

CASE 32



**Carnival Corporation
(1998)**

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Carnival Corporation, in terms of passengers carried, revenues generated, and available capacity is the largest cruise line in the world and is considered the leader and innovator in the cruise travel industry. Given its inauspicious beginnings, Carnival has grown from two converted ocean liners to an organization with two cruise divisions (and a joint venture to operate a third cruise line) and a chain of Alaskan hotels and tour coaches. Corporate revenues for fiscal year 1997 reached \$2.4 billion, with net income from operations of \$666 million. And the growth continues, with May 1998 revenues up \$100 million over the same quarter in 1997 to \$1.219 billion. Carnival has several “firsts” in the cruise industry, with over 1 million passen-

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gers carried in a single year and the first cruise line to carry 5 million total passengers by fiscal year 1994. Currently, its market share of the cruise travel industry stands at approximately 26 percent overall.

Carnival Corporation CEO and Chairman, Mr. Micky Arison, and Carnival Cruise Lines President, Mr. Bob Dickinson, are prepared to maintain the company’s reputation as the leader and innovator in the industry. The company has assembled one of the newest fleets catering to cruisers, with the introduction of several “superliners” built specifically for the Caribbean and Alaskan cruise markets, and expects to invest over \$3.0 billion in new ships by the year 2002. Additionally, the company has expanded its Holland American Lines fleet to cater to more established cruisers and plans to add three of the new ships to its fleet in the premium cruise segment. Strategically, Carnival Corporation seems to have made the right moves at the right time, sometimes in direct contradiction to industry analysts and cruise trends.

THE CRUISE INDUSTRY

Cruise Lines International Association (CLIA), an industry trade group, has tracked the growth of the cruise industry for over 25 years. In 1970, approximately 500,000 passengers took cruises for three consecutive nights or more, reaching a peak of 5 million passengers in 1997, an average annual compound growth rate of approximately 8.9 percent (this growth rate has declined to approximately 2 percent per year over the period from 1991 to 1995). At the end of 1997, the industry had 136 ships in service with an aggregate berth capacity of 119,000. CLIA estimates that the number of passengers carried in North America increased from 4.6 million in 1996 to 5 million in 1997, or approximately 8.7 percent. CLIA expects the number of cruise passengers to increase to 5.3 million in 1998, and with new ships to be delivered, the North American market will have roughly 144 vessels with an aggregate capacity of 132,000 berths.

Carnival has exceeded the recent industry trends, and the growth rate in the number of passengers carried was 11.2 percent per year over the 1992 to 1996 period. The company's passenger capacity in 1991 was 17,973 berths and had increased to 31,078 at the end of fiscal year 1997. Additional capacity will be added with the delivery of several new cruise ships already on order, such as the *Elation*, which went into service in early 1998, adding 2040 to the passenger capacity.

Even with the growth in the cruise industry, the company believes that cruises represent only 2 percent of the applicable North American vacation market, defined as persons who travel for leisure purposes on trips of 3 nights or longer, involving at least one night's stay in a hotel. The Boston Consulting Group, in a 1989 study, estimated that only 5 percent of persons in the North American target market have taken a cruise for leisure purposes and estimated the market potential to be in excess of \$50 billion. Carnival Corporation (1996) believes that only 7 percent of the North American population has ever cruised. Various cruise operators, including Carnival Corporation, have based their expansion and capital spending programs on the possibility of capturing part of the 93 to 95 percent of the North American population who have yet to take a cruise vacation.

The Evolution of Cruising

With the replacement of ocean liners by aircraft in the 1960s as the primary means of transoceanic travel, the opportunity for developing the modern cruise industry was created. Ships no longer required to ferry passengers from destination to destination became available to investors with visions of a new vacation alternative to complement the increasing affluence of Americans. Cruising, once the purview of the rich and leisure class, was targeted to the middle class, with services and amenities similar to the grand days of first-class ocean travel.

According to Robert Meyers, editor and publisher of *Cruise Travel* magazine, the increasing popularity of taking a cruise as a vacation can be traced to two serendipitously timed events. First, television's "Love Boat" series dispelled many myths associated with cruising and depicted people of all ages and backgrounds enjoying the cruise experience. This show was among the top 10 shows on television for many years according to Nielsen ratings and provided extensive publicity for cruise operators. Second, the increasing affluence of Americans and the increased participation of women in the workforce gave couples and families more disposable income for discretionary purposes, especially vacations. As the myths were dispelled and disposable income grew, younger couples and families "turned on" to the benefits of cruising as a vacation alternative, creating a large new target market for the cruise product that accelerated the growth in the number of Americans taking cruises as a vacation.

CARNIVAL HISTORY

In 1972, Ted Arison, backed by American Travel Services, Inc. (AITS), purchased an aging ocean liner from Canadian Pacific Empress Lines for \$6.5 million. The new AITS subsidiary, Carnival Cruise Line, refurbished the vessel from bow to stern and renamed it the *Mardi Gras* to capture the party spirit. (Also included in the deal was another ship later renamed the *Carnivale*.) The company's start was not promising, however, because on the first voyage the *Mardi Gras*, with over 300 invited travel agents aboard, ran aground in Miami Harbor.

The ship was slow and guzzled expensive fuel, limiting the number of ports of call and lengthening the minimum stay of passengers on the ship to break even. Mr. Arison then bought another old ocean vessel from Union Castle Lines to complement the *Mardi Gras* and the *Carnivale* and named it the *Festivale*. To attract customers, Mr. Arison began adding diversions on-board, such as planned activities, a casino, nightclubs, discos, and other forms of entertainment designed to enhance the shipboard experience.

