Rutgers Business School
Newark and New Brunswick

CARNIVAL CORP (CCL)

Applied Portfolio Management

Recommendation: Buy

Sector: Consumer Cyclicals

Sub-sector: Recreation – other

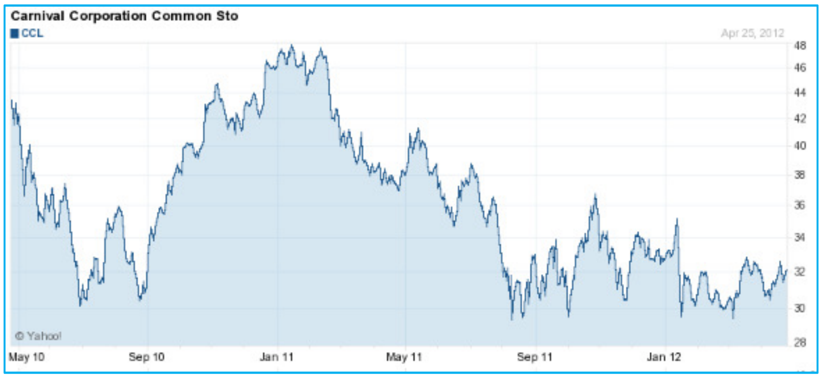
Industry: Tourism and Leisure, Cruise Lines

Current Price - $32

1 Year Target Price – $44.17

Expected dividend per share $1.00 (3% yield)

Total expected current return – 41%



	Company Profile	
A	**Capitalization**	
	Cur. price - common(4/26/2012)	32
	# shares - common (mln)	596
	M. Value - common	19,256
	M. value - other - Carnival Plc.	6,603
	Debt	9,353
	Total capitalization (EV+ cash)	35,211
B	**Income items**	
	Most recent YE	Nov. 2011
	Sales	15,793
	Net income	1,912
	EPS (fye 2011)	2.42
	EPS - 3 years 09-11 avg	2.38
	EPS - 3 years 04-06 avg	2.81
	EPS - 3 years 99-01 avg	1.63
	10 year growth in EPS	48%
	Div (fye 2011)	$ 1.00
C	**Balance Sheet**	
	CA	1,312.00
	CL	6,105.00
	Book value per share	30.67
	Current price	32.31
D	**Ratios**	
	P/E - 2011	12.7x
	P/E - ttm - 4/26/2012	15.7x
	P/E - 3 years 09-11 avg	14.9x
	P/B	1.1x
	Dividend yield	3.1%
	CA/CL (current ratio)	0.21
E	**Price Record**	
	1987-2012	
	high	$59.0
	low	$2.0
	2010 low	$29.7
	2011 high	$46.2
	current price	$32.3

Investment summary

Industry growth. The number of cruise passengers carried in the global cruise business increased by a compound annual growth rate of 5.4% from 2006 to 2011 and is expected to continue to grow. Ability of the cruise industry to move ships around the world creates ability to take advantage of increasing disposable incomes in emerging markets, such Asia and South America. From 2006 to 2011 CCL's number of passengers carried increased at compound rate of 6.4%, signaling increasing share in the global cruise industry.

Decrease in supply. Global cruise business is expected to grow at 3.1% and the capacity at 2.8% from 2011 to 2014, which will create ability to increase price and generate increased level of free cash flows to the shareholders of the Company.

Margin of safety at a current price appears to be considerable. Since 1993 to 2011 the stock averaged 18P/E, which is an equivalent of 5.6% earnings yield, during the same period 30Y Treasury at constant maturity averaged 5.1% yield, which constitutes a 10% margin of safety over treasuries. At December 31, 2011 P/E ratio was 12.7 and forward P/E today is 14.2 (Yahoo Finance). At these multiples the stock is positioned to yield between 8% and 7% compared to the current yield on 30Y treasury of just 3%. At current prices the stock has substantial margin of safety.

Strong balance sheet with ratio of debt to total tangible assets of .26.

The Company's managers have a substantial stake in the operations. Micky Arison (CEO and Chairman) alone owns 110,719,567 shares (Source: SEC form 4 – 2/17/2012) of the Company, which accounts for 18.5% of the Company.

The Company has strong recognizable global brands and has 50% of the global cruise industry market share.

Long history of dividend payments. Current yield is 3%.

Catalyst. Fallout from the Costa incident has been holding the price down since January of 2012. The stock is attractively priced for an investor, who's horizon goes beyond the next year, during which the EPS indeed will be affected negatively. The long term impact is expected to be insignificant, earnings are expected to revert to their normal growth in 2013 and 2014. Price appreciation will follow.

Company overview

Brands and operations:

Carnival is the largest cruise company and among the most profitable and financially strongest vacation companies in the world. It has a portfolio of widely recognized cruise brands that are sold in all the world's major vacation markets and it is a leading provider of vacations to all major cruise destinations.

The Company has a unique structure as a dual listed company ("DLC"). Carnival Corporation is incorporated in Panama and Carnival plc is incorporated in England and Wales. Two companies are separate legal entities, have separate, but identical boards. The business of the two companies are combined through a number of contracts and provisions on governing documents, but operate and present financial information as one Company.

The Company does not pay income taxes on operations in international waters. Taxes are limited to local docking fees.

Each of the cruise brands is an operating segment which operates in one of the two cruise segments: North America or Europe, Australia and Asia ("EAA").

In addition to the cruise operations, the Company owns Holland America Princess Alaska Tours, the leading tour company in Alaska and the Canadian Yukon, which primarily complements Alaska cruise operations. This tour company owns and operates, among other things, 13 hotels or lodges, over 300 motorcoaches and 20 domed rail cars.

Cruise Brands	Passenger Capacity (a)	Number of Cruise Ships	Primary Markets
North America			
Carnival Cruise Lines	58,274	23	North America
Princess	36,900	16	North America
Holland America Line	23,492	15	North America
Seabourn	1,974	6	North America
North America Cruise Brands	120,640	60	
Europe, Australia & Asia			
Costa (b)	29,286	14	Italy, France and Germany
P&O Cruises (UK)	14,610	7	United Kingdom ("UK")
AIDA	14,248	8	Germany
Cunard	6,670	3	UK and North America
P&O Cruises (Australia) (c)	6,242	4	Australia
Ibero	4,176	3	Spain and South America
EAA Cruise Brands	75,232	39	
	195,872	99	

Company's operating structure is decentralized, with each of major brands having its own headquarters and operating team, which helps create an ownership culture that is an important driver of performance. Despite the decentralization the Company leverages size to obtain economies of scale and synergies by consolidating purchasing power and implementing common cost-containment initiatives.

Brand differentiations:

Brand	Focus
Carnival Cruise Lines	Contemporary (lower priced) - 3 to 8 days. Operates seasonal cruises in Europe, Alaska, New England, Canada, Bermuda, Hawaii, Mexican Riviera and the Panama Canal. Beginning in October 2012, the 2,124-passenger capacity Carnival Spirit will be based year-round in Sydney, Australia, marking the line's first cruises in this vacation market.
Princess	Exotic destinations – 7-14 days. Leading line in Alaska. Private islands destinations. Innovative and luxury focused.
Holland America Line	138 years of cruising experience. Sales to 98 counties over 6 continents, including Antarctica. Majority are 7-21 days
Seabourn	Ultra-luxury. Smaller ships. 7-14 days + 100-plus days world cruise
P&O cruises (UK)	Most recognized brand in the UK. 7-14 days + 3 world cruises
Cunard (UK and North America)	Luxury brand – 5-star dining and accommodations
Costa – continental Europe	Sources passengers from 181 countries. In summer months – Mediterranean and Northern Europe areas. In the winter months - Mediterranean, South America, the Arabian Gulf, the Caribbean, the Red Sea and the Indian Ocean.
AIDA (Germany)	Tailored to German population, 5 to 14 day cruises During the summer, the AIDA ships sail in the North Sea, the Baltic Sea, the Mediterranean, the Black Sea, New England and Canada. During the winter, AIDA ships sail in the Caribbean, Central America, South America, the Atlantic Isles, the Western Mediterranean, the Far East, the Arabian Gulf and the Red Sea.
Ibero (Spain)	Summer – Mediterranean . Winter: South America: Brazil and Argentina

Industry Analysis

Industry growth overview:

Based on the Cruise Line International Association, the number of guests taking cruises around the world is continuously increasing with 2008 setting a record despite the economic downturn. The industry even saw growth throughout the recent recession, which proves it to be resilient to the global economic downturn, mostly due to reasons that cruising can offer an exceptional value proposition. It is important to mention, that around the globe the industry was impacted differently at different points in time. Recession that started in the United States in 2008 had an impact where the North American headcount decreased, whereas Europe showed continuous strong increases in the same period. In 2010 and 2011 US operations rebounded, whereas Europe saw decline in the rate of growth due to fall out from European debt crisis, which is still on-going in 2012. Through various marketing techniques and ability to adjust the movement of the ships around the world, the industry is able to minimize the fall out from deterioration in economic conditions in various parts of the world.

