivatives, net	(27)	236
Share-based compensation	20	16
Other, net	20	9
	804	826
Changes in operating assets and liabilities		
Receivables	(2)	(18)
Inventories	(35)	(4)
Insurance recoverables, prepaid expenses and other	(10)	(12)
Accounts payable	(47)	(7)
Accrued and other liabilities	3	(75)
Customer deposits	219	88
Net cash provided by operating activities	932	798
INVESTING ACTIVITIES		
Additions to property and equipment	(412)	(330)
Payments of fuel derivative settlements	(52)	(88)
Collateral payments for fuel derivatives	—	(57)
Other, net	(10)	16
Net cash used in investing activities	(474)	(459)
FINANCING ACTIVITIES		
(Repayments of) proceeds from short-term borrowings, net	(289)	235
Principal repayments of long-term debt	(101)	(628)
Proceeds from issuance of long-term debt	100	555
Dividends paid	(254)	(232)
Purchases of treasury stock	(69)	(916)
Sales of treasury stock	—	40
Other, net	(2)	(1)
Net cash used in financing activities	(615)	(947)
Effect of exchange rate changes on cash and cash equivalents	(9)	(9)
Net decrease in cash and cash equivalents	(166)	(617)
Cash and cash equivalents at beginning of period	603	1,395
Cash and cash equivalents at end of period	$437	$778

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 – General

The consolidated financial statements include the accounts of Carnival Corporation and Carnival plc and their respective subsidiaries. Together with their consolidated subsidiaries, they are referred to collectively in these consolidated financial statements and elsewhere in this joint Quarterly Report on Form 10-Q as "Carnival Corporation & plc," "our," "us" and "we."

Basis of Presentation

The Consolidated Balance Sheet at February 28, 2017, and the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income (Loss) and the Consolidated Statements of Cash Flows for the three months ended February 28/29, 2017 and 2016 are unaudited and, in the opinion of our management, contain all adjustments necessary for a fair statement. Our interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in the Carnival Corporation & plc 2016 joint Annual Report on Form 10-K ("Form 10-K") filed with the U.S. Securities and Exchange Commission on January 30, 2017. Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire year.

Accounting Pronouncements

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

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

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

The FASB issued amended guidance regarding accounting for Derivatives and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is required to be adopted by us in the first quarter of 2018 and can be applied on either a prospective or

modified retrospective basis. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

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

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The FASB issued guidance regarding Presentation of Financial Statements - Going Concern, which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued and to provide related disclosures. This guidance is required to be adopted by us in the first quarter of 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact to our consolidated financial statements.

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

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

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

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

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

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

Other

Cruise passenger ticket revenues include fees, taxes and charges collected by us from our guests. The portion of these fees, taxes and charges included in passenger ticket revenues and commissions, transportation and other costs were $143 million and $136 million for the three months ended February 28/29, 2017 and 2016, respectively.

NOTE 2 – Unsecured Debt

At February 28, 2017, our short-term borrowings consisted of euro-denominated commercial paper of $159 million and euro-denominated bank loans of $10 million with an aggregate weighted-average floating interest rate of (0.04)%.

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

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

For the three months ended February 28, 2017, we had borrowings of $111 million and repayments of $240 million of commercial paper with original maturities greater than three months.

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

NOTE 3 – Contingencies

Litigation

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

Contingent Obligations – Lease Out and Lease Back Type ("LILO") Transactions

At February 28, 2017, we had estimated contingent obligations totaling $121 million. At the inception of the lease, we paid the aggregate of the net present value of the obligation to a group of major financial institutions, who agreed to act as payment undertakers and directly pay these obligations. As a result, these contingent obligations are considered extinguished and neither the funds nor the contingent obligations have been included in our Consolidated Balance Sheets. In January 2016, we exercised our option to terminate, at no cost, this transaction as of January 2, 2018.

Contingent Obligations – Indemnifications

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

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

Fair Value Measurements

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

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

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

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

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

	February 28, 2017				November 30, 2016			
	Carrying Value	Fair Value			Carrying Value	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets								
Long-term other assets (a)	$111	$—	$64	$ 46	$99	$1	$68	$ 31
Total	$111	$—	$64	$ 46	$99	$1	$68	$ 31
Liabilities								
Fixed rate debt (b)	$5,370	$—	$5,660	$ —	$5,436	$—	$5,727	$ —
Floating rate debt (b)	3,773	—	3,816	—	4,018	—	4,048	—
Total	$9,143	$—	$9,476	$ —	$9,454	$—	$9,775	$ —

(a) Long-term other assets are substantially all comprised of notes and other receivables. The fair values of our Level 2 notes and other receivables were based on estimated future cash flows discounted at appropriate market interest rates. The fair values of our Level 3 notes receivable were estimated using risk-adjusted discount rates.

(b) The debt amounts above do not include the impact of interest rate swaps or debt issuance costs. The fair values of our publicly-traded notes were based on their unadjusted quoted market prices in markets that are not sufficiently active to be Level 1 and, accordingly, are considered Level 2. The fair values of our other debt were estimated based on appropriate market interest rates being applied to this debt.

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

Valuation of Goodwill and Other Intangibles

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

	North America Segment	EAA (a) Segment	Total
Balance at November 30, 2016	$ 1,898	$ 1,012	$2,910
Foreign currency translation adjustment	—	1	1
Balance at February 28, 2017	$ 1,898	$ 1,013	$2,911

(a) Europe, Australia & Asia (“EAA”)

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

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

	North America Segment	EAA Segment	Total
Balance at November 30, 2016	$ 927	$ 279	$1,206
Foreign currency translation adjustment	—	1	1
Balance at February 28, 2017	$ 927	$ 280	$1,207

At July 31, 2016, our cruise brands that have significant trademarks recorded include AIDA, P&O Cruises (Australia), P&O Cruises (UK) and Princess. As of that date, we performed our annual trademark impairment reviews for these cruise brands and no trademarks were impaired.

The determination of our reporting unit goodwill and trademark fair values includes numerous assumptions that are subject to various risks and uncertainties. We believe that we have made reasonable estimates and judgments. If there is a change in the conditions, circumstances or strategy influencing fair values in the future, then we may need to

recognize an impairment charge.

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The reconciliation of the changes in the net carrying amounts of our other intangible assets subject to amortization, which represent port usage rights and other amortizable intangibles, was as follows (in millions):

	Cruise Support Segment	EAA Segment	Tour and Other Segment	Total
Balance at November 30, 2016	$ 57	$ 12	$ —	$69
Additions	—	—	4	4
Amortization	(1)	—	—	(1)
Balance at February 28, 2017	$ 56	$ 12	$ 4	$72

Financial Instruments that are Measured at Fair Value on a Recurring Basis

The estimated fair value and basis of valuation of our financial instrument assets and liabilities measured at fair value on a recurring basis were as follows (in millions):

	February 28, 2017			November 30, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Cash and cash equivalents (a)	$437	$ —	$ —	$603	$ —	$ —
Restricted cash	53	—	—	60	—	—
Short-term investments (b)	—	—	—	—	—	21
Marketable securities held in rabbi trusts (c)	94	3	—	93	4	—
Derivative financial instruments	—	13	—	—	15	—
Total	$584	$ 16	$ —	$756	$ 19	$ 21
Liabilities						
Derivative financial instruments	$—	$ 321	$ —	$—	$ 434	$ —
Total	$—	$ 321	$ —	$—	$ 434	$ —

(a) Cash and cash equivalents are comprised of cash and marketable securities with maturities of less than 90 days.

