CARNIVAL CORP
Form 10-Q
April 02, 2015

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

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 2015
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: 001-9610	Commission file number: 001-15136
Carnival Corporation (Exact name of registrant as specified in its charter)	Carnival plc (Exact name of registrant as specified in its charter)
Republic of Panama (State or other jurisdiction of incorporation or organization)	England and Wales (State or other jurisdiction of incorporation or organization)
59-1562976 (I.R.S. Employer Identification No.)	98-0357772 (I.R.S. Employer Identification No.)
3655 N.W. 87th Avenue Miami, Florida 33178-2428 (Address of principal executive offices) (Zip Code)	Carnival House, 100 Harbour Parade, Southampton SO15 1ST, United Kingdom (Address of principal executive offices) (Zip Code)
(305) 599-2600 (Registrant’s telephone number, including area code)	011 44 23 8065 5000 (Registrant’s telephone number, including area code)
None (Former name, former address and former fiscal year, if changed since last report)	None (Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes þ No ¨

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

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

Large accelerated filers	þ	Accelerated filers	o
Non-accelerated filers	o	Smaller reporting companies	o

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

At March 27, 2015, Carnival Corporation had outstanding 593,428,395 shares of Common Stock, $0.01 par value.

At March 27, 2015, Carnival plc had outstanding 216,118,073 Ordinary Shares $1.66 par value, one Special Voting Share, GBP 1.00 par value and 593,428,395 Trust Shares of beneficial interest in the P&O Princess Special Voting Trust.

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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 28,	
	2015	2014
Revenues		
Cruise		
Passenger tickets	$2,632	$2,727
Onboard and other	889	850
Tour and other	10	8
	3,531	3,585
Operating Costs and Expenses		
Cruise		
Commissions, transportation and other	586	620
Onboard and other	111	114
Payroll and related	467	481
Fuel	318	523
Food	239	245
Other ship operating	598	594
Tour and other	16	15
	2,335	2,592
Selling and administrative	529	521
Depreciation and amortization	401	405
	3,265	3,518
Operating Income	266	67
Nonoperating (Expense) Income		
Interest income	2	2
Interest expense, net of capitalized interest	(57)	(72)
Losses on fuel derivatives, net	(169)	(16)
Other income, net	10	—
	(214)	(86)
Income (Loss) Before Income Taxes	52	(19)
Income Tax Expense, Net	(3)	(1)
Net Income (Loss)	$49	$(20)
Earnings (Loss) Per Share		
Basic	$0.06	$(0.03)
Diluted	$0.06	$(0.03)
Dividends Declared Per Share	$0.25	$0.25

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

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CARNIVAL CORPORATION & PLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(UNAUDITED)
(in millions)

	Three Months Ended February 28,	
	2015	2014
Net Income (Loss)	$49	$(20)
Items Included in Other Comprehensive (Loss) Income		
Change in foreign currency translation adjustment	(683)	116
Other	(40)	(4)
Other Comprehensive (Loss) Income	(723)	112
Total Comprehensive (Loss) Income	$(674)	$92

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

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

	February 28, 2015	November 30, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$280	$331
Trade and other receivables, net	329	332
Insurance recoverables	163	154
Inventories	332	349
Prepaid expenses and other	322	322
Total current assets	1,426	1,488
Property and Equipment, Net	32,294	32,819
Goodwill	3,055	3,127
Other Intangibles	1,252	1,270
Other Assets	687	744
	$38,714	$39,448
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$874	$666
Current portion of long-term debt	1,321	1,059
Accounts payable	594	626
Claims reserve	278	262
Accrued liabilities and other	1,198	1,276
Customer deposits	3,147	3,032
Total current liabilities	7,412	6,921
Long-Term Debt	6,944	7,363
Other Long-Term Liabilities	1,008	960
Contingencies		
Shareholders' Equity		
Common stock of Carnival Corporation, $0.01 par value; 1,960 shares authorized; 653 shares at 2015 and 652 shares at 2014 issued	7	7
Ordinary shares of Carnival plc, $1.66 par value; 216 shares at 2015 and 2014 issued	358	358
Additional paid-in capital	8,398	8,384
Retained earnings	19,013	19,158
Accumulated other comprehensive loss	(1,339)	(616)
Treasury stock, 59 shares at 2015 and 2014 of Carnival Corporation and 32 shares at 2015 and 2014 of Carnival plc, at cost	(3,087)	(3,087)
Total shareholders' equity	23,350	24,204
	$38,714	$39,448