Year	Global Cruise Guests		North America Cruise Guests		European Cruise Guests	
2007	16,586,000		10,247,000		4,080,000	
2008	17,184,000	4%	10,093,000	-2%	4,500,000	10%
2009	17,340,000	1%	10,198,000	1%	5,000,000	11%
2010	18,800,000	8%	10,781,000	6%	5,540,000	11%
2011	20,227,000	8%	11,625,000	8%	5,894,000	6%

Market size:

Cruising is considered a well-established vacation sector in the North American market, a growing sector in the European market and a developing but promising sector in several other emerging markets. Industry data indicates that a significant portion of cruise guests carried are first-time cruisers. This presents an opportunity for long-term growth and a potential for increased profitability.

Despite the fact that the industry is mature, the market size is very large. It is estimated that only 24% of the US population and 13% of UK population have ever taken a cruise vacation. European market is considered to have strong growth potential. Europeans have more vacation days than Americans; small territory with highly condensed population and availability of low cost airlines (e.g Ryanair) and high speed rail allow for a relatively cheap way to travel to a nearby port. In the US the vast territories may be a constraint to reaching a port destination.

Due to low levels of penetration and ability of the industry to regulate supply, there is a substantial growth potential in a large market size

Improving demographics is a positive sign for growth:

The average age of populations in more developed countries is increasing. Between 2011 and 2021, the number of people in the cruise business's primary age group of 45 years and older is expected to grow by 19 million, or 14%, in the U.S. and Canada, and 18 million, or 12%, in the major Western European countries. The cruise business is well-positioned to take advantage of these favorable age demographics in its major markets.

Wide appeal:

Cruising appeals to a broad range of ages and income levels. The average age of a cruise guest typically varies by brand and ranges from approximately 40 years to 60 years across the contemporary, premium and luxury cruise categories. Cruising provides something for every generation, from kids clubs to an array of onboard entertainment provided to teens and adults.

Key players:

The key players in the industry are Carnival and Royal Caribbean Lines with 50% and 25% of the market share respectively.

Porter 5 forces analysis of the industry:

Threat of new entrants is low (positive). The high start-up costs of equipment (vessels) are a formidable barrier. New entrants would have to compete with well established brands of the current players.

Power of suppliers is relatively low (positive). The largest cost to the industry are the vessels and there are only a handful of cruise operators around the world. CCL and RCL hold 75% of the market share. It is unlikely that the shipbuilders would be able to significantly increase the prices of the ships when there are only few buyers. CCL sources it ships from various builders in Europe and Japan. In situations of increased prices, the industry can extend the use of its current vessels.

Power of buyers is also low (positive). Because of the large number of buyers, the industry was successful in increasing prices through fuel surcharges, which are transferred directly to the customer. Many cruise brands have implemented loyalty programs similar of those in the airline industry. These programs allow for discounts for returning cruisers, which allows retention of customers in a particular brand.

Availability of substitutes (negative). The tourism industry is vast and there are a multiple substitutes to the cruise vacation: from regular land vacations to all inclusive resorts of Mexico and Dominican Republic. But none of these substitutes offer the variety of experiences that a cruise vacation may bring combined with the convenience of travel. The industry has a 94% satisfaction rating, which is the highest in the tourism industry

Competitive rivalry is low (positive). Due to small number of players in the cruise industry with CCL and RCL representing 75% of market share, the rivalry is low. The cruise lines try to differentiate themselves through itineraries and amenities. Not only individual brands within the line stand on their own, but ships as well. For instance, the Carnival brand of ships is considered a "party" ship within the industry, with large younger crowd taking the cruise due to availability of night life, casinos, concerts. Other brands are more family oriented. Royal Caribbean markets itself as innovative company. They recently partnered with Starbucks to open coffee shops on board and brought iPads into every room on the ship. Many of Royal Caribbean ships have large climbing walls on the top deck. On the other hand, Carnival brands have installed giant outdoor screens on the decks where cruisers can sit in lounge chairs, have drinks and watch movies. Carnival also differentiates itself by offering larger selection of places to eat and better quality of food.

Impact of Costa Concordia grounding on the industry:

In January 2012 Costa Concordia (a ship of Carnival's Italian brand Costa) capsized off western coast of Italy, resulting in evacuation of 4,000 guests and crew members. 34 people died in an accident. This was the first disaster of this magnitude in 100 years, ever since Titanic went down in 1912. There is no doubt that this incident has had and continue to have an impact on the industry in general and Carnival in particular, however based on our field research where we discussed the situation with travel agent located in Northern New Jersey, this impact is not expected to be long term. It is now known that the salvage operations will start in May and will last for about 10 months. During that time the images of this removal will periodically appear in the media, spurring the conversations. Once the removal is complete, the image will no longer be an eye sore for the public.

Overall, cruise industry has the safest record of all vacation industries. It often requires an accident of this scale to improve operations and create an even better Company. We believe that with the strong management team, which has large stake in the business, the improvements will be substantial.

The Costa Concordia has created a temporary imbalance between the high intrinsic value of CCL, which operates a financially strong company in the industry that is steadily expanding, and the decreased market value, driven by over-reaction to the incident.

For further detail on the impact of the Costa incident on CCL refer to financial analysis portion of this report

Financial Statements Analysis

We believe the financial analysis of CCL should be conducted in two parts: first part should be historical comparison to the Company's main competitor, Royal Caribbean Cruise Line (RCL) and second part should be financial impact of the Costa accident on the Company.

Financial analysis CCL vs. RCL

Strength of the balance sheet:

We observed that CCL is financially stronger of the two companies, with debt at 21% of total assets, where RCL's debt is 40% of total assets. CCL has an ability to return a higher % of earnings to the shareholders that RCL. Its average dividend yield over the 5 years was 4% vs. 2.2% for RCL. The payout ratio is 62% for CCL vs. 11% for RCL (*Source: Morningstar*).

CCL has a higher level of intangibles as % of assets than RCL (12% vs. 4%), due to fact that in part the Company grew through acquisitions of various cruise companies. At higher level of intangibles, CCL still generates a higher RoA and RoE compared to RCL at 4.21 and 6.89 vs 2.89 and 6.83 respectively.

	CCL		RCCL	
	fye 2011	as % of TA	ye 2011	as % of TA
Cash	450	1%	262	1%
Other current assets	862	2%	707	4%
Property	32,054	83%	16,935	86%
Goodwill and other intangibles	4,652	12%	747	4%
Other assets	619	2%	1,154	6%
	38,637		19,804	
Current debt	1,300	3%	639	3%
Other current liabilities	1,699	4%	993	5%
Customer deposits	3,106	8%	1,436	7%
Long term debt	8,053	21%	7,857	40%
Other long term liabilities	647	2%	472	2%
Equity	23,832	62%	8,408	42%
	38,637		19,804	

Solid historical performance (refer to Appendix 2 for comparative income statements of CCL vs. RCL):

CCL's revenue growth has been slower than RCL. Revenue increased 8% and 7% respectively compared to 12% and 15% for RCL. The growth is slower in CCL due to fact that CCL is an older and more mature company, which spends lesser % of revenue on commissions and transportation costs to the ports of departure (16% vs 17% respectively) and lesser % of its revenue on marketing (11% vs. 13% respectively). RCL's marketing efforts translate to the higher revenue growth, but these expenses directly affect operating margins. For the past 3 years CCL averaged 16% in operating margins, whereas RCL only 11%. Despite slower revenue growth CCL is a substantially more profitable company. Furthermore the net income margins for CCL averaged 13% over the past 3 years, compared to only 6% for RCL. This additional disparity between the bottom lines of two companies is added by higher interest expense as a % of revenue for RCL (5%) vs CCL (3% and declining). RCL pays a higher interest rate on its debt: 25% of its debt is fixed at rates ranging from 7% to 12% and maturing through 2027 compared to 25% of CCL's fixed rate debt at ~ 5% maturing through 2020. The remainder of the debt structure is similar with majority of debt is floating rate debt, although RCL's debt has longer maturities as of December 31, 2011.

From the value investing perspective CCL is more attractive, because it generates higher return on its assets compared to RCL and has lower debt exposure.