(b) The fair value of the auction rate security included in short-term investments, as of November 30, 2016, was based on a broker quote in an inactive market, which is considered a Level 3 input. This auction-rate security was sold in December 2016.

(c) At February 28, 2017, marketable securities held in rabbi trusts were comprised of Level 1 bonds, frequently-priced mutual funds invested in common stocks and money market funds and Level 2 other investments. Their use is restricted to funding certain deferred compensation and non-qualified U.S. pension plans.

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Derivative Instruments and Hedging Activities

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

	Balance Sheet Location	February 28, 2017	November 30, 2016
Derivative assets			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Prepaid expenses and other	$ 9	$ 12
	Other assets – long-term	4	3
Total derivative assets		$ 13	$ 15
Derivative liabilities			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Accrued liabilities and other	$ —	$ 26
Interest rate swaps (b)	Accrued liabilities and other	10	10
	Other long-term liabilities	22	23
Foreign currency zero cost collars (c)	Accrued liabilities and other	6	12
	Other long-term liabilities	19	21
		57	92
Derivatives not designated as hedging instruments			
Fuel (d)	Accrued liabilities and other	161	198
	Other long-term liabilities	103	144
		264	342
Total derivative liabilities		$ 321	$ 434

(a) We had foreign currency forwards totaling $11 million at February 28, 2017 and $456 million at November 30, 2016 that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At February 28, 2017, these foreign currency forwards settle through July 2017. We also had foreign currency swaps totaling $289 million at February 28, 2017 and $291 million at November 30, 2016 that are designated as hedges of our net investments in foreign operations, which have a euro-denominated functional currency. At February 28, 2017, these foreign currency swaps settle through September 2019.

(b) We have euro interest rate swaps designated as cash flow hedges whereby we receive floating interest rate payments in exchange for making fixed interest rate payments. These interest rate swap agreements effectively changed $486 million at February 28, 2017 and $500 million at November 30, 2016 of EURIBOR-based floating rate euro debt to fixed rate euro debt. At February 28, 2017, these interest rate swaps settle through March 2025.

(c) At February 28, 2017 and November 30, 2016, we had foreign currency derivatives consisting of foreign currency zero cost collars that are designated as foreign currency cash flow hedges for a portion of our euro-denominated shipbuilding payments. See “Newbuild Currency Risks” below for additional information regarding these derivatives.

(d) At February 28, 2017 and November 30, 2016, we had fuel derivatives consisting of zero cost collars on Brent crude oil (“Brent”) to cover a portion of our estimated fuel consumption through 2018. See “Fuel Price Risks” below for additional information regarding these derivatives.

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Our derivative contracts include rights of offset with our counterparties. We have elected to net certain of our derivative assets and liabilities within counterparties. The amounts recognized within assets and liabilities were as follows (in millions):

	February 28, 2017				
	Gross Amounts	Gross Amounts Offset in the Balance Sheet	Total Net Amounts Presented in the Balance Sheet	Gross Amounts not Offset in the Balance Sheet	Net Amounts
Assets	$14	$ (1)	$ 13	$ (13)	$ —
Liabilities	$322	$ (1)	$ 321	$ (13)	$ 308

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

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

	Three Months Ended February 28/29,	
	2017	2016
Net investment hedges	$1	$(13)
Foreign currency zero cost collars – cash flow hedges	$8	$10
Interest rate swaps – cash flow hedges	$2	$(3)

There are no credit risk related contingent features in our derivative agreements, except for bilateral credit provisions within our fuel derivative counterparty agreements. These provisions require cash collateral to be posted or received to the extent the fuel derivative fair value payable to or receivable from an individual counterparty exceeds $100 million. At February 28, 2017 and November 30, 2016, no collateral was required to be posted to or received from our fuel derivative counterparties.

The amount of estimated cash flow hedges' unrealized gains and losses that are expected to be reclassified to earnings in the next twelve months is not significant. We have not provided additional disclosures of the impact that derivative instruments and hedging activities have on our consolidated financial statements as of February 28, 2017 and November 30, 2016 and for the three months ended February 28/29, 2017 and 2016 where such impacts were not significant.

Fuel Price Risks

Substantially all of our exposure to market risk for changes in fuel prices relates to the consumption of fuel on our ships. We have Brent call options and Brent put options, collectively referred to as zero cost collars, that establish

ceiling and floor prices and mitigate a portion of our economic risk attributable to potential fuel price increases. To maximize operational flexibility we utilized derivative markets with significant trading liquidity.

Our zero cost collars are based on Brent prices whereas the actual fuel used on our ships is marine fuel. Changes in the Brent prices may not show a high degree of correlation with changes in our underlying marine fuel prices. We will not realize any economic gain or loss upon the monthly maturities of our zero cost collars unless the average monthly price of Brent is above the ceiling price or below the floor price. We believe that these zero cost collars will act as economic hedges; however, hedge accounting is not applied.

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

	Three Months Ended February 28/29,	
	2017	2016
Unrealized gains (losses) on fuel derivatives, net	$72	$(145)
Realized losses on fuel derivatives, net	(45)	(91)
Gains (losses) on fuel derivatives, net	$27	$(236)

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At February 28, 2017, our outstanding fuel derivatives consisted of zero cost collars on Brent as follows:

Maturities (a)	Transaction Dates	Barrels (in thousands)	Weighted-Average Floor Prices	Weighted-Average Ceiling Prices
Fiscal 2017 (Q2 - Q4)				
	February 2013	2,457	$ 80	$ 115
	April 2013	1,521	$ 75	$ 110
	January 2014	1,350	$ 75	$ 114
	October 2014	765	$ 80	$ 113
		6,093		
Fiscal 2018				
	January 2014	2,700	$ 75	$ 110
	October 2014	3,000	$ 80	$ 114
		5,700		

(a) Fuel derivatives mature evenly over each month within the above fiscal periods.

Foreign Currency Exchange Rate Risks

Overall Strategy

We manage our exposure to fluctuations in foreign currency exchange rates through our normal operating and financing activities, including netting certain exposures to take advantage of any natural offsets and, when considered appropriate, through the use of derivative and non-derivative financial instruments. Our primary focus is to monitor our exposure to, and manage, the economic foreign currency exchange risks faced by our operations and realized if we exchange one currency for another. We currently only hedge certain of our ship commitments and net investments in foreign operations. The financial impacts of the hedging instruments we do employ generally offset the changes in the underlying exposures being hedged.

Operational Currency Risks

Our EAA segment operations generate significant revenues and incur significant expenses in their functional currencies, which subjects us to “foreign currency translational” risk related to these currencies. Accordingly, exchange rate fluctuations in their functional currencies against the U.S. dollar will affect our reported financial results since the reporting currency for our consolidated financial statements is the U.S. dollar. Any strengthening of the U.S. dollar against these foreign currencies has the financial statement effect of decreasing the U.S. dollar values reported for these segment’s revenues and expenses. Any weakening of the U.S. dollar has the opposite effect.

Substantially all of our operations also have non-functional currency risk related to their international sales. In addition, we have a portion of our operating expenses denominated in non-functional currencies. Accordingly, we also have “foreign currency transactional” risks related to changes in the exchange rates for our revenues and expenses that are in a currency other than the functional currency. The revenues and expenses which occur in the same non-functional currencies create some degree of natural offset.

Investment Currency Risks

We consider our investments in foreign operations to be denominated in stable currencies. Our investments in foreign operations are of a long-term nature. We have $5.1 billion of euro-denominated debt, including the effect of foreign currency swaps, which provides an economic offset for our operations with euro functional currency. We also partially mitigate our net investment currency exposures by denominating a portion of our foreign currency intercompany payables in our foreign operations’ functional currencies.