Carnival lost money for the next 3 years, and in late 1974, Ted Arison bought out the Carnival Cruise subsidiary of AITS, Inc., for \$1 cash and the assumption of \$5 million in debt. One month later, the *Mardi Gras* began showing a profit and through the remainder of 1975 operated at more than 100 percent capacity. (Normal ship capacity is determined by the number of fixed berths available. Ships, like hotels, can operate beyond this fixed capacity by using rollaway beds, pullmans, and upper bunks.) Ted Arison (then chairman), along with Bob Dickinson (who was then vice president of sales and marketing) and his son Micky Arison (then president of Carnival), began to alter the current approach to cruise vacations. Carnival went after first-time and younger cruisers with a moderately priced vacation package that included air fare to the port of embarkation and home after the cruise. Per diem rates were very competitive with other vacation packages, and Carnival offered passage to multiple exotic Caribbean ports, several meals served daily with premier restaurant service, and included all forms of entertainment and activities in the base fare. The only things not included in the fare were items of a personal nature, liquor purchases, gambling, and tips for the cabin steward, table waiter, and busboy. Carnival continued to add to the shipboard experience with a greater variety of activities, nightclubs, and other forms of entertainment and varied ports of call to increase its attractiveness to potential customers. Carnival was the first modern cruise operator to use multimedia advertising promotions and established the theme of "Fun Ship" cruises, primarily promoting the ship as the destination and ports of call as secondary. Carnival told the public that it was throwing a shipboard party and everyone was invited. Today, the "Fun Ship" theme still permeates all Carnival cruise ships.

Throughout the 1980s, Carnival was able to maintain a growth rate of approximately 30 percent, about three times that of the industry as a whole, and between 1982 and 1988, its ships sailed with an average of 104 percent capacity (currently they operate at 104 to 105 percent capacity, depending on the season). Targeting younger, first-time passengers by promoting the ship as a destination proved to be extremely successful. Carnival's 1987 customer profile showed that 30 percent of the passengers were between the ages of 25 and 39 with household incomes of \$25,000 to \$50,000.

In 1987, Ted Arison sold 20 percent of his shares in Carnival Cruise Lines and immediately generated over \$400 million for further expansion. In 1988, Carnival acquired the Holland America Line, which had four cruise ships with 4500 berths. Holland America was positioned to the higher-income travelers, with cruise prices averaging 25 to 35 percent more than similar Carnival cruises. The deal also included two Holland America subsidiaries, Windstar Sail Cruises and Holland America Westours. This success, and the foresight of management, allowed Carnival to begin an aggressive "superliner" building campaign for its core subsidiary. By 1989, the cruise segments of Carnival Corporation carried over 750,000 passengers in 1 year, a "first" in the cruise industry.

Ted Arison relinquished the role of chairman to his son Micky in 1990, a time when the explosive growth of the 1980s began to subside. Higher fuel prices and increased airline costs began to affect the industry as a whole, and the Persian Gulf War caused many cruise operators to divert ships from European and Indian ports to the Caribbean area of operations, increasing the number of ships competing directly with Carnival. Carnival's stock price fell from \$25 in June of 1990 to \$13 late in the year. The company also incurred a \$25.5 million loss during fiscal 1990 for the operation of the Crystal Palace Resort and Casino. In 1991, Carnival reached a settlement with the Bahamian government (effective March 1, 1992) to surrender the 672-room Riveria Towers to the Hotel Corporation of the Bahamas in exchange for the cancellation of some debt incurred in constructing and developing the resort. The corporation took a \$135 million write-down on the Crystal Palace for that year.

The early 1990s, even with industrywide demand slowing, were still a very exciting time. Carni-

val took delivery of its first two superliners, the *Fantasy* (1990) and the *Ecstasy* (1991), which were to further penetrate the 3- and 4-day cruise market and supplement the 7-day market. In early 1991, Carnival took delivery of the third superliner, *Sensation* (inaugural sailing November 1, 1993), and later in the year contracted the fourth superliner, to be named the *Fascination* (inaugural sailing 1994).

In 1991, Carnival attempted to acquire Premier Cruise Lines, which was then the official cruise line for Walt Disney World in Orlando, Florida, for approximately \$372 million. The deal was never consummated because the involved parties could not agree on price. In 1992, Carnival acquired 50 percent of Seabourn, gaining the cruise operations of K/S Seabourn Cruise Lines, and formed a partnership with Atle Byrnestad. Seabourn serves the ultra-luxury market with destinations in South America, the Mediterranean, Southeast Asia, and the Baltics.

The 1993 to 1995 period saw the addition of the superliner *Imagination* for Carnival Cruise Lines and the *Ryndam* for Holland America Lines. In 1994, the company discontinued operations of Fiestamarina Lines, which attempted to serve Spanish-speaking clientele. Fiestamarina was beset with marketing and operational problems and never reached continuous operations. Many industry analysts and observers were surprised at the failure of Carnival to successfully develop this market. In 1995, Carnival sold a 49 percent interest in the Epirotiki line, a Greek cruise operation, for \$25 million and purchased \$101 million (face amount) of senior secured notes of Kloster Cruise Limited, the parent of competitor Norwegian Cruise Lines, for \$81 million. Kloster was having financial difficulties, and Carnival could not obtain common stock of the company in a negotiated agreement. If Kloster were to fail, Carnival Corporation would be in a good position to acquire some of the assets of Kloster.