Table to the right reviews certain performance metric EPS performance over the last 13 years of the two companies. It is important to notice how volatile the EPS of RCL is in comparison to CCL throughout the 13 year period, but in the end 10 year comparative growth in EPS is very close, at 48% for CCL compared to 46% for RCL.

Income items				
	CCL		RCL	
Most recent YE	Nov. 2011	Change in EPS	Dec. 2011	Change in EPS
Sales	15,793		7,537	
Net income	1,912		607	
EPS	2.42		2.77	
		2%		38%
EPS - 3 years 09-11 avg	2.38		2.01	
		-15%		-29%
EPS - 3 years 04-06 avg	2.81		2.82	
		72%		48%
EPS - 3 years 99-01 avg	1.63		1.9	
10 year growth in EPS	48%		46%	
Current dividend (12 months)	$ 1.00		$ 0.20	

We further reviewed the components of the cost structure of two companies to identify the underlying reasons for such fluctuations.

One of the items that particularly draws attention on the income statements are the fuel costs. During the year ended December 31, 2011 fuel costs for CCL were 14% as of total revenue (11% and 9% for 2010 and 2009 respectively). For RCL the fuel costs remained unchanged at 10% for the past 3 years. Upon further review we noticed that RCL is extensively using fuel derivatives in managing its fuel costs. RCL over the years has been using fuel swaps to hedge it fuel cost exposure, whereas CCL just recently (2011) started using zero cost collars to reduce the impact of fuel costs volatility. The use of fuel hedges by RCL explains the volatility in its EPS for the period 2009-2011, where in 2009 and 2010 fuel costs plummeted as a result of the global recession and RCL realized substantial losses on these derivatives (thus decline in EPS of 29% for 2009-2011 year average compared to CCL decline of only 15%). When we fast forward to 2011, when the fuel costs were on the rise, RCL realized substantial gains on the fuel costs derivatives, as such it showed significant increase in EPS for 2011 compared to the preceding prior 3 year average. For comparison, the growth in EPS was 38% over the prior 3 year average compared to CCL's of only 2%.

As disclosed in RCL's 2011 10K filing, the Company realized a gain of $162M on the fuel swaps, which was included as a reduction of fuel cost line item on the income statement. Such a gain is a pure pick up to the net income, because there is no cost or initial investment associated with this contract. If we subtract this pure pick up from the net income, the net income, would be reduced from $607M to $444M and earnings per share would decrease from $2.77 to $2.03, or reduction of 27%. We believe that under these circumstances an investor in RCL has a very higher exposure to the commodity hedges, which distorts the operating performance of a company and creates high volatility in earning.

It is clear that CCL's management makes emphasis on the true operational performance of its company by avoiding exposure to derivatives. Such approach may show decrease in earnings in the times of increase in fuel prices, but over long run the decisions are made based on the true operational performance of the business. Such approach is preferred from the value investment perspective, the focus of which is the performance over the long run.

Impact of the Costa Concordia incident and results of fiscal Q1 2012.

Dynamics from Q1 of 2012:

Pricing is higher in North America with flat occupancy (based on the review of the Q1 earnings call and confirmed by fieldwork interview with the travel agent), European pricing is lower on lower occupancy, mostly due to Costa incident and fall out from European debt crisis. CCL reported a loss per share of ($.18) vs. income per share of $.19 compared to the same quarter in 2011. Upon further review, it was noted the loss was due to 3 one-time non-recurring items: a) non-cash impairment of $173M of Ibero brand (Spanish cruise line) due to decline in economy in Spain b) $29M of insurance deductibles for Costa Concordia ($515M carrying value of Costa was written off during the quarter but offset by insurance recoverable for the same amount with net zero impact on income statement) and c) $34M of impairment charges for Costa Allegra, which was withdrawn from operations due to an on-board fire. If those one-time expenses were to be added back, CCL would realize income per share of $.12 (compared to $.19 same quarter last year)

Costa Concordia:

Costa Concordia vessel was deemed a constructive total loss, but outside the loss of revenue, the ship's value is almost 100% recoverable through the insurance proceeds. Through a tactical move, Costa brand (14% of all Carnival fleet) completely stopped all of the advertisement and marketing activity in order to wait out the negative fall back from the incident. Following the incident the Company offered to all Costa customers the ability to cancel their cruises through February 7, 2012 (window of 3 weeks after the incident) and surprisingly to the management, the Company has seen relatively few cancellations. Without any marketing Costa's bookings during the first 4 weeks after the grounding ran approximately 80%-90% lower on a year to year basis, but during the last 3 weeks leading to March 4, 2012 the bookings ran 40% to 50% lower year-over-year. So with virtually no marketing, the booking picture is improving. As Costa begins to implement its marketing programs, which is already starting in certain markets, we expect their booking trends to gradually improve. During the next year, Costa adopted a strategy in its primary markets to hold normal pricing at expense of occupancy in order to maintain an orderly market.

Costa's chairman Pier Luigi Foschi, age 65, is retiring in July of 2012. Although his retirement was planned, the retirement could be viewed as a positive sign in reviving the brand. Michael Thamm, a president of the Germany based Aida Cruises will replace Foschi as a chairman of the Costa Crociere S.p.A, which operates Costa, AIDA and Ibero brands.

In addition, as even that the occupancy rates are expected to decline in Europe, the Company is moving one ship to Brazilian market. The cruise industry has a unique ability to follow the demand around the world.

Valuation.

<u>Current Valuations:</u>

Given the current valuations, the Company is undervalued against the industry (Tourism and Leisure) and against its long term 19 year average. TTM and forward looking P/E ratios incorporate results of Q1 2012 impacted by the Costa Concordia incident and certain non-cash impairment charges and forward looking PE is affected by expected lower earnings for 2013 again, as a result of Costa Concordia incident. But from the value investing perspective we believe, that the Company is undervalued compared to its long time valuation multiples, price to book and price to cash flow multiples

Valuation Measures	CCL	Industry	CCL 5Y avg*	CCL 19Y avg
Trailing P/E (ttm, intraday):	15.93	20	14	18.0
Forward P/E (fye Nov 30, 2013)1:	14.41	-	-	-
Price/Book (mrq):	1.07	2	1.3	2.5
*Price/Cash Flow (uses 3-year average)	7	9.7	8.1	-
Source: Morningstar, Bloomberg				

<u>Earnings projections:</u>

Based on information reviewed earlier in this report, the cruise industry is expected to grow at 8% per year. Historically, CCL was growing at the same rate with the industry. As a result of Costa incident, we expect growth to slow down to about 4% on the revenue side. The revenue is expected to revert to normalized growth in 2013 and beyond.

EBITDA is expected to be affected by operating losses at Costa's European operations and we expect decline in EBIDTA for 2012 with EPS of $1.56 for 2012. In 2013 EBIDTA margin is expected to increase and the growth in EBIDTA to continue.

	Historical			Projected				
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Revenue	$13,460	$14,469	$15,793	$16,429	$17,423	$18,838	$20,368	$22,022
Growth		*7.5%*	*9.2%*	*4.0%*	*6.1%*	*8.1%*	*8.1%*	*8.1%*
EBITDA	3,463	3,763	3,777	3,122	3,833	4,333	4,685	5,065
Margin	*25.7%*	*26.0%*	*23.9%*	*19.0%*	*22.0%*	*23.0%*	*23.0%*	*23.0%*
Growth		*8.7%*	*0.4%*	*(17.4%)*	*22.8%*	*13.0%*	*8.1%*	*8.1%*
EPS				$1.56	$2.50	$3.20	$3.75	$4.35

Price target

Valuation metric			Multiple	Forecasted price	Weighting	Extended
P/E	2.03	(a)	18.0	36.51	0.33	12.05
Price based on P/B value	30.67		1.3	39.87	0.33	13.16
DCF				57.47	0.33	18.97
Forcasted price a year from today						44.17