Newbuild Currency Risks

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

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At February 28, 2017, we had foreign currency zero cost collars that are designated as cash flow hedges for a portion of euro-denominated shipyard payments for the following newbuilds:

	Entered Into	Matures in	Weighted-Average Floor Rate	Weighted-Average Ceiling Rate
Majestic Princess	2015	March 2017	$ 1.07	$ 1.25
Carnival Horizon	2016	March 2018	$ 1.02	$ 1.25
Seabourn Ovation	2016	April 2018	$ 1.02	$ 1.25
Holland America Nieuw Statendam	2016	November 2018	$ 1.05	$ 1.25

If the spot rate is between the weighted-average ceiling and floor rates on the date of maturity, then we would not owe or receive any payments under these collars.

At March 24, 2017, our remaining newbuild currency exchange rate risk primarily relates to euro-denominated newbuild contract payments, which represent a total unhedged commitment of $5.6 billion and substantially relates to newbuilds to be delivered 2019 through 2022 to non-euro functional currency brands.

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

Interest Rate Risks

We manage our exposure to fluctuations in interest rates through our debt portfolio management and investment strategies. We evaluate our debt portfolio to determine whether to make periodic adjustments to the mix of fixed and floating rate debt through the use of interest rate swaps and the issuance of new debt or the early retirement of existing debt.

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

	February 28, 2017	November 30, 2016
Fixed rate	29 %	28 %
Euro fixed rate	35 %	35 %
Floating rate	15 %	14 %
Euro floating rate	21 %	23 %

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Concentrations of Credit Risk

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

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

We currently believe the risk of nonperformance by any of our significant counterparties is remote. At February 28, 2017, our exposures under foreign currency and fuel derivative contracts and interest rate swap agreements were not material.

We also monitor the creditworthiness of travel agencies and tour operators in Asia, Australia and Europe, which includes charter-hire agreements in Asia, and credit and debit card providers to which we extend credit in the normal course of our business prior to sailing. Our credit exposure also includes contingent obligations related to cash payments received directly by travel agents and tour operators for cash collected by them on cruise sales in Australia and most of Europe where we are obligated to honor our guests' cruise payments made by them to their travel agents and tour operators regardless of whether we have received these payments. Concentrations of credit risk associated with these trade receivables, charter-hire agreements and contingent obligations are not considered to be material, principally due to the large number of unrelated accounts, the nature of these contingent obligations and their short maturities. We have not experienced significant credit losses on our trade receivables, charter-hire agreements and contingent obligations. We do not normally require collateral or other security to support normal credit sales.

NOTE 5 – Segment Information

We have four reportable segments that are comprised of (1) North America, (2) EAA, (3) Cruise Support and (4) Tour and Other. Our segments are reported on the same basis as the internally reported information that is provided to our chief operating decision maker ("CODM"), who is the President and Chief Executive Officer of Carnival Corporation and Carnival plc. The CODM assesses performance and makes decisions to allocate resources for Carnival Corporation & plc based upon review of the results across all of our segments.

Our North America segment includes Carnival Cruise Line, Holland America Line, Princess and Seabourn. Our EAA segment includes AIDA, Costa, Cunard, P&O Cruises (Australia) and P&O Cruises (UK). The operations of these reporting units have been aggregated into two reportable segments based on the similarity of their economic and other characteristics, including types of customers, regulatory environment, maintenance requirements, supporting systems and processes and products and services they provide. Our Cruise Support segment represents certain of our port and related facilities and other services that are provided for the benefit of our cruise brands.

Our Tour and Other segment represents the hotel and transportation operations of Holland America Princess Alaska Tours and other operations.

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Selected information for our segments was as follows (in millions):

	Three Months Ended February 28/29,				
	Revenues	Operating costs and expenses	Selling and administrative	Depreciation and amortization	Operating income (loss)
2017					
North America	$2,405	$ 1,470	$ 320	$ 273	$ 342
EAA	1,338	946	172	146	74
Cruise Support	39	6	55	11	(33)
Tour and Other	9	13	2	9	(15)
	$3,791	$ 2,435	$ 549	$ 439	$ 368
2016					
North America	$2,218	$ 1,315	$ 311	$ 255	$ 337
EAA	1,389	910	175	147	157
Cruise Support	34	5	63	11	(45)
Tour and Other	10	13	2	10	(15)
	$3,651	$ 2,243	$ 551	$ 423	$ 434

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 February 28/29,	
	2017	2016
Net income for basic and diluted earnings per share	$352	$142
Weighted-average common and ordinary shares outstanding	725	766
Dilutive effect of equity plans	3	3
Diluted weighted-average shares outstanding	728	769
Basic and diluted earnings per share	$0.48	$0.18

NOTE 7 – Shareholders' Equity

During the three months ended February 28, 2017, we repurchased 1.4 million shares of Carnival plc ordinary shares for $75 million under our general repurchase authorization program (the "Repurchase Program"). From March 1, 2017 through March 24, 2017, we repurchased 0.8 million shares of Carnival plc ordinary shares for $44 million under the Repurchase Program. Accordingly, at March 24, 2017, the remaining Carnival Corporation availability under the Repurchase Program was $280 million.

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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 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. All statements other than statements of historical facts are statements that could be deemed forward-looking. These statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and the beliefs and assumptions of our management. We have tried, whenever possible, to identify these statements by using words like "will," "may," "could," "should," "would," "believe," "depends," "expect," "goal," "anticipate," "forecast," "project," "future," "intend," "plan," "esti "indicate" and similar expressions of future intent or the negative of such terms.

Forward-looking statements include those statements that may impact our outlook including, but not limited to, the forecasting of our:

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

Because forward-looking statements involve risks and uncertainties, there are many factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied in this joint Quarterly Report on Form 10-Q. This note contains important cautionary statements of the known factors that we consider could materially affect the accuracy of our forward-looking statements and adversely affect our business, results of operations and financial position. It is not possible to predict or identify all such risks. There may be additional risks that we consider immaterial or which are unknown. These factors include, but are not limited to, the following:

- Incidents, such as ship incidents, security incidents, the spread of contagious diseases and threats thereof, adverse weather conditions or other natural disasters and the related adverse publicity affecting our reputation and the health, safety, security and satisfaction of guests and crew
- Economic conditions and adverse world events affecting the safety and security of travel, such as civil unrest, armed conflicts and terrorist attacks
- Changes in and compliance with laws and regulations relating to environment, health, safety, security, tax and anti-corruption under which we operate
- Disruptions and other damages to our information technology and other networks and operations, and breaches in data security
- Ability to recruit, develop and retain qualified personnel
- Increases in fuel prices
- Fluctuations in foreign currency exchange rates
- Misallocation of capital among our ship, joint venture and other strategic investments
- Future operating cash flow may not be sufficient to fund future obligations and we may be unable to obtain financing
- Overcapacity in the cruise ship and land-based vacation industry
- Deterioration of our cruise brands' strengths and our inability to implement our strategies
- Continuing financial viability of our travel agent distribution system, air service providers and other key vendors in our supply chain and reductions in the availability of, and increases in the prices for, the services and products provided by these vendors
-

- Inability to implement our shipbuilding programs and ship repairs, maintenance and refurbishments on terms that are favorable or consistent with our expectations and increases to our repairs and maintenance expenses and refurbishment costs as our fleet ages
- Failure to keep pace with developments in technology
- Geographic regions in which we try to expand our business may be slow to develop and ultimately not develop how we expect and our international operations are subject to additional risks not generally applicable to our U.S. operations
- Competition from the cruise ship and land-based vacation industry
- Economic, market and political factors that are beyond our control