Carnival Corporation is expanding through internally generated growth, as evidenced by the number of new ships on order (see Exhibit A). Additionally, Carnival seems to be willing to continue with its external expansion through acquisitions if the right opportunity arises.

In June, 1997, Royal Caribbean made a bid to buy Celebrity Cruise Lines for \$500 million and assumption of \$800 million in debt. Within a week, Carnival had responded by submitting a counter-offer to Celebrity for \$510 million and the assump-

tion of debt and then 2 days later raising the bid to \$525 million. However, Royal Caribbean seems to have had the inside track and announced on June 30, 1997, the final merger agreements with Celebrity. The resulting company will have 17 ships with approximately 30,000 berths.

However, not to be thwarted in its attempts at continued expansion, Carnival announced in June 1997 the purchase of Costa, an Italian cruise company and the largest European cruise line, for \$141 million. External expansion continued when on May 28, 1998, Carnival announced the acquisition of Cunard Line for \$500 million from Kvaerner ASA. Cunard was then merged with Seabourn Cruise Line (50 percent owned by Carnival), with Carnival owning 68 percent of the resulting Cunard Line Limited.

THE CRUISE PRODUCT

Ted and Micky Arison envisioned a product where the classic cruise elegance along with modern convenience could be had at a price comparable with land-based vacation packages sold by travel agents. Carnival's all-inclusive package, when compared with resorts or a theme park such as Walt Disney World, often is priced below these destinations, especially when the array of activities, entertainment, and meals is considered.

A typical vacation on a Carnival cruise ship starts when the bags are tagged for the ship at the airport. Upon arriving at the port of embarkation, passengers are ferried by air-conditioned buses to the ship for boarding, and luggage is delivered by the cruise ship staff to the passengers' cabins. Waiters dot the ship offering tropical drinks to the backdrop of a Caribbean rhythm, while the cruise staff orients passengers to the various decks, cabins, and public rooms. In a few hours (most ships sail in the early evening), dinner is served in the main dining rooms, where wine selection rivals the finest restaurants and the variety of main dishes is designed to suit every palate. Diners can always order double portions if they decide not to save room for the variety of desserts and after-dinner specialties.

After dinner, cruisers can choose between many forms of entertainment, including live music, dancing, nightclubs, and a selection of movies, or they can sleep through the midnight buffet until

EXHIBIT A**Carnival and Holland America Ships Under Construction**

<i>Vessel</i>	<i>Expected Delivery</i>	<i>Shipyard</i>	<i>Passenger Capacity*</i>	<i>Cost (millions)</i>
Carnival Cruise Lines				
<i>Elation</i>	03/98	Masa-Yards	2,040	\$300
<i>Paradise</i>	12/98	Masa-Yards	2,040	300
<i>Carnival Triumph</i>	07/99	Fincantieri	2,640	400
<i>Carnival Victory</i>	08/00	Fincantieri	2,640	430
CCL Newbuild	12/00	Masa-Yards	2,100	375
CCL Newbuild	2001	Masa-Yards	2,100	375
CCL Newbuild	2002	Masa-Yards	2,100	375
Total Carnival Cruise Lines			15,912	\$2,437
Holland America Line				
<i>Volendam</i>	6/99	Fincantieri	1,440	274
<i>Zaandam</i>	12/99	Fincantieri	1,440	286
HAL Newbuild	9/00	Fincantieri	1,440	300
Total Holland America Line			4,260	\$860
Windstar Cruises				
<i>Wind Surf</i>	5/98	Purchase	312	40
Total all Vessels			20,484	\$3,337

*In accordance with industry practice, all capacities indicated are calculated based on two passengers per cabin, even though some cabins can accommodate three or four passengers.

breakfast. (Most ships have five or more distinct nightclubs.) During the night, a daily program of activities arrives at the passengers' cabins. The biggest decisions to be made for the duration of the vacation will be what to do (or not to do), what to eat and when (usually eight separate serving times not including the 24-hour room service), and when to sleep. Service in all areas from dining to housekeeping is upscale and immediate. The service is so good that a common shipboard joke says that if you leave your bed during the night to visit the head (sea talk for bathroom), your cabin steward will have made the bed and placed chocolates on the pillow by the time you return.

After the cruise, passengers are transported back to the airport in air-conditioned buses for the flight home. Representatives of the cruise line are on hand at the airport to help cruisers in meeting their scheduled flights. When all amenities are considered, most vacation packages would be hard-pressed to match Carnival's per diem prices that range from \$125 to \$250 per person per day de-

pending on accommodations. (Holland America and Seabourn are higher, averaging \$300 per person per day.) Occasional specials allow for even lower prices, and special suite accommodations can be had for an additional payment.

CARNIVAL OPERATIONS

Carnival Corporation, headquartered in Miami, is composed of Carnival Cruise Lines; Holland America Lines, which includes Windstar Sail Cruises as a subsidiary, Holland America Westours, Westmark Hotels, and Airtours; and the newly created Cunard Line Limited. Carnival Cruise Lines, Inc., is a Panamanian corporation, and its subsidiaries are incorporated in Panama, the Netherlands Antilles, the British Virgin Islands, Liberia, and the Bahamas. The ships are subject to inspection by the U.S. Coast Guard for compliance with the Convention for the Safety of Life at Sea (SOLAS), which requires specific structural requirements for safety of passengers at

sea, and by the U.S. Public Health Service for sanitary standards. The company is also regulated in some aspects by the Federal Maritime Commission.