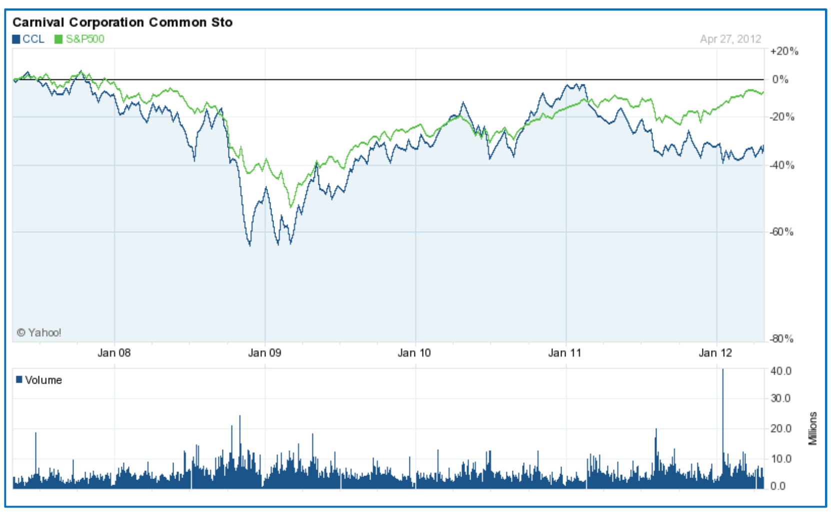
(a) This price is the average of expected EPS of $1.56 for year 2012 and $2.50 for year 2013
We believe, that using only 2012 expected EPS of $1.56 is not appropriate because it will be impacted by expected losses from Costa Concordia incident, including certain one-time charges and impairment charges. We expect that 2012 earnings will improve substantially and that the price a year from today will incorporate the expected improvement in earnings in 2013

The discounted cash-flow model used the following assumptions:

- Growth in revenue is shown in the table on the previous page
- Impact of Costa incident will decrease EBIDTA by 17% for 2012 compared to 2013
- Reduction in rate of capital expenditures due to decreased rate of newbuilts
- Consistent payment of dividends
- WACC for CCL determined to be 7.1% (see appendix for calculations)

Catalysts:

In review of the stock price in comparison to S&P500, there is a clear divergence in the movement of the broader market and CCL starting January of 2011. We believe that that is a direct result of the European debt crisis and general European slow down to which the Company has substantial exposure. Furthermore, we see that S&P500 is up YTD approximately 13%, whereas CCL is virtually flat due to impact of the Costa Incident.



We believe that Costa incident was a catalyst, which temporarily depressed the stock price, because of the expected negative impact for the fiscal 2012 for CCL. We believe that this is temporary decline in otherwise strong business with a strong brands recognition in the industry, that has significant growth potential and ability to follow demand around the world taking advantage of the growth in emerging markets.

For a value investor, who's investment horizon is not limited to one year's performance, this is a great opportunity to have a stake in a successful business with a successful management team.

<u>*Risks to the “Buy” recommendation:*</u>

- Slower recovery in revenue from Costa incident, which may keep EPS down for a longer period of time
- Further deterioration in the Eurozone, but this risk may be offset by opportunities in other emerging markets, such as China, Brazil and Argentina.
- Price of oil may directly impact the bottom line (and thus EPS) of CCL and make earnings volatile.

Appendix

Appendix 1.

	19 year average	0:2011 A	0:2010 A	14:2009 A	0:2008 A	0:2007 A	0:2006 A	R:2005 A	0:2004 A	R:2003 A	0:2002 A	0:2001 A	0:2000 A	0:1999A	0:1998A	0:1997A	0:1996A	0:1996A	0:1994A	0:1993A
Pnce/Earnings	17.99	13.72	16.72	14.30	7.34	15.29	17.69	19.89	23.67	21.46	17.00	15.09	14.00	26.58	24.64	23.92	16.47	16.56	16.02	21.39
High	23.92	19.49	20.04	14.44	15.66	19.04	20.49	26.33	32.71	21.84	20.02	21.57	30.87	38.21	37.72	28.26	20.30	20.09	23.22	24.19
Low	11.70	11.55	13.25	5.87	5.03	15.05	13.28	19.84	21.31	12.33	12.76	10.46	11.03	24.91	16.81	15.49	14.49	14.17	15.97	-31.25
Price/Book	2.52	1.08	1.42	1.14	0.86	1.78	1.68	2.06	2.13	1.50	2.22	2.32	2.26	4.59	4.79	4.46	3.07	3.16	3.17	4.18
High	3.52	1.65	1.60	1.44	1.82	1.81	2.12	2.37	2.29	2.85	3.08	3.48	5.33	7.43	7.03	5.27	3.87	3.97	4.53	4.93
Low	1.56	0.98	1.06	0.69	0.59	1.43	1.37	1.84	1.49	1.61	1.96	1.69	1.90	4.59	3.13	2.89	2.76	2.80	3.16	-6.37

Source: Bloomberg

Appendix 2.

Comparative presentation of income statements of CCL and RCL to support discussion in financial analysis section of the report. Source: Companies 10K filings. Highlighted in blue are the items most notable in the discussion.

	Carnival						Royal Carribbean					
	2011	%/rev	2010	%/rev	2009	%/rev	2011	%/rev	2010	%/rev	2009	%/rev
Revenues												
Passenger tickets	$12,158	77%	$11,084	77%	$10,288	76%	$5,526	73%	$4,909	73%	$4,206	71%
Onboard and other	3,357	21%	3,104	21%	2,885	21%	2,011	27%	1,844	27%	1,684	29%
Tour and other	278	2%	281	2%	287	2%		0%		0%		0%
	15,793	100%	14,469	100%	13,460	100%	7,537	100%	6,753	100%	5,890	100%
Costs and Expenses												
Commissions, transportation and other	2,461	16%	2,272	16%	2,220	16%	1,300	17%	1,176	17%	1,029	17%
Onboard and other	506	3%	474	3%	461	3%	536	7%	481	7%	458	8%
Payroll and related	1,723	11%	1,611	11%	1,498	11%	826	11%	768	11%	682	12%
Food	965	6%	869	6%	839	6%	424	6%	388	6%	345	6%
Fuel	2,193	**14%**	1,622	**11%**	1,156	**9%**	927	**12%**	647	**10%**	600	**10%**
Fuel - gain of derivatives							-163	**-2%**	not broken out			
Other ship operating	2,247	14%	2,032	14%	1,997	15%	1,093	14%	999	15%	957	16%
Tour and other	204	1%	212	1%	236	2%		0%		0%		0%
Total	10,299	65%	9,092	63%	8,407	62%	4,943	66%	4,458	66%	4,071	69%
Marketing, selling and administrative expenses	1,717	11%	1,614	11%	1,590	12%	961	13%	848	13%	762	13%
Depreciation and amortization	1,522	10%	1,416	10%	1,309	10%	702	9%	644	10%	568	10%
	13,538	86%	12,122	84%	11,306	84%	6,606	88%	5,950	88%	5,401	92%
Operating Income (loss)	2,255	14%	2,347	16%	2,154	16%	932	12%	803	12%	489	8%
Nonoperating (Expense) Income												
Interest income	11		12		14		25		9		7	
Interest expense, net of capitalized interest	(365)	-2%	(378)	-3%	(380)	-3%	(382)	-5%	(371)	-5%	(310)	-5%
Gains on fuel derivatives, net	1	-		-								
Other income (expense), net	10		-2		18		33		75		-33	
Total	(343)		(368)		(348)		(324)		(287)		(336)	
Income Before Income Taxes	1,912	12%	1,979	14%	1,806	13%		0%		0%		0%
Income Tax Expense, Net	-		-1		-16							
Net Income	$1,912	12%	$1,978	14%	$1,790	13%	$607	8%	$516	8%	$152	3%

Appendix 3

Weighted average interest rate calculation

CCL

Debt schedule and weithed average interest rate calculation

Debt schedule (source 10K FY 2011)	int. rate	2011(a)	
	a	b	=a*b
Other	0.02	3	0.06
Export Credit Facilities			-
Fixed rate, bearing interest at 4.2% to 5.5%, due through 2020 (b)	0.05	2,340	117.00
Euro fixed rate, bearing interest at 3.8% to 4.5%, due through 2025 (b)	0.04	470	18.80
Floating rate, bearing interest at LIBOR plus 1.3% to 1.6% (1.6% to 2.0%), due through 2023 (c)(d)	0.017	872	14.82
Euro floating rate, bearing interest at EURIBOR plus 0.2% to 1.0% (1.7% to 2.8%), due through 2026 (b)(e)	0.02	1,314	26.28
Bank Loans			-
Fixed rate, bearing interest at 2.7% to 4.4%, due through 2015 (b)(f)(g)	0.035	850	29.75
Euro fixed rate, bearing interest at 3.9% to 4.7%, due through 2021 (b)	0.043	350	15.05
Floating rate, bearing interest at LIBOR plus 0.7% to 0.9% (1.1% to 1.5%), due through 2016 (g)(h)	0.014	500	7.00
Euro floating rate, bearing interest at EURIBOR plus 0.6% (2.1%), due in 2014 (b)(i)	0.021	135	2.84
Private Placement Notes			-
Fixed rate, bearing interest at 5.9% to 6.0%, due through 2016	0.06	121	7.26
Euro fixed rate, bearing interest at 6.7% to 7.3%, due through 2018 (b)	0.07	247	17.29
Publicly-Traded Notes			-
Fixed rate, bearing interest at 6.7% to 7.2%, due through 2028	0.07	528	36.96
Euro fixed rate, bearing interest at 4.3%, due in 2013	0.043	997	42.87
Sterling fixed rate, bearing interest at 5.6%, due in 2012	0.056	314	17.58
Other	**0.04**	31	1.24
UNSECURED SHORT-TERM BORROWINGS			-
Commercial paper, with aggregate weighted-average interest rate of 0.3%, repaid in December 2011	0.003	162	0.49
Euro bank loans, with aggregate weighted-average interest rate of 1.8%, repaid in December 2011	0.018	119	2.14
Total debt		9353	357.43
Weigthed average interest rate paid			3.82%

Appendix 4
Field research.