- Litigation, enforcement actions, fines or penalties
- Lack of continuing availability of attractive, convenient and safe port destinations on terms that are favorable or consistent with our expectations
- Union disputes and other employee relationship issues
- Decisions to self-insure against various risks or the inability to obtain insurance for certain risks at reasonable rates
- Reliance on third-party providers of various services integral to the operations of our business
- Business activities that involve our co-investment with third parties
- Disruptions in the global financial markets or other events that may negatively affect the ability of our counterparties and others to perform their obligations to us
- Our shareholders may be subject to the uncertainties of a foreign legal system since Carnival Corporation and Carnival plc are not U.S. corporations
- Small group of shareholders may be able to effectively control the outcome of shareholder voting
- Provisions in Carnival Corporation's and Carnival plc's constitutional documents may prevent or discourage takeovers and business combinations that our shareholders might consider to be in their best interests
- The DLC arrangement involves risks not associated with the more common ways of combining the operations of two companies

The ordering of the risk factors set forth above is not intended to reflect any Company indication of priority or likelihood.
Forward-looking statements should not be relied upon as a prediction of actual results. Subject to any continuing obligations under applicable law or any relevant stock exchange rules, we expressly disclaim any obligation to disseminate, after the date of this 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

On March 28, 2017, we said that we expected our adjusted diluted earnings per share for the 2017 second quarter to be in the range of $0.43 to $0.47 and 2017 full year to be in the range of $3.50 to $3.70 (see "Key Performance Non-GAAP Financial Indicators"). Our guidance was based on the following assumptions:

	2017 Second Quarter	2017 Full Year
Fuel price per metric ton	$359	$362
Currencies		
U.S. dollar to euro	$1.08 to €1	$1.07 to €1
U.S. dollar to sterling	$1.25 to £1	$1.25 to £1
U.S. dollar to Australian dollar	$0.76 to A$1	$0.76 to A$1

The fuel and currency assumptions used in our guidance change daily and, accordingly, our forecasts change daily based on the changes in these assumptions. We have not provided a reconciliation of forecasted U.S. GAAP earnings per share to forecasted adjusted earnings per share because preparation of meaningful U.S. GAAP forecasts of earnings per share would require unreasonable effort. We are unable to predict, without unreasonable effort, the future movement of foreign exchange rates and fuel prices. While we forecast realized gains and losses on fuel derivatives by applying current Brent prices to the derivatives that settle in the forecast period, we do not forecast the impact of unrealized gains and losses on fuel derivatives because we do not believe they are an indication of our future earnings performance. We are unable to determine the future impact of gains or losses on ships sales, restructuring expenses and other non-core gains and charges.

The above forward-looking statements involve risks, uncertainties and assumptions with respect to us. There are many factors that could cause our actual results to differ materially from those expressed above. You should read the above forward-looking statements together with the discussion of the risks under “Cautionary Note Concerning Factors That May Affect Future Results.”

Critical Accounting Estimates

For a discussion of our critical accounting estimates, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” that is included in the 2016 Form 10-K.

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Seasonality

Our revenues from the sale of passenger tickets are seasonal. Historically, demand for cruises has been greatest during our third quarter, which includes the Northern Hemisphere summer months. This higher demand during the third quarter results in higher ticket prices and occupancy levels and, accordingly, the largest share of our operating income is earned during this period. The seasonality of our results also increases due to ships being taken out-of-service for maintenance, which we schedule during non-peak demand periods. In addition, substantially all of Holland America Princess Alaska Tours' revenue and net income is generated from May through September in conjunction with the Alaska cruise season.

Statistical Information

	Three Months Ended February 28/29,	
	2017	2016
Available Lower Berth Days ("ALBDs") (in thousands) (a) (b)	20,024	19,290
Occupancy percentage (c)	104.6 %	104.0 %
Passengers carried (in thousands)	2,769	2,559
Fuel consumption in metric tons (in thousands)	818	816
Fuel consumption in metric tons per thousand ALBDs	40.9	42.3
Fuel cost per metric ton consumed	$362	$229
Currencies		
U.S. dollar to euro	$1.06	$1.10
U.S. dollar to sterling	$1.24	$1.45
U.S. dollar to Australian dollar	$0.75	$0.71

(a) ALBD is a standard measure of passenger capacity for the period that we use to approximate rate and capacity variances, based on consistently applied formulas that we use to perform analyses to determine the main non-capacity driven factors that cause our cruise revenues and expenses to vary. ALBDs assume that each cabin we offer for sale accommodates two passengers and is computed by multiplying passenger capacity by revenue-producing ship operating days in the period.

(b) For the three months ended February 28, 2017 compared to the three months ended February 29, 2016, we had a 3.8% capacity increase in ALBDs comprised of a 5.2% capacity increase in our North America segment and a 1.8% capacity increase in our EAA segment.

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

- Full quarter impact from one Carnival Cruise Line 3,930-passenger capacity ship delivered in 2016
- Full quarter impact from one Holland America Line 2,650-passenger capacity ship delivered in 2016
- Fewer ship dry-dock days in 2017 compared to 2016
- Full quarter impact from one Seabourn 600-passenger capacity ship delivered in 2016
- Partially offset by the full quarter impact from one Princess Cruises 670-passenger capacity ship removed from service in 2016

Our EAA segment's capacity increase was caused by:

- Full quarter impact from one AIDA 3,290-passenger capacity ship delivered in 2016

This increase was partially offset by:

- Less ship operating days in 2017 compared to 2016 due to the 2016 leap year

- More ship dry-dock days in 2017 compared to 2016

(c) In accordance with cruise industry practice, occupancy is calculated using a denominator of ALBDs, which assumes two passengers per cabin even though some cabins can accommodate three or more passengers. Percentages in excess of 100% indicate that on average more than two passengers occupied some cabins.

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Three Months Ended February 28, 2017 (“2017”) Compared to Three Months Ended February 29, 2016 (“2016”)

Revenues

Consolidated

Cruise passenger ticket revenues made up 74% of our 2017 total revenues. Cruise passenger ticket revenues increased by $86 million, or 3.2%, to $2.8 billion in 2017 from $2.7 billion in 2016.

This increase was caused by:
- $103 million - 3.8% capacity increase in ALBDs
- $71 million - increase in cruise ticket revenue, driven primarily by price improvements due to demand in our Caribbean program for our North America segment and European and Caribbean programs for our EAA segment, partially offset by net unfavorable foreign currency transactional impacts
- $15 million - a slight increase in occupancy

These increases were partially offset by:
- $77 million- foreign currency translational impact from a stronger U.S. dollar against the functional currencies of our foreign operations (“foreign currency translational impact”)
- $26 million - decrease in air transportation revenues from guests who purchased their tickets from us

The remaining 26% of 2017 total revenues were substantially all comprised of onboard and other cruise revenues, which increased by $55 million, or 6.0%, to $978 million in 2017 from $923 million in 2016.

This increase was caused by:
- $35 million - 3.8% capacity increase in ALBDs
- $31 million - higher onboard spending by our guests

These increases were partially offset by the foreign currency translational impact, which accounted for $14 million.

Onboard and other revenues included concession revenues that were $227 million in both 2017 and 2016.

North America Segment

Cruise passenger ticket revenues made up 72% of our North America segment’s 2017 total revenues. Cruise passenger ticket revenues increased by $133 million, or 8.4%, to $1.7 billion in 2017 compared to $1.6 billion in 2016.