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, 2015	2014
OPERATING ACTIVITIES		
Net income (loss)	$49	$(20)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	401	405
Losses on fuel derivatives, net	169	16
Share-based compensation	11	13
Other, net	4	5
Changes in operating assets and liabilities		
Receivables	(21)	146
Inventories	7	(9)
Insurance recoverables, prepaid expenses and other	20	114
Accounts payable	6	(88)
Claims reserves and accrued and other liabilities	(35)	(128)
Customer deposits	160	23
Net cash provided by operating activities	771	477
INVESTING ACTIVITIES		
Additions to property and equipment	(942)	(353)
(Payments) receipts of fuel derivative settlements	(42)	1
Other, net	10	3
Net cash used in investing activities	(974)	(349)
FINANCING ACTIVITIES		
Proceeds from short-term borrowings, net	210	344
Principal repayments of long-term debt	(336)	(312)
Proceeds from issuance of long-term debt	472	—
Dividends paid	(194)	(194)
Other, net	(1)	—
Net cash provided by (used in) financing activities	151	(162)
Effect of exchange rate changes on cash and cash equivalents	1	(7)
Net decrease in cash and cash equivalents	(51)	(41)
Cash and cash equivalents at beginning of period	331	462
Cash and cash equivalents at end of period	$280	$421

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, 2015 and the Consolidated Statements of Operations, the Consolidated Statements of Comprehensive (Loss) Income and the Consolidated Statements of Cash Flows for the three months ended February 28, 2015 and 2014 are unaudited and, in the opinion of our management, contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation. 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 2014 joint Annual Report on Form 10-K (“Form 10-K”) filed with the U.S. Securities and Exchange Commission on January 29, 2015. Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire year.

Revision of Prior Period Financial Statements

In the first quarter of 2015, we revised and corrected the accounting for one of our brands' marine and technical spare parts in order to consistently expense and classify them fleetwide. We evaluated the materiality of this revision and concluded that it was not material to any of our previously issued financial statements. However, had we not revised, this accounting may have resulted in material inconsistencies to our financial statements in the future. Accordingly, we will revise all other previously reported results in future filings.

The effects of this revision on our Consolidated Statement of Operations were as follows (in millions, except per share data):

	Three Months Ended February 28, 2014		
	As Previously Reported	Adjustment	As Revised
Other ship operating	$590	$4	$594
Depreciation and amortization	$404	$1	$405
Operating income	$72	$(5)	$67
Loss before income taxes	$(14)	$(5)	$(19)
Net loss	$(15)	$(5)	$(20)
Loss per share			
Basic	$(0.02)	$(0.01)	$(0.03)
Diluted	$(0.02)	$(0.01)	$(0.03)

The effects of this revision on our Consolidated Statement of Comprehensive Income were as follows (in millions):

	Three Months Ended February 28, 2014		
	As Previously Reported	Adjustment	As Revised
Net loss	$(15)	$(5)	$(20)
Total comprehensive income	$97	$(5)	$92

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The effects of this revision on our Consolidated Balance Sheet were as follows (in millions):

	November 30, 2014		
	As Previously Reported	Adjustment	As Revised
Inventories	$364	$(15)	$349
Total current assets	$1,503	$(15)	$1,488
Property and equipment, net	$32,773	$46	$32,819
Other assets	$859	$(115)	$744
Total assets	$39,532	$(84)	$39,448
Retained earnings	$19,242	$(84) (a)	$19,158
Total shareholders' equity	$24,288	$(84)	$24,204
Total liabilities and shareholders' equity	$39,532	$(84)	$39,448

(a) As of November 30, 2014, the cumulative impact of this revision was an $84 million reduction in retained earnings. The diluted earnings per share decreases for each of 2014 and 2013 were $0.03, and for 2012, pre-2010 and in the aggregate, they were $0.02, $0.03 and $0.11, respectively. There was no annual diluted earnings per share impact for 2011 and 2010. The notes to the consolidated financial statements for the three months ended February 28, 2014 have been revised, as applicable.

This non-cash revision did not impact our operating cash flows for any period. The effects of this revision on the individual line items within operating cash flows on our Consolidated Statement of Cash Flows were as follows (in millions):

	Three Months Ended February 28, 2014		
	As Previously Reported	Adjustment	As Revised
Net loss	$(15)	$(5)	$(20)
Depreciation and amortization	$404	$1	$405
Inventories	$(5)	$(4)	$(9)
Insurance recoverables, prepaid expenses and other	$103	$11	$114
Claims reserves and accrued and other liabilities	$(125)	$(3)	$(128)

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 $135 million and $137 million for the three months ended February 28, 2015 and 2014, respectively.