Interview with a travel agent (Maria – not actual name) located in Northern New Jersey.

The purpose of the interview was to understand differentiation between various cruise line brands, understand competitiveness of cruises against other types of vacations and assess the impact of the Costa Concordia incident.

Summary:

Competitive landscape of all-inclusive vacations:

Maria mentioned, that the cruise vacation is seen as a sub-sector within her industry – sub-sector of "all-inclusive" vacations. Major competitors of cruises in this subsector are all-inclusive land resorts vacations, such as in Mexico or Dominican Republic. The main driver of competition between land based and cruise all-inclusive is that a lot of items on board of the ships are not inclusive, for instance alcohol. Some vacationers, for who alcohol or party atmosphere are an integral part of a vacation, may opt for an all-inclusive resort. Today though with the turmoil in Mexico's drug wars, the flow of US tourists into Mexico decreased. Cruising will not likely to pick up the slack, but countries, like Dominican Republic or Jamaica will. As such, land vacations are more competitively priced, and have further reach into the continent, because airfare is usually included in the package. In addition, commissions on the land vacation sales are higher than for cruises, which also adds a competitive edge.

An advantage of a cruise is the higher variability of entertainment, food options (although one may have to pay extra for specialty restaurants). Variability of entertainment is an important factor, as it encourages family vacations, where several generations may go together (children, parents and grandparents - they follow their own itineraries during the day and then meet for dinner). The land all inclusive resort does not have that advantage. The age demographic in the US is such, that within the next decade baby boomers will hit the height of retirement age, and the cruise industry may not only pick up the older crowd as guests, but also their families.

Travel to destinations, such as Alaska, do not have all-inclusive resorts, so cruising is the only option. Because Carnival Cruises is the leader in Alaskan tours and they also own Alaska tour operations, Carnival has a competitive edge in Alaska, when compared to Royal Caribbean.

Royal Caribbean vs. Carnival and brand differentiation.

During the review of 10Ks, I noticed, that RCL was emphasizing its innovative approach, whereas Carnival did not underscore that in the filings. In reaction to this statement, Maria noted, that each brand within the line has its own specifics and each brand is managed as a separate business. The cruise lines and the brands within the cruise lines will not necessarily overlap and often do not duplicate each other, but rather provide different options: for example, RCL's ships have climbing walls and wave surfing in the pools, whereas as CCL has outdoor movies on a giant TV screen and more restaurant options and overall better quality food.
Maria also mentioned differentiation by an itinerary: for example, Bahamas vs. Bermuda. Even the cruise brands within the same price category will differentiate themselves by the itinerary and destinations, which reduces price competition, because itinerary may be a differentiating factor and not the price.

Costa disaster:

At the end of the interview I asked Maria about the Costa incident and her thoughts on the impact on the industry. Maria underscored, that despite the incident, cruising is one of the safest ways to travel. She noted that sheer magnitude of the number of people affected, the pictures of the giant ship on its side – all are impressive and generated a lot of hype and attention in the media. She believes, that until the ship is removed and the media coverage subsides, there may be some negative perception from those who were considering cruising for the first time. Maria underscored, that those of her customers who cruise regularly brushed the incident off. She did not notice any significant effect on her particular agency, but she noted that her focus is the tri-state area and the tourism industry in Europe may be more affected, just due to sheer proximity and brand awareness of Costa Brand.

Appendix 5

Weighted Average Cost of Capital Calculation

WACC = We*Re (from capm) + Wd*Rd*(1-tax rate)

WACC calculation		weight		
Debt	9,353.0	0.27	2.50%	0.007
Equity	25,858.0	0.73	8.75%	0.064
Total	35,211.0	1.0		0.071

Cost of equity CAPM==0.03+1.15*0.05 8.75%

Cost of debt - based on the company's new 2011 borrowings at floating rate of averaging 2.5% (*)

(*) note, that due to fact that the Company does not pay income tax in the US, due to operations in the international waters, the deductability of interest for tax purposes is ignored

Appendix 6.
DCF Model

CHECKS & BALANCES	
Bal. Sheet Global	0
Bal. Sheet >0	0
Debt Schedule	0
DCF Variance	0
Total Check	0

AVERAGE INTEREST	1

OPERATING CASE	2

Summary Financial Results

	Historical			Projected				
	2009	2010	2011	2012	2013	2014	2015	2016
Revenue	$13,460	$14,469	$15,793	$16,429	$17,423	$18,838	$20,368	$22,022
Growth		*7.5%*	*9.2%*	*4.0%*	*6.1%*	*8.1%*	*8.1%*	*8.1%*
EBITDA	3,463	3,763	3,777	3,122	3,833	4,333	4,685	5,065
Margin	*25.7%*	*26.0%*	*23.9%*	*19.0%*	*22.0%*	*23.0%*	*23.0%*	*23.0%*
Growth		*8.7%*	*0.4%*	*(17.4%)*	*22.8%*	*13.0%*	*8.1%*	*8.1%*
EPS				$1.54	$2.50	$3.20	$3.74	$4.34
Net Debt			$8,053	$7,578	$6,497	$4,622	$2,291	($539)
Total Debt			$8,053	$7,578	$6,497	$4,622	$2,756	$1,597

Credit Statistics

	2011	2012	2013	2014	2015	2016
LEVERAGE RATIOS						
Total Debt / EBITDA	**2.1x**	**2.4x**	**1.7x**	**1.1x**	**0.6x**	**0.3x**
Total Debt/Total Capital	**25.3%**	**23.2%**	**19.4%**	**13.6%**	**7.8%**	**4.3%**
Total Debt/Total Assets	**20.8%**	**19.0%**	**15.9%**	**11.0%**	**6.3%**	**3.4%**
Total Debt/ Equity	**0.3x**	**0.3x**	**0.2x**	**0.2x**	**0.1x**	**0.0x**
Short term Debt/Total Debt	**0.0%**	**10.9%**	**21.1%**	**22.7%**	**13.7%**	**0.0%**
COVERAGE RATIOS						
EBIT/Interest	**6.2x**	**4.9x**	**8.0x**	**11.3x**	**17.9**	**33.7x**
EBITDA / Interest	**10.3x**	**9.7x**	**13.2x**	**17.5x**	**26.5**	**48.1x**
EBITDA less Capex / Interest	**3.0x**	**1.3x**	**4.3x**	**7.0x**	**11.8**	**23.4x**
LIQUIDITY RATIOS						
Current Ratio	**0.2x**	**0.2x**	**0.2x**	**0.2x**	**0.3**	**0.5x**
Quick Ratio	**0.2x**	**0.2x**	**0.2x**	**0.2x**	**0.2x**	**0.4x**

Valuation

DCF Enterprise Value	**$59,365**
Implied EV/EBITDA	**15.7x**
DCF Equity Value	**$44,709**
Forward Implied P/E	**37.2x**

DCF Equity Sensitivity Analysis

	WACC		
Growth	6.0%	7.1%	8.0%
2.0%	$ 62.40	43.90	33.83
3.0%	87.04	57.47	42.97
4.0%	136.32	79.79	56.69