The increase was substantially due to:
- $82 million - 5.2% capacity increase in ALBDs
- $39 million - increase in cruise ticket revenue, driven primarily by price improvements due to demand in our Caribbean program, partially offset by net unfavorable foreign currency transactional impacts

The remaining 28% of our North America segment’s 2017 total revenues were comprised of onboard and other cruise revenues, which increased by $53 million, or 8.5%, to $683 million in 2017 from $630 million in 2016.

This increase was caused by:
- $33 million - 5.2% capacity increase in ALBDs
- $21 million - higher onboard spending by our guests

Onboard and other revenues included concession revenues that increased by $4 million, or 2.4%, to $155 million in 2017 from $151 million in 2016.

EAA Segment

Cruise passenger ticket revenues made up 81% of our EAA segment's 2017 total revenues. Cruise passenger ticket revenues decreased by $50 million, or 4.4%, and was $1.1 billion in both 2017 and 2016.

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This decrease was caused by:
- $77 million - foreign currency translational impact
- $25 million - decrease in air transportation revenues from guests who purchased their tickets from us

These decreases were partially offset by:
- $20 million - 1.8% capacity increase in ALBDs
- $19 million - increase in cruise ticket revenue driven primarily by price improvements due to demand in our European and Caribbean programs, partially offset by net unfavorable foreign currency transactional impacts

The remaining 19% of our EAA segment's 2017 total revenues were comprised of onboard and other cruise revenues, which remained the same at $254 million in both 2017 and 2016.

Onboard and other revenues included concession revenues that decreased by $4 million, or 5.3%, to $72 million in 2017 from $76 million in 2016.

Costs and Expenses

Consolidated

Operating costs and expenses increased by $192 million, or 8.6%, to $2.4 billion in 2017 from $2.2 billion in 2016.

This increase was caused by:
- $109 million - higher fuel prices
- $85 million - 3.8% capacity increase in ALBDs
- $29 million - higher ship port costs
- $22 million - higher cruise payroll and related expenses
- $16 million - higher dry-dock expenses and ship repair and maintenance expenses

These increases were partially offset by:
- $56 million - foreign currency translational impact
- $25 million - decrease in air transportation revenues from guests who purchased their tickets from us

Selling and administrative expenses slightly decreased by $2 million to $549 million in 2017 from $551 million in 2016.

This decrease was caused by:
- $12 million - foreign currency translational impact
- $12 million - various selling and administrative initiatives

These decreases were partially offset by a 3.8% capacity increase in ALBDs, which accounted for $21 million.

Depreciation and amortization expenses increased by $16 million, or 3.8%, to $439 million in 2017 from $423 million in 2016. This increase was primarily caused by the delivery of new ships and improvements to ship and shoreside assets, which accounted for $27 million, partially offset by the foreign currency translational impact, which accounted for $9 million.

North America Segment

Operating costs and expenses increased by $155 million, or 11.8%, to $1.5 billion in 2017 from $1.3 billion in 2016.

This increase was caused by:
- $70 million - higher fuel prices
- $68 million - 5.2% capacity increase in ALBDs
- $13 million - higher ship port costs
- $10 million - higher cruise payroll and related expenses

Selling and administrative expenses increased by $9 million, or 2.9%, to $320 million in 2017 from $311 million in 2016.

Depreciation and amortization expenses increased by $17 million, or 6.8%, to $273 million in 2017 from $255 million in 2016. This increase was primarily driven by a 5.2% capacity increase in ALBDs, which accounted for $13 million.

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EAA Segment

Operating costs and expenses increased by $36 million, or 4.0%, to $946 million in 2017 from $910 million in 2016.

This increase was caused by:
- $39 million - higher fuel prices
- $29 million - higher dry-dock expenses and other ship repair and maintenance expenses
- $18 million - higher ship port costs
- $16 million - 1.8% capacity increase in ALBDs
- $12 million - higher cruise payroll and related expenses

These increases were partially offset by:
- $56 million - foreign currency translational impact
- $26 million - decrease in air transportation revenues from guests who purchased their tickets from us

Selling and administrative expenses decreased by $3 million, or 1.7%, to $172 million in 2017 from $175 million in 2016.

Depreciation and amortization expenses slightly decreased by $1 million to $146 million in 2017 from $147 million in 2016.

Operating Income

Our consolidated operating income decreased by $66 million, or 15.3%, to $368 million in 2017 from $434 million in 2016. Our North America segment's operating income increased by $5 million, or 1.5%, to $342 million in 2017 from $337 million in 2016, and our EAA segment's operating income decreased by $82 million, or 52.4%, to $74 million in 2017 from $157 million in 2016. These changes were primarily due to the reasons discussed above.

Nonoperating Expense

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

	Three Months Ended February 28/29,	
	2017	2016
Unrealized gains (losses) on fuel derivatives, net	$72	$(145)
Realized losses on fuel derivatives, net	(45)	(91)
Gains (losses) on fuel derivatives, net	$27	$(236)

Key Performance Non-GAAP Financial Indicators

Non-GAAP Financial Measures

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

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

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

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

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

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

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

We have not provided a reconciliation of forecasted gross cruise revenues to forecasted net cruise revenues or forecasted gross cruise costs to forecasted net cruise costs without fuel or forecasted U.S. GAAP net income to forecasted adjusted net income or forecasted U.S. GAAP earnings per share to forecasted adjusted earnings per share because preparation of meaningful U.S. GAAP forecasts of gross cruise revenues, gross cruise costs, net income and earnings per share would require unreasonable effort. We are unable to predict, without unreasonable effort, the future movement of foreign exchange rates and fuel prices. While we forecast realized gains and losses on fuel derivatives by applying current Brent prices to the derivatives that settle in the forecast period, we do not forecast the impact of unrealized gains and losses on fuel derivatives because we do not believe they are an indication of our future earnings performance. We are unable to determine the future impact of gains or losses on ships sales, restructuring expenses and other non-core gains and charges.

Constant Dollar and Constant Currency

Our EAA segment and Cruise Support segment operations utilize the euro, sterling and Australian dollar as their functional currencies to measure their results and financial condition. This subjects us to foreign currency translational risk. Our North America, EAA and Cruise Support segment operations also have revenues and expenses that are in a currency other than their functional currency. This subjects us to foreign currency transactional risk.

We report net revenue yields, net passenger revenue yields, net onboard and other revenue yields and net cruise costs excluding fuel per ALBD on a "constant dollar" and "constant currency" basis assuming the 2017 periods' currency exchange rates have remained constant with the 2016 periods' rates. These metrics facilitate a comparative view for the changes in our business in an environment with fluctuating exchange rates.

Constant dollar reporting is a non-GAAP financial measure that removes only the impact of changes in exchange rates on the
translation of our EAA segment and Cruise Support segment operations.

Constant currency reporting is a non-GAAP financial measure that removes the impact of changes in exchange rates on the translation of our EAA segment and Cruise Support segment operations (as in constant dollar) plus the transactional impact of changes in exchange rates from revenues and expenses that are denominated in a currency other than the functional currency for our North America, EAA and Cruise Support segments.

Examples:

- The translation of our EAA segment operations to our U.S. dollar reporting currency results in decreases in reported U.S. dollar revenues and expenses if the U.S. dollar strengthens against these foreign currencies and increases in reported U.S. dollar revenues and expenses if the U.S. dollar weakens against these foreign currencies.

- Our North American segment operations have a U.S. dollar functional currency but also have revenue and expense transactions in currencies other than the U.S. dollar. If the U.S. dollar strengthens against these other currencies, it reduces the U.S. dollar revenues and expenses. If the U.S. dollar weakens against these other currencies, it increases the U.S. dollar revenues and expenses.