At its helm, Carnival Corporation is led by CEO and Chairman of the Board Micky Arison and Carnival Cruise Lines President and COO Bob Dickinson. Mr. A. Kirk Lanterman is the President and CEO of the Holland American cruise division, which includes Holland America Westours and Windstar Sail Cruises. (A listing of corporate officers is presented in Exhibit B.)

The company's product positioning stems from its belief that the cruise market is actually comprised of three primary segments with different passenger demographics, passenger characteristics, and growth requirements. The three segments are the contemporary, premium, and luxury segments. The contemporary segment is served by Carnival ships for cruises that are 7 days or shorter in length

EXHIBIT B

Corporate Officers of Carnival Corporation

Micky Arison

Chairman of the board and chief executive officer, Carnival Corporation

Gerald R. Cahill

Senior vice president finance and CFO, Carnival Corporation

Lowell Zemnick

Vice president and treasurer, Carnival Corporation

Robert H. Dickinson

President and COO, Carnival Cruise Lines

A. Kirk Lanterman

Chairman of the board and CEO, Holland America Lines

Howard S. Frank

Vice chairman and chief operating officer, Carnival Corporation

Roderick K. McLeod

Senior vice president marketing, Carnival Corporation

Meshulam Zonis

Senior vice president operations, Carnival Cruise Lines

Peter T. McHugh

President and COO, Holland America Lines

and feature a casual ambiance. The premium segment, served by Holland America, serves the 7-day and longer market and appeals to more affluent consumers. The luxury segment, while considerably smaller than the other segments, caters to experienced cruisers for 7-day and longer sailings and is served by Seabourn. Specialty sailing cruises are provided by Windstar Sail Cruises, a subsidiary of Holland America.

Corporate structure is built around the "profit center" concept and is updated periodically when needed for control and coordination purposes. The cruise subsidiaries of Carnival give the corporation a presence in most of the major cruise segments and provide for worldwide operations.

Carnival has always placed a high priority on marketing in an attempt to promote cruises as an alternative to land-based vacations. It wants customers to know that the ship in itself is the destination and the ports of call are important, but secondary, to the cruise experience. Education and the creation of awareness are critical to corporate marketing efforts. Carnival was the first cruise line to successfully break away from traditional print media and use television to reach a broader market. Even though other lines have followed Carnival's lead in selecting promotional media and are near in total advertising expenditures, the organization still leads all cruise competitors in advertising and marketing expenditures.

Carnival wants to remain the leader and innovator in the cruise industry and intends to do this with sophisticated promotional efforts, by gaining loyalty from former cruisers, and by refurbishing ships, varying activities and ports of call, and being innovative in all aspects of ship operations. Management intends to build on the theme of the ship as a destination given their historical success with this promotional effort. The company capitalizes and amortizes direct-response advertising and expenses other advertising costs as incurred. Advertising expense totaled \$112 million in 1997, \$109 million in 1996, \$98 million in 1995, and \$85 million in 1994.

FINANCIAL PERFORMANCE

Carnival retains Price Waterhouse as independent accountants, the Barnett Bank Trust Company of North America as the registrar and stock transfer agent, and its class A common stock trades on the

New York Stock Exchange under the symbol CCL. In December 1996, Carnival amended the terms of its revolving credit facility primarily to combine two facilities into a single \$1 billion unsecured revolving credit facility due 2001. The borrowing rate on the \$1 billion revolver is a maximum of LIBOR* plus 14 basis points, and the facility fee is 6 basis points.

Carnival initiated a commercial paper program in October 1996, which is supported by the \$1 billion revolver. As of November 30, 1996, the company had \$307 million outstanding under its commercial paper program and \$693 million available for borrowing under the \$1 billion revolver.

The consolidated financial statements for Carnival Cruise Lines, Inc., are shown in Exhibits C and D, and selected financial data are presented in Exhibit E.

Customer cruise deposits, which represent unearned revenue, are included in the balance sheet when received and recognized as cruise revenues

*LIBOR rate means, for an interest period for each LIBOR (London Interbank Offer Rate) rate advance comprising part of the same borrowing, the rate determined by the agent to be the rate of interest per annum (i) rounded upward to the nearest whole multiple of 1/100 of 1 percent per annum, appearing on Telerate screen 3750 at 11:00 A.M. (London time) two business days before the first day of such interest period for a term equal to such interest period and in an amount substantially equal to such portion of the loan, or if the agent cannot so determine the LIBOR rate by reference to Telerate screen 3750, then (ii) equal to the average (rounded upward to the nearest whole multiple of 1/100 of 1 percent per annum, if such average is not such a multiple) of the rate per annum at which deposits in U.S. dollars are offered by the principal office of each of the reference lenders in London, England, to prime banks in the London interbank market at 11:00 A.M. (London time) two business days before the first day of such interest period for a term equal to such interest period and in an amount substantially equal to such portion of the loan. In the latter case, the LIBOR rate for an interest period shall be determined by the agent on the basis of applicable rates furnished to and received by the agent from the reference lenders two business days before the first day of such interest period, subject, however, to the provisions of Section 2.05. If at any time the agent shall determine that by reason of circumstances affecting the London interbank market (i) adequate and reasonable means do not exist for ascertaining the LIBOR rate for the succeeding interest period or (ii) the making or continuance of any loan at the LIBOR rate has become impracticable as a result of a contingency occurring after the date of this agreement which materially and adversely affects the London interbank market, the agent shall so notify the lenders and the borrower. Failing the availability of the LIBOR rate, the LIBOR rate shall mean the base rate thereafter in effect from time to time until such time as a LIBOR rate may be determined by reference to the London interbank market.

on completion of the voyage. Customers also are required to pay the full cruise fare (minus deposit) 60 days in advance, with the fares being recognized as cruise revenue on completion of the voyage.