During the three months ended February 28, 2015 and 2014, repairs and maintenance expenses, including minor improvement costs and dry-dock expenses, were $250 million and $252 million, respectively, and are substantially all included in other ship operating expenses.

NOTE 2 – Unsecured Debt

At February 28, 2015, our short-term borrowings consisted of commercial paper of $856 million and euro-denominated bank loans of $18 million with an aggregate weighted-average interest rate of 0.4%.

In February 2015, we entered into an export credit facility that will provide us with the ability to borrow up to an aggregate of $505 million. Proceeds from this facility will be used to pay for a portion of the purchase price of a Princess Cruises' ("Princess") ship, which is expected to be delivered in March 2017. If drawn, this borrowing will be due in semi-annual installments through March 2029.

In February 2015, we borrowed $472 million under a euro-denominated export credit facility, the proceeds of which were used to pay for a portion of the purchase price of P&O Cruises (UK)'s Britannia. The floating rate facility is due in semi-annual installments through February 2027.

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NOTE 3 – Contingencies

Litigation

As a result of the January 2012 ship incident, litigation claims, enforcement actions, regulatory actions and investigations, including, but not limited to, those arising from personal injury, loss of life, loss of or damage to personal property, business interruption losses or environmental damage to any affected coastal waters and the surrounding areas, have been and may be asserted or brought against various parties, including us. The ultimate outcome of these matters cannot be determined at this time. However, we do not expect these matters to have a significant impact on our results of operations because we have insurance coverage for these types of third-party claims.

The UK Maritime & Coastguard Agency and the U.S. Department of Justice are investigating allegations that Caribbean Princess breached international pollution laws. We are cooperating with the investigations, including conducting our own internal investigation into the matter. The ultimate outcome of this matter cannot be determined at this time. However, we do not expect it to have a significant impact on our results of operations.

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

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

At February 28, 2015, Carnival Corporation had estimated contingent obligations totaling $374 million, excluding termination payments as discussed below, to participants in LILO transactions for two of its ships. At the inception of these leases, the aggregate of the net present value of these obligations was paid by Carnival Corporation to a group of major financial institutions, who agreed to act as payment undertakers and directly pay these obligations. 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 the event that Carnival Corporation were to default on its contingent obligations and assuming performance by all other participants, we estimate that it would, as of February 28, 2015, be responsible for a termination payment of $22 million. In 2017, Carnival Corporation has the right to exercise options that would terminate these LILO transactions at no cost to it.

If the credit rating of one of the financial institutions who is directly paying the contingent obligations falls below AA-, or below A- for the other financial institution, then Carnival Corporation will be required to replace the applicable financial institution with another financial institution whose credit rating is at least AA or meets other specified credit requirements. In such circumstances, it would incur additional costs, although we estimate that they would not be significant to our consolidated financial statements. The financial institution payment undertaker subject to the AA- credit rating threshold has a credit rating of AA, and the financial institution subject to the A- credit rating threshold has a credit rating of A+. If Carnival Corporation's credit rating, which is BBB+, falls below BBB, it will be required to provide a standby letter of credit for $30 million, or, alternatively, provide mortgages for this aggregate amount on these two ships.

Contingent Obligations – Indemnifications

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

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

Fair Value Measurements

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

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- Level 1 measurements are based on 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable market participants at the measurement date. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that we believe market participants would use in pricing the asset or liability at the measurement date.

The fair value measurement of a financial asset or financial liability must reflect the nonperformance risk of the counterparty and us. Therefore, the impact of our counterparty's creditworthiness was considered when in an asset position, and our creditworthiness was considered when in a liability position in the fair value measurement of our financial instruments. Creditworthiness did not have a significant impact on the fair values of our financial instruments at February 28, 2015 and November 30, 2014. Both the counterparties and we are expected to continue to perform under the contractual terms of the instruments. 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.