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- Our EAA segment operations have euro, sterling and Australian dollar functional currencies but also have revenue and expense transactions in currencies other than their functional currency. If their functional currency strengthens against these other currencies, it reduces the functional currency revenues and expenses. If the functional currency weakens against these other currencies, it increases the functional currency revenues and expenses.

Under U.S. GAAP, the realized and unrealized gains and losses on fuel derivatives not qualifying as fuel hedges are recognized currently in earnings. We believe that unrealized gains and losses on fuel derivatives are not an indication of our earnings performance since they relate to future periods and may not ultimately be realized in our future earnings. Therefore, we believe it is more meaningful for the unrealized gains and losses on fuel derivatives to be excluded from our net income and earnings per share and, accordingly, we present adjusted net income and adjusted earnings per share excluding these unrealized gains and losses.

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

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Consolidated gross and net revenue yields were computed by dividing the gross and net cruise revenues by ALBDs as follows (dollars in millions, except yields):

	Three Months Ended February 28/29,		
	2017	2017 Constant Dollar	2016
Passenger ticket revenues	$2,804	$2,881	$ 2,718
Onboard and other revenues	978	993	923
Gross cruise revenues	3,782	3,874	3,641
Less cruise costs			
Commissions, transportation and other	(569)	(587)	(582)
Onboard and other	(125)	(127)	(117)
	(694)	(714)	(699)
Net passenger ticket revenues	2,235	2,294	2,136
Net onboard and other revenues	853	866	806
Net cruise revenues	$3,088	$3,160	$ 2,942
ALBDs	20,024,045	20,024,045	19,289,910
Gross revenue yields	$188.87	$193.44	$ 188.77
% increase vs. 2016	0.1 %	2.5 %	
Net revenue yields	$154.22	$157.75	$ 152.50
% increase vs. 2016	1.1 %	3.4 %	
Net passenger ticket revenue yields	$111.60	$114.53	$ 110.71
% increase vs. 2016	0.8 %	3.4 %	
Net onboard and other revenue yields	$42.62	$43.22	$ 41.78
% increase vs. 2016	2.0 %	3.4 %	

	Three Months Ended February 28/29,		
	2017	2017 Constant Currency	2016
Net passenger ticket revenues	$2,235	$2,308	$ 2,136
Net onboard and other revenues	853	861	806
Net cruise revenues	$3,088	$3,169	$ 2,942
ALBDs	20,024,045	20,024,045	19,289,910
Net revenue yields	$154.22	$158.25	$ 152.50
% increase vs. 2016	1.1 %	3.8 %	
Net passenger ticket revenue yields	$111.60	$115.26	$ 110.71
% increase vs. 2016	0.8 %	4.1 %	
Net onboard and other revenue yields	$42.62	$42.99	$ 41.78
% increase vs. 2016	2.0 %	2.9 %	

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Consolidated gross and net cruise costs and net cruise costs excluding fuel per ALBD were computed by dividing the gross and net cruise costs and net cruise costs excluding fuel by ALBDs as follows (dollars in millions, except costs per ALBD):

	Three Months Ended February 28/29,		
	2017	2017 Constant Dollar	2016
Cruise operating expenses	$2,422	$2,478	$2,229
Cruise selling and administrative expenses	546	558	549
Gross cruise costs	2,968	3,036	2,778
Less cruise costs included above			
Commissions, transportation and other	(569)	(587)	(582)
Onboard and other	(125)	(127)	(117)
Gain on ship sale	—	—	2
Restructuring expenses	—	—	—
Other	1	1	(16)
Net cruise costs	2,275	2,323	2,065
Less fuel	(297)	(297)	(187)
Net cruise costs excluding fuel	$1,978	$2,026	$1,878
ALBDs	20,024,045	20,024,045	19,289,910
Gross cruise costs per ALBD	$148.24	$151.60	$144.02
% increase vs. 2016	2.9%	5.3%	
Net cruise costs excluding fuel per ALBD	$98.81	$101.13	$97.35
% increase vs. 2016	1.5%	3.9%	

	Three Months Ended February 28/29,		
	2017	2017 Constant Currency	2016
Net cruise costs excluding fuel	$1,978	$2,012	$ 1,878
ALBDs	20,024,045	20,024,045	19,289,910
Net cruise costs excluding fuel per ALBD	$98.81	$100.47	$ 97.35
% increase vs. 2016	1.5%	3.2%	

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

	Three Months Ended February 28/29, 2017	2016
Net income		
U.S. GAAP net income	$352	$142
Unrealized (gains) losses on fuel derivatives, net	(72)	145
Gain on ship sale	—	(2)
Restructuring expenses	—	—
Other	(1)	16
Adjusted net income	$279	$301
Weighted-average shares outstanding	728	769
Earnings per share		
U.S. GAAP earnings per share	$0.48	$0.18
Unrealized (gains) losses on fuel derivatives, net	(0.10)	0.19
Gain on ship sale	—	—
Restructuring expenses	—	—
Other	—	0.02
Adjusted earnings per share	$0.38	$0.39

Net cruise revenues increased by $146 million, or 5.0%, to $3.1 billion in 2017 from $2.9 billion in 2016.
The increase in net cruise revenues was caused by:
- $112 million - 3.8% capacity increase in ALBDs
- $115 million - 3.8% increase in constant currency net revenue yields

These increases were partially offset by foreign currency impacts (including both the foreign currency translational and transactional impacts), which accounted for $81 million.
The 3.8% increase in net revenue yields on a constant currency basis was due to a 4.1% increase in net passenger ticket revenue yields and a 2.9% increase in net onboard and other revenue yields.
The 4.1% increase in net passenger ticket revenue yields was driven primarily by price improvements due to demand in our Caribbean program for our North America segment and European and Caribbean programs for our EAA segment, partially offset by net unfavorable foreign currency transactional impacts. This 4.1% increase in net passenger ticket revenue yields was comprised of a 3.3% increase from our North America segment and a 5.0% increase from our EAA segment.
The 2.9% increase in net onboard and other revenue yields was caused by similar increases in our North America and EAA segments.
Gross cruise revenues increased by $141 million, or 3.9%, to $3.8 billion in 2017 from $3.6 billion in 2016 for largely the same reasons as discussed above.
Net cruise costs excluding fuel increased by $101 million, or 5.4%, to $2.0 billion in 2017 from $1.9 billion in 2016.
The increase in net cruise costs excluding fuel was caused by:
- $71 million - 3.8% capacity increase in ALBDs
- $63 million - 3.2% increase in constant currency net cruise costs excluding fuel

These increases were partially offset by foreign currency impacts (including both the foreign currency translational and transactional impacts), which accounted for $33 million.
The 3.2% increase in constant currency net cruise costs excluding fuel per ALBD was principally due to the timing of ship repair and maintenance, dry-dock and general and administrative expenses.

Fuel costs increased by $110 million, or 58.8%, to $297 million in 2017 from $187 million in 2016. This increase was substantially all due to higher fuel prices, which accounted for $109 million.

Gross cruise costs increased by $190 million, or 6.8%, to $3.0 billion in 2017 from $2.8 billion in 2016 for principally the same reasons as discussed above.