Property and equipment on the financial statements are stated at cost. Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives: vessels, 25 to 30 years; buildings, 20 to 40 years; equipment, 2 to 20 years; and leasehold improvements at the shorter of the term of lease or related asset life. Goodwill of \$275 million resulting from the acquisition of HAL Antillen, N.V. (Holland America Lines), is being amortized using the straight-line method over 40 years.

During 1995, Carnival received \$40 million from the settlement of litigation with Metra Oy, the former parent company of Wartsila Marine Industries, related to losses suffered in connection with the construction of three cruise ships. (Wartsila declared bankruptcy in late 1994.) Of this amount, \$14.4 million was recorded as other income, with the remainder used to pay legal fees and reduce the cost basis of the three ships.

On June 25, 1996, Carnival reached an agreement with the trustees of Wartsila and creditors for the bankruptcy that resulted in a cash payment of approximately \$80 million. Of the \$80 million received, \$5 million was used to pay certain costs, \$32 million was recorded as other income, and \$43 million was used to reduce the cost basis of certain ships that had been affected by the bankruptcy.

By May 31, 1998, Carnival had outstanding long-term debt of \$1.55 billion, with the current portion being \$58.45 million. This debt is composed primarily of \$306.8 million in commercial paper and a number of unsecured debentures and notes of less than \$200 million each at rates ranging from 5.65 to 7.7 percent.

According to the Internal Revenue Code of 1986, Carnival is considered a controlled foreign corporation (CFC), since 50 percent of its stock is held by individuals who are residents of foreign countries and its countries of incorporation exempt shipping operations of U.S. persons from income tax. Because of CFC status, Carnival expects that all its income (with the exception of U.S. source income from the transportation, hotel, and tour businesses of Holland America) will be exempt from U.S. federal income taxes at the corporate level.

EXHIBIT C

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Carnival Corporation: Consolidated Statements of Operations (in Thousands)

Years Ended November 30	<i>Six-Month Comparison</i>		1997	1996	1995	1994	1993	1992	1991
	May 31, 1998	May 31, 1997							
Revenues	\$1,219,196	\$1,117,696	\$2,447,468	\$2,212,572	\$1,998,150	\$1,806,016	\$1,556,919	\$1,473,614	\$1,404,704
Costs and expenses									
Operating expense	669,951	634,622	1,322,669	1,241,269	1,131,113	1,028,475	907,925	865,587	810,317
Selling and administrative	163,784	156,219	296,533	274,855	248,566	223,272	207,995	194,298	193,316
Depreciation and amortization	89,266	82,658	167,287	144,987	128,433	110,595	93,333	88,833	85,166
	923,001	493,564	1,786,489	1,661,111	1,508,112	1,362,342	1,209,253	1,148,718	1,088,799
Operating income before affiliated	296,195	244,197	660,979	551,461					
Income from affiliated	(13,034)	11,694	53,091	45,967					
Operating income	<u>283,161</u>	<u>232,503</u>	<u>714,070</u>	<u>597,428</u>	<u>490,038</u>	<u>443,674</u>	<u>347,666</u>	<u>324,896</u>	<u>315,905</u>
Other income (expense)									
Interest income	5,885	3,382	8,675	18,597	14,403	8,668	11,527	16,946	10,596
Interest expense, net of capitalized interest	(24,735)	(31,536)	(55,898)	(64,092)	(63,080)	(51,378)	(34,325)	(53,792)	(65,428)
Other income (expense)	(662)	2,105	5,436	23,414	19,104	(9,146)	(1,201)	2,731	1,746
Income tax expense	<u>6,861</u>	<u>6,353</u>	<u>(6,233)</u>	<u>(9,045)</u>	<u>(9,374)</u>	<u>(10,053)</u>	<u>(5,497)</u>	<u>(9,008)</u>	<u>(8,995)</u>
	<u>(12,651)</u>	<u>(19,696)</u>	<u>(48,020)</u>	<u>(31,126)</u>	<u>(38,947)</u>	<u>(61,909)</u>	<u>(29,496)</u>	<u>(43,123)</u>	<u>(62,081)</u>
Income before extraordinary item	270,510	212,807	666,050	566,302	451,091	381,765	318,170	281,773	253,824
Extraordinary item									
Loss on early extinguishment of debt								(5,189)	
Discontinued operations									
Hotel casino operating loss									(33,173)
Loss on disposal of hotel casino									(135,463)
Net income	<u>\$270,510</u>	<u>\$212,807</u>	<u>\$666,050</u>	<u>\$566,302</u>	<u>\$451,091</u>	<u>\$381,765</u>	<u>\$318,170</u>	<u>\$276,584</u>	<u>\$84,998</u>

Source: 1997 and 1998 10K's and 10Q's.