OPERATING ASSUMPTIONS

	Historical			Projected				
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Revenue	$13,460	$14,469	$15,793	$16,429	$17,423	$18,838	$20,368	$22,022
Growth		*7.5%*	*9.2%*	*4.0%*	*6.1%*	*8.1%*	*8.1%*	*8.1%*
Cost of Goods Sold:								
COGS (Excl. Depn.)	8,407	9,092	10,299	11,172	11,499	12,433	13,443	14,534
% Sales	*62.5%*	*62.8%*	*65.2%*	*68.0%*	*66.0%*	*66.0%*	*66.0%*	*66.0%*
Depreciation	1,309	1,416	1,522	1,522	1,522	1,522	1,522	1,522
% Sales	*9.7%*	*9.8%*	*9.6%*	*9.3%*	*8.7%*	*8.1%*	*7.5%*	*6.9%*
Total COGS	9,716	10,508	11,821	12,694	13,021	13,955	14,965	16,056
% Sales	*72.2%*	*72.6%*	*74.8%*	*77.3%*	*74.7%*	*74.1%*	*73.5%*	*72.9%*
SG&A Expense:								
SG&A Expense (Excl. Amt.)	1,590	1,614	1,717	2,136	2,091	2,072	2,240	2,422
% Sales	*11.8%*	*11.2%*	*10.9%*	*13.0%*	*12.0%*	*11.0%*	*11.0%*	*11.0%*
Total SG&A Expense	1,590	1,614	1,717	2,136	2,091	2,072	2,240	2,422
% Sales	*11.8%*	*11.2%*	*10.9%*	*13.0%*	*12.0%*	*11.0%*	*11.0%*	*11.0%*
EBITDA	3,463	3,763	3,777	3,122	3,833	4,333	4,685	5,065
Margin	*25.7%*	*26.0%*	*23.9%*	*19.0%*	*22.0%*	*23.0%*	*23.0%*	*23.0%*
Growth		*8.7%*	*0.4%*	*(17.4%)*	*22.8%*	*13.0%*	*8.1%*	*8.1%*
Operating Profit (EBIT)	2,154	2,347	2,255	1,600	2,311	2,811	3,163	3,543
Margin	*16.0%*	*16.2%*	*14.3%*	*9.7%*	*13.3%*	*14.9%*	*15.5%*	*16.1%*
Total Capital Expenditures	3,380	3,579	2,696	2,700	2,600	2,600	2,600	2,600
% of Sales	*25.1%*	*24.7%*	*17.1%*	*16.4%*	*14.9%*	*13.8%*	*12.8%*	*11.8%*

WORKING CAPITAL ASSUMPTIONS

	Historical	Projected				
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Sales	$15,793	$16,429	$17,423	$18,838	$20,368	$22,022
Total COGS	11,821	12,694	13,021	13,955	14,965	16,056
Current Assets						
Required Cash	450	483	496	531	570	611
Accounts Receivable	263	274	290	314	339	367
Inventory	374	402	412	442	473	508
Prepaid Expenses	225	242	248	266	285	306
Current Assets	1,312	1,400	1,446	1,552	1,667	1,792
Current Liabilities						
Accounts Payable	1,876	2,015	2,067	2,215	2,375	2,548
Accrued Expenses	1,123	1,206	1,237	1,326	1,422	1,525
Customer Deposits	3,106	3,335	3,421	3,667	3,932	4,219
Current Liabilities	6,105	6,556	6,725	7,207	7,729	8,292
Net Cash Impact						
Net Working Capital	*-4793*	*-5156*	*-5279*	*-5655*	*-6061*	*-6501*
Cash (Used by) / Generated from Work. Cap.		*363*	*123*	*376*	*406*	*439*
Ratios						
Required Cash % of COGS	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*	*3.8%*
A/R % of Sales	*1.7%*	*1.7%*	*1.7%*	*1.7%*	*1.7%*	*1.7%*
Days Receivable	*6.1 d*	*6.1 d*	*6.1 d*	*6.1 d*	*6.1 d*	*6.1 d*
Inventory % of COGS	*3.2%*	*3.2%*	*3.2%*	*3.2%*	*3.2%*	*3.2%*
Inventory Turns	*31.6x*	*31.6x*	*31.6x*	*31.6x*	*31.6x*	*31.6x*
Prepaid % of COGS	*1.9%*	*1.9%*	*1.9%*	*1.9%*	*1.9%*	*1.9%*
Accts Payable % of COGS	*15.9%*	*15.9%*	*15.9%*	*15.9%*	*15.9%*	*15.9%*
Accrued % of COGS	*9.5%*	*9.5%*	*9.5%*	*9.5%*	*9.5%*	*9.5%*
Customer Deposits % COGS	*26.3%*	*26.3%*	*26.3%*	*26.3%*	*26.3%*	*26.3%*

INCOME STATEMENTS

	Rate	Historical 2011	Projected 2012	2013	2014	2015	2016
Revenue		15,793	16,429	17,423	18,838	20,368	22,022
Less: Total COGS		(11,821)	(12,694)	(13,021)	(13,955)	(14,965)	(16,056)
Gross Profit		3,972	3,735	4,402	4,883	5,403	5,965
Less: Total SG&A		(1,717)	(2,136)	(2,091)	(2,072)	(2,240)	(2,422)
EBIT		2,255	1,600	2,311	2,811	3,163	3,543
Interest & Other Expense / (Income):	*Rate*						
Term Loan - incremental borrowings	*3.82%*		16	32	52	40	14
Term Loan	*3.82%*		308	258	196	136	91
Total Interest Expense			323	289	248	177	105
Less: Interest Income	**3.0%**		(14)	(14)	(15)	(16)	(31)
Financing Costs Amortization	**7.0 y**		88	88	88	88	88
Pretax Income			1,201	1,948	2,489	2,914	3,380
Less: Income Taxes			0	0	0	0	0
Net Income			1,201	1,948	2,489	2,914	3,380
Shares Outstanding - diluted			778	778	778	778	778
Earnings per Share (EPS)			$1.54	$2.50	$3.20	$3.74	$4.34
EBITDA Reconciliation:							
EBIT			1,600	2,311	2,811	3,163	3,543
Plus: Depreciation			1,522	1,522	1,522	1,522	1,522
EBITDA			3,122	3,833	4,333	4,685	5,065

BALANCE SHEETS

	Historical	Projected				
	Nov-11	Nov-12	Nov-13	Nov-14	Nov-15	Nov-16
ASSETS:						
Required Cash	$450	483	496	531	570	611
Total Cash	$450	483	496	531	1,034	2,747
Accounts Receivable	$ 263	274	290	314	339	367
Inventory	$ 374	402	412	442	473	508
Prepaid Expenses	$ 225	242	248	266	285	306
Current Assets	$ 1,312	1,400	1,446	1,552	2,132	3,927
PP&E - Gross	$ 42,204	44,904	47,504	50,104	52,704	55,304
Less: Accum. Depn.	$ (10,150)	(11,672)	(13,194)	(14,716)	(16,238)	(17,760)
Net PP&E	$ 32,054	33,232	34,310	35,388	36,466	37,544
Intangibles	$ 4,652	4,652	4,652	4,652	4,652	4,652
Cap. Financing Costs	$ 619	531	442	354	265	177
Total Assets	$38,637	$39,815	$40,850	$41,946	$43,515	$46,300
LIABILITIES & EQUITY:						
Accounts Payable	$ 1,876	2,015	2,067	2,215	2,375	2,548
Accrued Expenses	$ 1,123	1,206	1,237	1,326	1,422	1,525
Customer Deposits	$ 3,106	3,335	3,421	3,667	3,932	4,219
Current Liabilities	$ 6,105	6,556	6,725	7,207	7,729	8,292
Term Loan - additional borrowings	$ -	825	1,368	1,050	379	0
Term Loan	$ 8,053	6,753	5,129	3,572	2,377	1,597
Sr. Sub. Notes	$ -	0	0	0	0	0
Total Debt	$ 8,053	7,578	6,497	4,622	2,756	1,597
Other Liabilities	$ 647	647	647	647	647	647
Total Liabilities	$ 14,805	14,781	13,869	12,476	11,131	10,536
Common Equity	$ 23,832	25,033	26,981	29,470	32,384	35,764
Liabilities & Equity	$38,637	$39,815	$40,850	$41,946	$43,515	$46,300
Check	0.000	0.000	0.000	0.000	0.000	0.000

CASH FLOW STATEMENTS

	Projected				
	Nov-12	Nov-13	Nov-14	Nov-15	Nov-16
Operating Activities:					
Net Income	$1,201	$1,948	$2,489	$2,914	$3,380
Depreciation	$1,522	$1,522	$1,522	$1,522	$1,522
Amortization	$0	$0	$0	$0	$0
Financing Costs Amortization	$88	$88	$88	$88	$88
Subtotal	2,812	3,558	4,099	4,524	4,991
Changes in Working Capital	363	123	376	406	439
Cash Flow from Operations	3,175	3,682	4,475	4,930	5,430
Investing Activities:					
Less: Capital Expenditures	(2,700)	(2,600)	(2,600)	(2,600)	(2,600)
Plus: Investment Gains/(Losses)	0	0	0	0	0
Cash Flow from / (Used by) Investing	(2,700)	(2,600)	(2,600)	(2,600)	(2,600)
Cash Available for Debt Repayment	475	1,082	1,875	2,330	2,830
Financing Actitivies Capital Inflow / (Outflow):					
Term Loan Borrowings	825	542	(318)	(671)	(379)
Term Loan	(1,300)	(1,624)	(1,557)	(1,195)	(780)
Sr. Sub. Notes	0	0	0	0	0
Cash Flow from / (Used by) Financing	(475)	(1,082)	(1,875)	(1,866)	(1,159)
Net Increase / (Decrease) in Cash	0	0	0	464	1,672