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Liquidity, Financial Condition and Capital Resources

Our primary financial goals are to profitably grow our cruise business and increase our return on invested capital ("ROIC"), reaching double digit returns, while maintaining a strong balance sheet and strong investment grade credit ratings. We define ROIC as the twelve month adjusted earnings before interest divided by the monthly average of debt plus equity minus construction-in-progress. Our ability to generate significant operating cash flow allows us to internally fund our capital investments. We are committed to returning free cash flow to our shareholders in the form of dividends and/or share repurchases. As we continue to profitably grow our cruise business, we plan to increase our debt level in a manner consistent with maintaining our strong credit metrics. This will allow us to return both free cash flow and incremental debt proceeds to our shareholders in the form of dividends and/or share repurchases. Other objectives of our capital structure policy are to maintain a sufficient level of liquidity with our available cash and cash equivalents and committed financings for immediate and future liquidity needs, and a reasonable debt maturity profile.

Based on our historical results, projections and financial condition, we believe that our future operating cash flows and liquidity will be sufficient to fund all of our expected capital projects including shipbuilding commitments, ship improvements, debt service requirements, working capital needs and other firm commitments over the next several years. We believe that our ability to generate significant operating cash flows and our strong balance sheet as evidenced by our investment grade credit ratings provide us with the ability, in most financial credit market environments, to obtain debt financing.

We had a working capital deficit of $5.9 billion as of February 28, 2017 compared to a working capital deficit of $5.4 billion as of November 30, 2016. The increase in working capital deficit was primarily due to the increase in customer deposits and our net current portion of our borrowings. We operate with a substantial working capital deficit. This deficit is mainly attributable to the fact that, under our business model, a vast majority of our passenger ticket receipts are collected in advance of the applicable sailing date. These advance passenger receipts remain a current liability until the sailing date. The cash generated from these advance receipts is used interchangeably with cash on hand from other sources, such as our borrowings and other cash from operations. The cash received as advanced receipts can be used to fund operating expenses, pay down our debt, invest in long term investments or any other use of cash. Included within our working capital deficit are $3.7 billion and $3.5 billion of customer deposits as of February 28, 2017 and November 30, 2016, respectively. In addition, we have a relatively low-level of accounts receivable and limited investment in inventories. We generate substantial cash flows from operations and our business model has historically allowed us to maintain this working capital deficit and still meet our operating, investing and financing needs. We expect that we will continue to have working capital deficits in the future.

Sources and Uses of Cash

Operating Activities

Our business provided $932 million of net cash from operations during the three months ended February 28, 2017, an increase of $134 million, or 17%, compared to $798 million for the same period in 2016. This increase was substantially all due to an increase in our customer deposits.

Investing Activities

During the three months ended February 28, 2017, net cash used in investing activities was $474 million. This was substantially due to:

- Capital expenditures of $262 million for ship improvements and replacements
- Capital expenditures of $114 million for information technology, buildings and improvements and other assets
- Payment of $52 million of fuel derivative settlements
- Our expenditures for capital projects, of which $36 million was spent on our ongoing new shipbuilding program

During the three months ended February 29, 2016, net cash used in investing activities was $459 million. This was primarily due to:

- Our expenditures for capital projects, of which $54 million was spent on our ongoing new shipbuilding program
- Capital expenditures of $207 million for ship improvements and replacements
- Capital expenditures of $69 million for information technology, buildings and improvements and other assets
- $88 million of fuel derivative settlements
- $57 million of collateral to one of our fuel derivative counterparties

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Financing Activities

During the three months ended February 28, 2017, net cash used in financing activities of $615 million was substantially due to the following:

- Repaid $289 million of short-term borrowings, net of new borrowings, in connection with our availability of, and needs for, cash at various times throughout the period
- Paid cash dividends of $254 million
- Purchased $69 million of Carnival plc ordinary shares in open market transactions under our Repurchase Program

During the three months ended February 29, 2016, net cash used in financing activities of $947 million was substantially due to the following:

- Borrowed a net $235 million of short-term borrowings in connection with our availability of, and needs for, cash at various times throughout the period
- Repaid $628 million of long-term debt
- Issued $555 million of publicly-traded notes, which net proceeds are being used for general corporate purposes
- Paid cash dividends of $232 million
- Purchased $916 million of shares of Carnival Corporation common stock in open market transactions of which $877 million were purchased under our Repurchase Program and $39 million were purchased under our Stock Swap Program
- Sold $40 million of treasury stock under our Stock Swap program

Future Commitments and Funding Sources

Our total annual capital expenditures consist of ships under contract for construction, including ship construction contracts entered into through March 24, 2017, and estimated improvements to existing ships and shoreside assets and are expected to be (in billions):

	2017	2018	2019	2020	2021	2022
Total annual capital expenditures	$3.0	$3.7	$4.6	$4.5	$3.5	$2.8

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

	2017	2018	2019	2020	2021	2022
Annual capacity increase (a)	2.9%	2.7%	5.4%	7.8%	6.9%	3.3%

(a) These percentage increases exclude unannounced future ship orders, acquisitions, retirements, charters or sales.

At February 28, 2017, we had liquidity of $10.5 billion. Our liquidity consisted of $182 million of cash and cash equivalents, which excludes $255 million of cash used for current operations, $2.7 billion available for borrowing under our revolving credit facilities, net of our outstanding commercial paper borrowings, and $7.6 billion under our committed future financings, which are comprised of ship export credit facilities. These commitments are from numerous large and well-established banks and export credit agencies, which we believe will honor their contractual agreements with us. The committed future financing will be available as follows (in millions):

	2017	2018	2019	2020	2021
Availability of committed future financing at February 28, 2017	$359	$1,851	$2,441	$2,143	$799

At February 28, 2017, all of our revolving credit facilities are scheduled to mature in 2021, except for $300 million that matures in 2020.

Substantially all of our debt agreements contain financial covenants as described in Note 6 - “Unsecured Debt” in the annual consolidated financial statements, which is included within our 2016 Form 10-K. At February 28, 2017, we were in compliance with our debt covenants. In addition, based on our forecasted operating results, financial condition and cash flows, we expect to be in compliance with our debt covenants for the foreseeable future. Generally, if an event of default under any debt agreement occurs, then pursuant to cross default acceleration clauses, substantially all of our outstanding debt and derivative contract payables could become due, and all debt and derivative contracts could

be terminated.

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Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of our hedging strategies and market risks, see the discussion below and Note 4 - "Fair Value Measurements, Derivative Instruments and Hedging Activities" in these consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations within our 2016 Form 10-K.

Operational Currency Risks

We have foreign operations that have functional currencies other than the U.S. dollar, which result in foreign currency translational impacts. We execute transactions in a number of currencies other than their functional currencies, which result in foreign currency transactional impacts. Based on a 10% change in all currency exchange rates that were used in our March 28, 2017 guidance, we estimate that our adjusted diluted earnings per share March 28, 2017 guidance would change by the following:

- $0.25 per share for the remaining three quarters of 2017
- $0.03 per share for the second quarter of 2017

Interest Rate Risks

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

	February 28, 2017		November 30, 2016	
Fixed rate	29	%	28	%
Euro fixed rate	35	%	35	%
Floating rate	15	%	14	%
Euro floating rate	21	%	23	%

Fuel Price Risks

Based on a 10% change in fuel prices versus the current spot price that was used to calculate fuel expense in our March 28, 2017 guidance, we estimate that our adjusted diluted earnings per share March 28, 2017 guidance would change by the following:

- $0.13 per share for the remaining three quarters of 2017
- $0.04 per share for the second quarter of 2017

Based on a 10% change in Brent prices versus the current spot price that was used to calculate realized gains (losses) on fuel derivatives in our March 28, 2017 guidance, we estimate that our adjusted diluted earnings per share March 28, 2017 guidance would change by the following:

- $0.04 per share for the remaining three quarters of 2017
- $0.01 per share for the second quarter of 2017

At February 28, 2017, the unrealized losses on our outstanding fuel derivative contracts were $249 million.