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 that are not measured at fair value on a recurring basis were as follows (in millions):

	February 28, 2015				November 30, 2014			
	Carrying	Fair Value			Carrying	Fair Value		
	Value	Level 1	Level 2	Level 3	Value	Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents (a)	$241	$241	$—	$—	$240	$240	$—	$—
Restricted cash (b)	7	7	—	—	11	11	—	—
Long-term other assets (c)	150	1	102	44	156	1	103	49
Total	$398	$249	$102	$44	$407	$252	$103	$49
Liabilities								
Fixed rate debt (d)	$4,290	$—	$4,624	$—	$4,433	$—	$4,743	$—
Floating rate debt (d)	4,849	—	4,829	—	4,655	—	4,562	—
Total	$9,139	$—	$9,453	$—	$9,088	$—	$9,305	$—

(a) Cash and cash equivalents are comprised of cash on hand and, due to their short maturities, the carrying values approximate their fair values.

(b) Restricted cash is comprised of a money market deposit account.

(c) At February 28, 2015 and November 30, 2014, long-term other assets were substantially all comprised of notes and other receivables. The fair values of our Level 1 and 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.

(d) Debt does not include the impact of interest rate swaps. The net difference between the fair value of our fixed rate debt and its carrying value was due to the market interest rates in existence at February 28, 2015 and November 30, 2014 being lower than the fixed interest rates on these debt obligations, including the impact of any changes in our credit ratings. At February 28, 2015 and November 30, 2014, the net difference between the fair value of our floating rate debt and its carrying value was due to the market interest rates in existence at February 28, 2015 and November 30, 2014 being slightly higher than the floating interest rates on these debt obligations, including the impact of any changes in our credit ratings. The fair values of our publicly-traded notes were based on their unadjusted quoted market prices in

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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.

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

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

	February 28, 2015			November 30, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Cash equivalents (a)	$39	$—	$—	$91	$—	$—
Restricted cash (b)	21	—	—	19	—	—
Marketable securities held in rabbi trusts (c)	112	9	—	113	9	—
Derivative financial instruments (d)	—	19	—	—	14	—
Long-term other asset (e)	—	—	20	—	—	20
Total	$172	$28	$20	$223	$23	$20
Liabilities						
Derivative financial instruments (d)	$—	$392	$—	$—	$278	$—
Total	$—	$392	$—	$—	$278	$—

(a) Cash equivalents are comprised of money market funds.

(b) The majority of restricted cash is comprised of money market funds.

(c) At February 28, 2015, and November 30, 2014, 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.

(d) See “Derivative Instruments and Hedging Activities” section below for detailed information regarding our derivative financial instruments.

(e) Long-term other asset is comprised of an auction-rate security. The fair value was based on a broker quote in an inactive market, which is considered a Level 3 input. During the three months ended February 28, 2015, there were no purchases or sales pertaining to this auction rate security.

We measure our derivatives using valuations that are calibrated to the initial trade prices. Subsequent valuations are based on observable inputs and other variables included in the valuation models such as interest rate, yield and commodity price curves, forward currency exchange rates, credit spreads, maturity dates, volatilities and netting arrangements. We use the income approach to value derivatives for foreign currency options and forwards, interest rate swaps and fuel derivatives using observable market data for all significant inputs and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated, but not compelled to transact. We also corroborate our fair value estimates using valuations provided by our counterparties.

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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, which goodwill has been allocated to our North America and Europe, Australia & Asia ("EAA") cruise brands, was as follows (in millions):

	North America Cruise Brands	EAA Cruise Brands	Total
Balance at November 30, 2014	$1,898	$1,229	$3,127
Foreign currency translation adjustment	—	(72)	(72)
Balance at February 28, 2015	$1,898	$1,157	$3,055

At July 31, 2014, all of our cruise brands carried goodwill, except for Ibero Cruises ("the former Ibero") and Seabourn. As of that date, we performed our annual goodwill impairment reviews and no goodwill was impaired. At February 28, 2015, accumulated goodwill impairment charges were $153 million, which were all related to the former Ibero.
The reconciliation of the changes in the carrying amounts of our intangible assets not subject to amortization, which represent trademarks that have been allocated to our North America and EAA cruise brands, was as follows (in millions):

	North America Cruise Brands	EAA Cruise Brands	Total
Balance at November 30, 2014	$927	$338	$1,265
Foreign currency translation adjustment	—	(18)	(18)
Balance at February 28, 2015	$927	$320	$1,247