DEBT SCHEDULE

		Projected				
		2012	**2013**	**2014**	**2015**	**2016**
Scheduled Debt Retirement and Dividends						
Dividends		671	671	671	671	671
Term Loan	*Years to Amortize* *7 y*	1,300	1,624	1,557	1,195	780
Sr. Sub. Notes		0	0	0	0	0
USES OF FUNDS						
Required Debt Retirement and Dividends						
Dividends		671	671	671	671	379
Term Loan		1,300	1,624	1,557	1,195	780
Sr. Sub. Notes		0	0	0	0	0
Required Debt Retirement and Dividends		1,971	2,295	2,228	1,866	1,159
Early debt repayments	Prepay?					
Optional Debt Retirement	no	0	0	0	0	0
Optional Debt Retirement		0	0	0	0	0
Uses of Funds Subtotal		1,971	2,295	2,228	1,866	1,159
Excess Cash Added to Balance Sheet		0	0	0	464	2,136
Total Uses of Funds		**1,971**	**2,295**	**2,228**	**2,330**	**3,294**
SOURCES OF FUNDS						
Existing Excess Cash		$0	$0	$0	$0	$464
Cash Available for Dividends and Debt repayment		$475	$1,082	$1,875	$2,330	$2,830
Subtotal		475	1,082	1,875	2,330	3,294
Incremental Revolver Borrowings		1,496	1,213	353	0	0
Total Sources of Funds		**1,971**	**2,295**	**2,228**	**2,330**	**3,294**
Check		0.000	0.000	0.000	0.000	0.000

VALUATION ANALYSIS

		2011	2012	2013	2014	2015	2016
			Projected				
		0	*1*	*2*	*3*	*4*	*5*
Free Cash Flow Calculation							
EBIT			$1,600	$2,311	$2,811	$3,163	$3,543
Plus: Depreciation			$1,522	$1,522	$1,522	$1,522	$1,522
Plus: Amortization			$0	$0	$0	$0	$0
EBITDA			**3,122**	**3,833**	**4,333**	**4,685**	**5,065**
Less: Capex			(2,700)	(2,600)	(2,600)	(2,600)	(2,600)
EBITDA Less Capex			**422**	**1,233**	**1,733**	**2,085**	**2,465**
Less: Taxes on EBIT	0.0%		0	0	0	0	0
Less: Changes in Working Capital			363	123	376	406	439
Unlevered Free Cash Flow			**784**	**1,357**	**2,109**	**2,491**	**2,904**
DCF Enterprise Value Calculation							
Terminal Value Calculation							
Terminal Value Growth Rate							3.0%
Projected Free Cash Flow							2,991
Discount Rate (WACC)							7.1%
Terminal Enterprise Value							72,963
Implied Term. Value EBITDA Multiple							14.4x
Discounted Cash Flows at WACC							
Unlevered Free Cash Flow			732	1,183	1,716	1,893	2,061
Terminal Value							51,779
Total Discounted Cash Flows		**59,365**	732	1,183	1,716	1,893	53,840

Summary DCF Valuation

DCF Enterprise Value	$59,365	*15.7x*	
Less: Net Debt	($8,053)		
Less: Value of PLC equity	(6,603.0)		
Equity Value - common	$44,709		
Shares	778		
DCF Value per Share	$57.47	*37.2x*	Forward

DCF Equity Sensitivity Analysis

	WACC		
Growth	6.0%	7.1%	8.0%
2.0%	$ 62.40	43.90	33.83
3.0%	87.04	57.47	42.97
4.0%	136.32	79.79	56.69

Operating Assumptions

REVENUE BUILD UP

Volume Growth			2012	2013	2014	2015	2016
	1	Management Case	3.0%	6.0%	7.0%	8.0%	8.0%
	2	Base Case	3.0%	5.0%	6.0%	6.0%	6.0%
	3	Downside Case	2.0%	4.0%	5.0%	5.0%	5.0%
Active Case		**Base Case**	**3.0%**	**5.0%**	**6.0%**	**6.0%**	**6.0%**

Price Growth			2012	2013	2014	2015	2016
	1	Management Case	2.0%	2.0%	3.0%	3.0%	3.0%
	2	Base Case	1.0%	1.0%	2.0%	2.0%	2.0%
	3	Downside Case	1.0%	1.0%	1.0%	1.0%	1.0%
Active Case		**Base Case**	**1.0%**	**1.0%**	**2.0%**	**2.0%**	**2.0%**

Revenue Growth			2012	2013	2014	2015	2016
Active Case		**Base Case**	**4.0%**	**6.1%**	**8.1%**	**8.1%**	**8.1%**

COGS %			2012	2013	2014	2015	2016
	1	Management Case	66.0%	65.0%	65.0%	65.0%	64.0%
	2	Base Case	68.0%	66.0%	66.0%	66.0%	66.0%
	3	Downside Case	68.0%	69.0%	69.0%	70.0%	70.0%
Active Case		**Base Case**	**68.0%**	**66.0%**	**66.0%**	**66.0%**	**66.0%**

SG&A %			2012	2013	2014	2015	2016
	1	Management Case	11.0%	10.0%	10.0%	10.0%	10.0%
	2	Base Case	13.0%	12.0%	11.0%	11.0%	11.0%
	3	Downside Case	14.0%	12.5%	12.5%	12.5%	12.5%
Active Case		**Base Case**	**13.0%**	**12.0%**	**11.0%**	**11.0%**	**11.0%**

Capex			2012	2013	2014	2015	2016
	1	Management Case	2,700	2,600	2,500	2,400	2,400
	2	Base Case	2,700	2,600	2,600	2,600	2,600
	3	Downside Case	2,700	2,800	2,800	2,800	2,800
Active Case		**Base Case**	**2,700**	**2,600**	**2,600**	**2,600**	**2,600**

Exhibit 13

CARNIVAL CORPORATION & PLC
EXHIBIT 13 TO FORM 10-K
FOR THE YEAR ENDED NOVEMBER 30, 2011

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CARNIVAL CORPORATION & PLC
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share data)

	Years Ended November 30,		
	2011	2010	2009
Revenues			
Cruise			
Passenger tickets	$ 12,158	$ 11,084	$ 10,288
Onboard and other	3,357	3,104	2,885
Tour and other	278	281	287
	15,793	14,469	13,460
Costs and Expenses			
Operating			
Cruise			
Commissions, transportation and other	2,461	2,272	2,220
Onboard and other	506	474	461
Payroll and related	1,723	1,611	1,498
Fuel	2,193	1,622	1,156
Food	965	869	839
Other ship operating	2,247	2,032	1,997
Tour and other	204	212	236
Total	10,299	9,092	8,407
Selling and administrative	1,717	1,614	1,590
Depreciation and amortization	1,522	1,416	1,309
	13,538	12,122	11,306
Operating Income	2,255	2,347	2,154
Nonoperating (Expense) Income			
Interest income	11	12	14
Interest expense, net of capitalized interest	(365)	(378)	(380)
Gains on fuel derivatives, net	1	-	-
Other income (expense), net	10	(2)	18
	(343)	(368)	(348)
Income Before Income Taxes	1,912	1,979	1,806
Income Tax Expense, Net	-	(1)	(16)
Net Income	$ 1,912	$ 1,978	$ 1,790
Earnings Per Share			
Basic	$ 2.43	$ 2.51	$ 2.27
Diluted	$ 2.42	$ 2.47	$ 2.24
Dividends Declared Per Share	$ 1.00	$ 0.40	

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

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CARNIVAL CORPORATION & PLC
CONSOLIDATED BALANCE SHEETS
(in millions, except par values)