Item 4. Controls and Procedures.

A. Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit

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under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.
Our President and Chief Executive Officer and our Chief Financial Officer and Chief Accounting Officer have evaluated our disclosure controls and procedures and have concluded, as of February 28, 2017, that they are effective at a reasonable level of assurance, as described above.

B. Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended February 28, 2017 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION
Item 1A. Risk Factors.

The risk factors that affect our business and financial results are discussed in "Item 1A. Risk Factors," included in the 2016 Form 10-K, and there has been no material change to these risk factors since the 2016 Form 10-K filing. We wish to caution the reader that the risk factors discussed in "Item 1A. Risk Factors," included in the 2016 Form 10-K, and those described elsewhere in this report or other Securities and Exchange Commission filings, could cause future results to differ materially from those stated in any forward-looking statements. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

A. Repurchase Authorizations
Our Boards of Directors have authorized, subject to certain restrictions, the repurchase of up to an aggregate of $1.0 billion of Carnival Corporation common stock and/or Carnival plc ordinary shares (the "Repurchase Program"). On January 28, 2016 and on June 27, 2016, the Boards of Directors approved modifications of the Repurchase Program authorization that increased the remaining authorized repurchases at the time of each approval by $1.0 billion. The Repurchase Program does not have an expiration date and may be discontinued by our Boards of Directors at any time.
During the three months ended February 28, 2017, purchases of Carnival Corporation common stock and/or Carnival plc ordinary shares pursuant to the Repurchase Program were as follows:

Period	Total Number of Shares of Carnival plc Purchased	Average Price Paid per Share of Carnival plc	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Repurchase Program
	(in millions)		(in millions)
December 1, 2016 through December 31, 2016	0.2	$ 49.51	$ 389
January 1, 2017 through January 31, 2017	0.2	$ 54.04	$ 378
February 1, 2017 through February 28, 2017	1.0	$ 54.09	$ 324

Total	1.4	$ 53.43

No shares of Carnival Corporation common stock and Carnival plc ordinary shares were purchased outside of publicly announced plans or programs. No shares of Carnival Corporation common stock were repurchased during this period. From March 1, 2017 through March 24, 2017, we repurchased 0.8 million shares of Carnival plc ordinary shares for $44 million under the Repurchase Program. Accordingly, at March 24, 2017, the remaining availability under the Repurchase Program was $280 million.

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In addition to the Repurchase Program, the Boards of Directors authorized, in January 2017, the repurchase of up to 22.0 million Carnival plc ordinary shares and, in February 2016, the repurchase of up to 26.9 million shares of Carnival Corporation common stock under the Stock Swap programs described below. At March 24, 2017, the remaining availability under the Stock Swap programs was 22.0 million Carnival plc ordinary shares and 26.0 million shares of Carnival Corporation common stock.

Carnival plc ordinary share repurchases under both the Repurchase Program and the Stock Swap programs require annual shareholder approval. The existing shareholder approval is limited to a maximum of 21.6 million ordinary shares and is valid until the earlier of the conclusion of the Carnival plc 2017 annual general meeting or July 13, 2017. At March 24, 2017, the remaining Carnival plc availability under the Repurchase Program and the Stock Swap program was 18.7 million ordinary shares.

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. Any realized economic benefit under the Stock Swap programs is used for general corporate purposes, which could include repurchasing additional stock under the Repurchase Program.

In the event that Carnival Corporation common stock trades at a premium to Carnival plc ordinary shares, we may elect to issue and sell shares of Carnival Corporation common stock through a sales agent, from time to time at prevailing market prices in ordinary brokers' transactions, and use the sale proceeds to repurchase Carnival plc ordinary shares in the UK market on at least an equivalent basis. Based on an authorization provided by the Board of Directors in January 2017, Carnival Corporation was authorized to issue and sell up to 22.0 million shares of its common stock in the U.S. market and had 22.0 million shares remaining at March 24, 2017. Any sales of Carnival Corporation shares have been or will be registered under the Securities Act of 1933.

In the event that 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 Corporation or Carnival Investments Limited ("CIL") through its sales agent from time to time at prevailing market prices in ordinary brokers' transactions, and use the sale proceeds to repurchase shares of Carnival Corporation common stock in the U.S. market on at least an equivalent basis. Based on an authorization provided by the Board of Directors in February 2016, Carnival Corporation or CIL was authorized to sell up to 26.9 million Carnival plc ordinary shares in the UK market and had 26.0 million shares remaining at March 24, 2017. Any sales of Carnival plc ordinary shares have been or will be registered under the Securities Act of 1933.

During the three months ended February 28, 2017, no Carnival Corporation common stock or Carnival plc ordinary shares were sold or repurchased under the Stock Swap programs.

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Item 6. Exhibits.
INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Exhibit	Filing Date	Filed/ Furnished Herewith
Articles of incorporation and by-laws					
3.1	Third Amended and Restated Articles of Incorporation of Carnival Corporation.	8-K	3.1	4/17/2003	
3.2	Third Amended and Restated By-Laws of Carnival Corporation.	8-K	3.1	4/20/2009	
3.3	Articles of Association of Carnival plc.	8-K	3.3	4/20/2009	
Material contracts					
10.1	Form of Management Incentive Plan Tied Restricted Stock Unit Agreement for the Carnival Corporation 2011 Stock Plan.				X
10.2	Form of Management Incentive Plan Tied Restricted Share Unit Agreement for the Carnival plc 2014 Employee Share Plan.				X
10.3	Form of Shareholder Equity Alignment Restricted Stock Unit Agreement for the Carnival Corporation 2011 Stock Plan.				X
Statement regarding computations of ratios					
12	Ratio of Earnings to Fixed Charges.				X
Rule 13a-14(a)/15d-14(a) certifications					
31.1	Certification of President and 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 Financial Officer and Chief Accounting 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 President and 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
31.4	Certification of Chief Financial Officer and Chief Accounting Officer of Carnival plc pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
Section 1350 certifications					
32.1*	Certification of President and 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*					X

	Certification of Chief Financial Officer and Chief Accounting 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.	
32.3*	Certification of President and 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
32.4*	Certification of Chief Financial Officer and Chief Accounting 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

Table of Contents

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed/ Furnished Herewith
		Form	Exhibit	Filing Date	
Articles of incorporation and by-laws Interactive Data File					
101	The consolidated financial statements from Carnival Corporation & plc's joint Quarterly Report on Form 10-Q for the quarter ended February 28, 2017, as filed with the Securities and Exchange Commission on March 30, 2017, formatted in XBRL, are as follows:				
	(i) the Consolidated Statements of Income for the three months ended February 28/29, 2017 and 2016;				X
	(ii) the Consolidated Statements of Comprehensive Income (Loss) for the three months ended February 28/29, 2017 and 2016;				X
	(iii) the Consolidated Balance Sheets at February 28, 2017 and November 30, 2016;				X
	(iv) the Consolidated Statements of Cash Flows for the three months ended February 28/29, 2017 and 2016 and				X
	(v) the notes to the consolidated financial statements, tagged in summary and detail.				X

*These items are furnished and not filed.

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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	CARNIVAL PLC
By:/s/ Arnold W. Donald Arnold W. Donald President and Chief Executive Officer	By:/s/ Arnold W. Donald Arnold W. Donald President and Chief Executive Officer
By:/s/ David Bernstein David Bernstein Chief Financial Officer and Chief Accounting Officer	By:/s/ David Bernstein David Bernstein Chief Financial Officer and Chief Accounting Officer
Date: March 30, 2017	Date: March 30, 2017