EXHIBIT D
Carnival Corporation: Consolidated Balance Sheets (in Thousands)

<i>Years Ended November 30</i>	<i>May 31, 1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>	<i>1992</i>
Assets							
Current assets							
Cash and cash equivalents	\$120,600	\$139,989	\$111,629	\$53,365	\$54,105	\$60,243	\$115,014
Short-term investments	9,414	9,738	12,486	50,395	70,115	88,677	111,048
Accounts receivable	66,503	57,090	38,109	33,080	20,789	19,310	21,624
Consumable inventories (average cost)	76,226	54,970	53,281	48,820	45,122	37,245	31,618
Prepaid expenses and other	102,754	74,238	75,428	70,718	50,318	48,323	32,120
<i>Total current assets</i>	<u>375,497</u>	<u>336,025</u>	<u>290,933</u>	<u>256,378</u>	<u>240,449</u>	<u>253,798</u>	<u>311,424</u>
Property and equipment (at cost)							
Less accumulated depreciation and amortization	5,469,814	4,327,413	4,099,038	3,414,823	3,071,431	2,588,009	1,961,402
Other assets							
Goodwill (less accumulated amortization)	403,077	212,607	219,589	226,571	233,553	237,327	244,789
Long-term notes receivable				78,907	76,876	29,136	
Investment in affiliates and other assets	425,715	479,329	430,330	128,808	47,514	21,097	38,439
Net assets of discontinued operations	37,733	71,401	61,998			89,553	89,553
	<u>6,711,836</u>	<u>5,426,775</u>	<u>5,101,888</u>	<u>\$4,105,487</u>	<u>\$3,669,823</u>	<u>\$3,218,920</u>	<u>\$2,645,607</u>
Liabilities and shareholders' equity							
Current liabilities							
Current portion of long-term debt	58,457	59,620	66,369	\$72,752	\$84,644	\$91,621	\$97,931
Accounts payable	187,897	106,783	84,748	90,237	86,750	81,374	71,473
Accrued liabilities	169,048	154,253	126,511	113,483	114,868	94,830	69,919
Customer deposits	755,890	420,908	352,698	292,606	257,505	228,153	178,945
Dividends payable	44,619	44,578	32,416	25,632	21,190	19,763	19,750
Reserve for discontinued operations						34,253	36,763
<i>Total current liabilities</i>	<u>121,911</u>	<u>786,142</u>	<u>662,742</u>	<u>594,710</u>	<u>564,957</u>	<u>549,994</u>	<u>474,781</u>
Long-term debt	1,557,016	1,015,294	1,277,529	1,035,031	1,046,904	916,221	776,600
Convertible notes			39,103	115,000	115,000	115,000	
Other long-term liabilities	23,907	20,241	91,630	15,873	14,028	10,499	9,381
Shareholders' equity							
Class A common stock (1 vote/share)	5,949	2,972	2,397	2,298	2,276	2,274	1,136
Class B common stock (5 votes/share)			550	550	550	550	275
Paid in capital	871,676	866,097	819,610	594,811	544,947	541,194	539,622
Retained earnings	2,912,499	2,731,213	2,207,781	1,752,140	1,390,589	1,089,323	850,193
Other	1,799	4,816	546	(4,926)	(9,428)	(6,135)	(6,381)
<i>Total shareholders' equity</i>	<u>3,791,923</u>	<u>3,605,098</u>	<u>3,030,884</u>	<u>2,344,873</u>	<u>1,928,934</u>	<u>1,627,206</u>	<u>1,384,845</u>
	<u>\$6,711,836</u>	<u>\$5,426,775</u>	<u>\$5,101,888</u>	<u>\$4,105,487</u>	<u>\$3,669,823</u>	<u>\$3,218,920</u>	<u>\$2,645,607</u>

Source: 1997 and 1998 10K's and 10Q's.

EXHIBIT E**Carnival Corporation: Selected Financial Data by Segment (in Thousands)**

<i>Years Ended November 30</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>	<i>1992</i>
Revenues						
Cruise	\$2,257,567	\$2,003,458	\$1,800,775	\$1,623,069	\$1,381,473	\$1,292,587
Tour	242,646	263,356	241,909	227,613	214,382	215,194
Intersegment revenues	(52,745)	(54,242)	(44,534)	(44,666)	(38,936)	(34,167)
	<u>2,447,468</u>	<u>2,212,572</u>	<u>1,998,150</u>	<u>1,806,016</u>	<u>1,556,919</u>	<u>1,473,614</u>
Gross operating profit						
Cruise	1,072,758	913,880	810,736	726,808	598,642	552,669
Tour	52,041	57,423	56,301	50,733	50,352	55,358
	<u>1,124,799</u>	<u>971,303</u>	<u>867,037</u>	<u>777,541</u>	<u>648,994</u>	<u>608,027</u>
Depreciation and amortization						
Cruise	157,454	135,694	120,304	101,146	84,228	79,743
Tour	8,862	8,317	8,129	9,449	9,105	9,090
Corporate	971	976				
	<u>167,287</u>	<u>144,987</u>	<u>128,433</u>	<u>110,595</u>	<u>93,333</u>	<u>88,833</u>
Operating income						
Cruise	656,009	535,814	465,870	425,590	333,392	310,845
Tour	13,262	21,252	24,168	18,084	14,274	23,051
Corporate	44,799	40,362				
	<u>714,070</u>	<u>597,428</u>	<u>490,038</u>	<u>443,674</u>	<u>347,666</u>	<u>333,896</u>
Identifiable assets						
Cruise	4,744,140	4,514,675	3,967,174	3,531,727	2,995,221	2,415,547
Tour	163,941	150,851	138,313	138,096	134,146	140,507
Discontinued resort and casino	518,694				89,553	89,553
Corporate		436,362				
	<u>5,426,775</u>	<u>5,101,888</u>	<u>4,105,487</u>	<u>3,669,823</u>	<u>3,218,920</u>	<u>2,645,607</u>
Capital expenditures						
Cruise	414,963	841,871	456,920	587,249	705,196	111,766
Tour	42,507	14,964	8,747	9,963	10,281	11,400
Corporate	40,187	1,810				
	<u>\$497,657</u>	<u>\$858,645</u>	<u>\$465,667</u>	<u>\$597,212</u>	<u>\$715,477</u>	<u>\$123,166</u>