As of July 31, 2014, we also performed our annual trademark impairment reviews for our cruise brands that have trademarks recorded, which are AIDA Cruises ("AIDA"), P&O Cruises (Australia), P&O Cruises (UK) and Princess. No trademarks were considered to be impaired at that time.
The determination of our cruise brand, cruise ship 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 in determining whether our goodwill, cruise ships and trademarks have been impaired. However, if there is a change in assumptions used or if there is a change in the conditions or circumstances influencing fair values in the future, then we may need to recognize an impairment charge.
At February 28, 2015 and November 30, 2014, our intangible assets subject to amortization are not significant to our consolidated financial statements.
Derivative Instruments and Hedging Activities
We utilize derivative and nonderivative financial instruments, such as foreign currency forwards, options and swaps, foreign currency debt obligations and foreign currency cash balances, to manage our exposure to fluctuations in certain foreign currency exchange rates, and interest rate swaps to manage our interest rate exposure in order to achieve a desired proportion of fixed and floating rate debt. In addition, we utilize our fuel derivatives program to mitigate a portion of the risk to our future cash flows attributable to potential fuel price increases, which we define as our "economic risk." Our policy is to not use any financial instruments for trading or other speculative purposes.
All derivatives are recorded at fair value. The changes in fair value are recognized currently in earnings if the derivatives do not qualify as effective hedges, or if we do not seek to qualify for hedge accounting treatment, such as for our fuel derivatives. If a derivative is designated as a fair value hedge, then changes in the fair value of the derivative are offset against the changes in the fair value of the underlying hedged item. If a derivative is designated as a cash flow hedge, then the effective portion of the changes in the fair value of the derivative is recognized as a component of accumulated other comprehensive income ("AOCI") until the underlying hedged item is recognized in earnings or the forecasted transaction is no longer probable. If a derivative or a nonderivative financial instrument is designated as a hedge of our net investment in a foreign operation, then changes in the fair value of the financial

instrument are recognized as a component of AOCI to offset a portion of the change in the translated value of the net investment being hedged, until the investment is sold or substantially liquidated. We formally document hedging

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relationships for all derivative and nonderivative hedges and the underlying hedged items, as well as our risk management objectives and strategies for undertaking the hedge transactions.

We classify the fair values of all our derivative contracts as either current or long-term, depending on whether the maturity date of the derivative contract is within or beyond one year from the balance sheet date. The cash flows from derivatives treated as hedges are classified in our Consolidated Statements of Cash Flows in the same category as the item being hedged. Our cash flows related to fuel derivatives are classified within investing 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, 2015	November 30, 2014
Derivative assets			
Derivatives designated as hedging instruments			
Net investment hedges (a)	Prepaid expenses and other	$10	$6
	Other assets – long-term	8	6
Interest rate swaps (b)	Prepaid expenses and other	1	1
	Other assets – long-term	—	1
Total derivative assets		$19	$14
Derivative liabilities			
Derivatives designated as hedging instruments			
Interest rate swaps (b)	Accrued liabilities and other	12	13
	Other long-term liabilities	34	35
Foreign currency zero cost collars (c)	Accrued liabilities and other	—	1
	Other long-term liabilities	6	—
		52	49
Derivatives not designated as hedging instruments			
Fuel (d)	Accrued liabilities and other	132	90
	Other long-term liabilities	208	139
		340	229
Total derivative liabilities		$392	$278

(a) At February 28, 2015 and November 30, 2014, we had foreign currency forwards totaling $652 million and $403 million, respectively, that are designated as hedges of our net investments in foreign operations, which have a euro- and sterling-denominated functional currency. At February 28, 2015, these foreign currency forwards settle through July 2017.

(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. At February 28, 2015 and November 30, 2014, these interest rate swap agreements effectively changed $662 million and $750 million, respectively, of EURIBOR-based floating rate euro debt to fixed rate euro debt. These interest rate swaps settle through March 2025. In addition, at February 28, 2015 and November 30, 2014 we had U.S. dollar interest rate swaps designated as fair value hedges whereby we receive fixed interest rate payments in exchange for making floating interest rate payments. At February 28, 2015 and November 30, 2014, these interest rate swap agreements effectively changed $500 million of fixed rate debt to U.S. dollar LIBOR-based floating rate debt. These interest rate swaps settle through February 2016.

(c) At February 28, 2015 and November 30, 2014, 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, 2015 and November 30, 2014, 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 fuel derivatives.

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):

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	February 28, 2015				
	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	$58	$(39)	$19	$(18)	$1
Liabilities	$431	$(39)	$392	$(18)	$374

	November 30, 2014				
	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	$78	$(64)	$14	$	