	November 30, 2011	November 30, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 450	$ 429
Trade and other receivables, net	263	248
Inventories	374	320
Prepaid expenses and other	225	247
Total current assets	1,312	1,244
Property and Equipment, Net	32,054	30,967
Goodwill	3,322	3,320
Other Intangibles	1,330	1,320
Other Assets	619	639
	$ 38,637	$ 37,490
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ 281	$ 740
Current portion of long-term debt	1,019	613
Accounts payable	576	503
Accrued liabilities and other	1,123	1,094
Customer deposits	3,106	2,805
Total current liabilities	6,105	5,755
Long-Term Debt	8,053	8,011
Other Long-Term Liabilities and Deferred Income	647	693
Commitments and Contingencies		
Shareholders' Equity		
Common stock of Carnival Corporation, $0.01 par value; 1,960 shares authorized; 647 shares at 2011 and 646 shares at 2010 issued	6	6
Ordinary shares of Carnival plc, $1.66 par value; 215 shares at 2011 and 214 shares at 2010 issued	357	355
Additional paid-in capital	8,180	8,094
Retained earnings	18,349	17,224
Accumulated other comprehensive loss	(209)	(254)
Treasury stock, 52 shares at 2011 and 39 shares at 2010 of Carnival Corporation and 33 shares at 2011 and 31 shares at 2010 of Carnival plc, at cost	(2,851)	(2,394)
Total shareholders' equity	23,832	23,031
	$ 38,637	$ 37,490

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

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

	Years Ended November 30,		
	2011	2010	2009
OPERATING ACTIVITIES			
Net income	$ 1,912	$ 1,978	$ 1,790
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,522	1,416	1,309
Share-based compensation	46	43	50
Other	48	(15)	37
Changes in operating assets and liabilities			
Receivables	(43)	106	81
Inventories	(54)	(12)	10
Prepaid expenses and other	18	(14)	7
Accounts payable	67	(36)	74
Accrued and other liabilities	(41)	81	29
Customer deposits	291	271	(45)
Net cash provided by operating activities	3,766	3,818	3,342
INVESTING ACTIVITIES			
Additions to property and equipment	(2,696)	(3,579)	(3,380)
Other, net	50	78	(4)
Net cash used in investing activities	(2,646)	(3,501)	(3,384)
FINANCING ACTIVITIES			
(Repayments of) proceeds from short-term borrowings, net	(450)	626	(288)
Principal repayments of revolvers	(13)	(350)	(1,749)
Proceeds from revolvers	8	94	1,166
Principal repayments of other long-term debt	(1,237)	(1,842)	(1,273)
Proceeds from issuance of other long-term debt	1,696	1,280	2,299
Dividends paid	(671)	(237)	(314)
Purchases of treasury stock	(454)	(524)	(188)
Sales of treasury stock	-	545	196
Proceeds from settlement of foreign currency swaps	-	-	113
Other, net	28	4	(55)
Net cash used in financing activities	(1,093)	(404)	(93)
Effect of exchange rate changes on cash and cash equivalents	(6)	(22)	23
Net increase (decrease) in cash and cash equivalents	21	(109)	(112)
Cash and cash equivalents at beginning of year	429	538	650
Cash and cash equivalents at end of year	$ 450	$ 429	$ 538

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

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CARNIVAL CORPORATION & PLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

	Common stock	Ordinary shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock	Total shareholders' equity
Balances at November 30, 2008	$ 6	$ 354	$ 7,925	$ 13,771	$ (623)	$ (2,296)	$ 19,137
Comprehensive income							
Net income	-	-	-	1,790	-	-	1,790
Change in foreign currency translation adjustment	-	-	-	-	1,043	-	1,043
Other	-	-	-	-	42	-	42
Total comprehensive income							2,875
Purchases and sales under the Stock Swap programs and other	-	-	(5)	-	-	32	27
Balances at November 30, 2009	6	354	7,920	15,561	462	(2,264)	22,039
Comprehensive income							
Net income	-	-	-	1,978	-	-	1,978
Change in foreign currency translation adjustment	-	-	-	-	(664)	-	(664)
Other	-	-	-	-	(52)	-	(52)
Total comprehensive income							1,262
Cash dividends declared	-	-	-	(315)	-	-	(315)
Purchases and sales under the Stock Swap program and other	-	1	174	-	-	(130)	45
Balances at November 30, 2010	6	355	8,094	17,224	(254)	(2,394)	23,031
Comprehensive income							
Net income	-	-	-	1,912	-	-	1,912
Change in foreign currency translation adjustment	-	-	-	-	(24)	-	(24)
Other	-	-	-	-	69	-	69
Total comprehensive income							1,957
Cash dividends declared	-	-	-	(787)	-	-	(787)
Purchases of treasury stock under the Repurchase Program and other	-	2	86	-	-	(457)	(369)
Balances at November 30, 2011	$ 6	$ 357	$ 8,180	$ 18,349	$ (209)	$ (2,851)	$ 23,832

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

CARNIVAL CORPORATION & PLC

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

CARNIVAL CORPORATION & PLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in millions, except per share data)

	Three Months Ended February 29/28,	
	2012	2011
Revenues		
Cruise		
Passenger tickets	$ 2,764	$ 2,652
Onboard and other	809	757
Tour and other	9	10
	3,582	3,419
Operating Costs and Expenses		
Cruise		
Commissions, transportation and other	661	664
Onboard and other	126	120
Fuel	592	450
Payroll and related	442	411
Food	240	231
Other ship operating	619	510
Tour and other	14	9
	2,694	2,395
Selling and administrative	421	422
Depreciation and amortization	376	367
Ibero goodwill and trademark impairment charges	173	-
	3,664	3,184
Operating (Loss) Income	(82)	235
Nonoperating (Expense) Income		
Interest income	3	2
Interest expense, net of capitalized interest	(88)	(86)
Gains on fuel derivatives, net	21	-
Other income, net	5	6
	(59)	(78)
(Loss) Income Before Income Taxes	(141)	157
Income Tax Benefit (Expense), Net	2	(5)
Net (Loss) Income	$ (139)	$ 152
(Loss) Earnings Per Share		
Basic	$ (0.18)	$ 0.19
Diluted	$ (0.18)	$ 0.19
Dividends Declared Per Share	$ 0.25	$ 0.25

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

CARNIVAL CORPORATION & PLC
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in millions, except par values)

	February 29, 2012	November 30, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 471	$ 450
Trade and other receivables, net	286	263
Insurance recoverables	851	30
Inventories	381	374
Prepaid expenses and other	184	195
Total current assets	2,173	1,312
Property and Equipment, Net	31,475	32,054
Goodwill	3,188	3,322
Other Intangibles	1,319	1,330
Other Assets	808	619
	$ 38,963	$ 38,637
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ 538	$ 281
Current portion of long-term debt	1,025	1,019
Accounts payable	517	576
Claims reserve	398	97
Accrued liabilities and other	1,020	1,026
Customer deposits	3,046	3,106
Total current liabilities	6,544	6,105
Long-Term Debt	7,964	8,053
Other Long-Term Liabilities and Deferred Income	802	647
Contingencies		
Shareholders' Equity		
Common stock of Carnival Corporation, $0.01 par value; 1,960 shares authorized; 649 shares at 2012 and 647 shares at 2011 issued	6	6
Ordinary shares of Carnival plc, $1.66 par value; 215 shares at 2012 and 2011 issued	357	357
Additional paid-in capital	8,196	8,180
Retained earnings	18,015	18,349
Accumulated other comprehensive loss	(67)	(209)
Treasury stock, 52 shares at 2012 and 2011 of Carnival Corporation and 33 shares at 2012 and 2011 of Carnival plc, at cost	(2,854)	(2,851)
Total shareholders' equity	23,653	23,832
	$ 38,963	$ 38,637

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

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

	Three Months Ended February 29/28, 2012	2011
OPERATING ACTIVITIES		
Net (loss) income	$ (139)	$ 152
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization	376	367
Ibero goodwill and trademark impairment charges	173	-
Gains on fuel derivatives, net	(21)	-
Share-based compensation	14	17
Other, net	41	2
Changes in operating assets and liabilities		
Receivables	(22)	(71)
Inventories	(4)	(19)
Prepaid expenses and other	6	(4)
Accounts payable	(62)	1
Accrued and other liabilities	10	(89)
Customer deposits	(50)	56
Net cash provided by operating activities	322	412
INVESTING ACTIVITIES		
Additions to property and equipment	(267)	(172)
Other, net	19	14
Net cash used in investing activities	(248)	(158)
FINANCING ACTIVITIES		
Proceeds from (repayments of) short-term borrowings, net	257	(63)
Principal repayments of long-term debt	(112)	(135)
Dividends paid	(194)	(79)
Other, net	(1)	47
Net cash used in financing activities	(50)	(230)
Effect of exchange rate changes on cash and cash equivalents	(3)	12
Net increase in cash and cash equivalents	21	36
Cash and cash equivalents at beginning of period	450	429
Cash and cash equivalents at end of period	$ 471	$ 465

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