Source: 1997 and 1998 10K's and 10Q's.

The primary financial consideration of importance to Carnival management involves the control of costs, both fixed and variable, for the maintenance of a healthy profit margin. Carnival has the lowest break-even point of any organization in the cruise industry (ships break even at approximately 60 percent of capacity) due to operational experience and economies of scale. Unfortunately, fixed costs, including depreciation, fuel, insurance, port

charges, and crew costs, which represent more than 33 percent of the company's operating expenses, cannot be reduced significantly in relation to decreases in passenger loads and aggregate passenger ticket revenue. [Major expense items are air fares (25 to 30 percent), travel agent fees (10 percent), and labor (13 to 15 percent). Increases in these costs could negatively affect the profitability of the organization.]

PRINCIPAL SUBSIDIARIES

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Carnival Cruise Line

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At the end of fiscal year 1996, Carnival operated 11 ships with a total berth capacity of 20,332. Carnival operates principally in the Caribbean and has an assortment of ships and ports of call serving the 3-, 4-, and 7-day cruise markets (see Exhibit F).

Each ship is a floating resort including a full maritime staff, shopkeepers and casino operators, entertainers, and complete hotel staff. Approximately 14 percent of corporate revenue is generated from shipboard activities such as casino operations, liquor sales, and gift shop items. At various ports of call, passengers also can take advantage of tours, shore excursions, and duty-free shopping at their own expense.

Shipboard operations are designed to provide maximum entertainment, activities, and service. The size of the company and the similarity in design of the new cruise ships has allowed Carnival to achieve various economies of scale, and management is very cost-conscious.

Although the Carnival Cruise Lines division is increasing its presence in the shorter cruise markets, its general marketing strategy is to use 3-, 4-, or 7-day moderately priced cruises to fit the time and budget constraints of the middle class. Shorter cruises can cost less than \$500 per person (depending on accommodations) up to roughly \$3000 per person in a luxury suite on a 7-day cruise, including port charges. (Per diem rates for shorter cruises are slightly higher, on average, than per diem rates for 7-day cruises.) Average rates per day are approximately \$180, excluding gambling, liquor and soft drinks, and items of a personal nature. Guests are expected to tip their cabin steward and waiter at a suggested rate of \$3 per person per day and the bus boy at \$1.50 per person per day.

Some 99 percent of all Carnival cruises are sold through travel agents, who received a standard commission of 10 percent (15 percent in Florida). Carnival works extensively with travel agents to help promote cruises as an alternative to a Disney or European vacation. In addition to training travel agents from nonaffiliated travel/vacation firms to sell cruises, a special group of employees regularly visits travel agents posing as prospective clients. If the agent recommends a cruise before another va-

cation option, he or she receives \$100. If the travel agent specifies a Carnival cruise before other options, he or she receives \$1000 on the spot. During fiscal year 1995, Carnival took reservations from about 29,000 of the approximately 45,000 travel agencies in the United States and Canada, and no one travel agency accounted for more than 2 percent of Carnival revenues.

On-board service is labor-intensive, employing help from some 51 nations—mostly third-world countries—with reasonable returns to employees. For example, waiters on the *Jubilee* can earn approximately \$18,000 to \$27,000 per year (base salary and tips), significantly greater than could be earned in their home country for similar employment. Waiters typically work 10 hours per day, with approximately 1 day off per week for a specified contract period (usually 3 to 9 months). Carnival records show that employees remain with the company for approximately 8 years and that applicants exceed demand for all cruise positions. Nonetheless, the American Maritime Union has cited Carnival (and other cruise operators) several times for exploitation of its crew.

Holland America Lines

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On January 17, 1989, Carnival acquired all the outstanding stock of HAL Antillen N.V. from Holland America Lines N.V. for \$625 million in cash. Carnival financed the purchase through \$250 million in retained earnings (cash account) and borrowed the other \$375 million from banks at 0.25 percent over the prime rate. Carnival received the assets and operations of the Holland America Lines, Westours, Westmark Hotels, and Windstar Sail Cruises. Holland America currently has seven cruise ships with a capacity of 8795 berths, with new ships to be delivered in the future.

Founded in 1873, Holland America Lines is an upscale (it charges an average of 25 percent more than similar Carnival cruises) line with principal destinations in Alaska during the summer months and the Caribbean during the fall and winter, with some worldwide cruises of up to 98 days. Holland America targets an older, more sophisticated cruiser with fewer youth-oriented activities. On Holland America ships, passengers can dance to the sounds of the Big Band era and avoid the discos of Carnival ships. Passengers on Holland America

EXHIBIT F**The Ships of Carnival Corporation**

Name	Registry	Built	First in Company	Service Cap*	Gross Tons	Length/Width	Areas of Operation
Carnival Cruise Lines							
<i>Carnival</i>	Panama	1996	1997	2,642	101,000	893/116	Caribbean
<i>Destiny</i>							
<i>Inspiration</i>	Panama	1996	1996	2,040	70,367	855/104	Caribbean
	Panama	1995	1995	2,040	70,367	855/104	Caribbean
<i>Imagination</i>							
<i>Fascination</i>	Panama	1994	1994	2,040	70,367	855/104	Caribbean
<i>Sensation</i>	Panama	1993	1993	2,040	70,367	855/104	Caribbean
<i>Ecstasy</i>	Liberia	1991	1991	2,040	70,367	855/104	Caribbean
<i>Fantasy</i>	Liberia	1990	1990	2,044	70,367	855/104	Bahamas
<i>Celebration</i>	Liberia	1987	1987	1,486	47,262	738/92	Caribbean
<i>Jubilee</i>	Panama	1986	1986	1,486	47,262	738/92	Mexican Riviera
<i>Holiday</i>	Panama	1985	1985	1,452	46,052	727/92	Mexican Riviera
<i>Tropicale</i>	Liberia	1982	1982	1,022	36,674	660/85	Alaska, Caribbean
Total Carnival ships capacity: 20,332							
Holland America Line							
<i>Veendam</i>	Bahamas	1996	1996	1,266	55,451	720/101	Alaska, Caribbean
<i>Ryndam</i>	Netherlands	1994	1994	1,266	55,451	720/101	Alaska, Caribbean
<i>Maasdam</i>	Netherlands	1993	1993	1,266	55,451	720/101	Europe, Caribbean
<i>Statendam</i>	Netherlands	1993	1993	1,266	55,451	720/101	Alaska, Caribbean
<i>Westerdam</i>	Netherlands	1986	1988	1,494	53,872	798/95	Canada, Caribbean
<i>Noordam</i>	Netherlands	1984	1984	1,214	33,930	704/89	Alaska, Caribbean
<i>Nieuw</i>	Netherlands	1983	1983	1,214	33,930	704/89	Alaska, Caribbean
<i>Amsterdam</i>							
<i>Rotterdam IV</i>	Netherlands	1997	1997	1,316	62,000	780/106	Alaska, Worldwide
Total HAL ships capacity: 10,302							
Windstar Cruises							
<i>Wind Spirit</i>	Bahamas	1988	1988	148	5,736	440/52	Caribbean, Mediterranean
<i>Wind Song</i>	Bahamas	1987	1987	148	5,703	440/52	Costa Rica, Tahiti
<i>Wind Star</i>	Bahamas	1986	1986	148	5,703	440/52	Caribbean, Mediterranean
Total Windstar ships capacity: 444							
Total capacity: 31,078							

*In accordance with industry practice, passenger capacity is calculated based on two passengers per cabin even though some cabins can accommodate three or four passengers.

ships enjoy more service (a higher staff-to-passenger ratio than Carnival) and have more cabin and public space per person and a “no tipping” shipboard policy. Holland America has not enjoyed the spectacular growth of Carnival cruise ships but has sustained constant growth over the decade of the 1980s and early 1990s with high occupancy. The operation of these ships and the structure of the crew are similar to the Carnival cruise ship model, and the acquisition of the line gave the Carnival Corporation a presence in the Alaskan market where it had none before.

Holland America Westours is the largest tour operator in Alaska and the Canadian Rockies and provides vacation synergy with Holland America cruises. The transportation division of Westours includes over 290 motorcoaches comprised of the Gray Line of Alaska, the Gray Line of Seattle, Westours motorcoaches, the McKinley Explorer railroad coaches, and three day boats for tours to glaciers and other points of interest. Carnival management believes that Alaskan cruises and tours should increase in the future due to a number of factors. These include the aging population wanting relaxing vacations with scenic beauty coupled with the fact that Alaska is a U.S. destination.

Westmark Hotels consist of 16 hotels in Alaska and the Yukon territories and also provides synergy with cruise operations and Westours. Westmark is the largest group of hotels in the region providing moderately priced rooms for the vacationer.

Windstar Sail Cruises was acquired by Holland America Lines in 1988 and consists of three computer-controlled sailing vessels with a berth capacity of 444. Windstar is very upscale and offers an alternative to traditional cruise liners with a more intimate, activity-oriented cruise. The ships operate primarily in the Mediterranean and the South Pacific, visiting ports not accessible to large cruise ships. Although catering to a small segment of the cruise vacation industry, Windstar helps with Carnival’s commitment to participate in all segments of the cruise industry.

Seabourn Cruise Lines

In April 1992, the company acquired 25 percent of the capital stock of Seabourn. As part of the transaction, the company also made a subordinated secured 10-year loan of \$15 million to Seabourn and

a \$10 million convertible loan to Seabourn. In December 1995, the \$10 million convertible loan was converted by the company into an additional 25 percent equity interest in Seabourn.

Seabourn targets the luxury market with three vessels providing 200 passengers per ship with all-suite accommodations. Seabourn is considered the “Rolls Royce” of the cruise industry and in 1992 was named the World’s Best Cruise Line by the prestigious Condé Naste Traveler’s Fifth Annual Readers Choice Poll. Seabourn cruises the Americas, Europe, Scandinavia, the Mediterranean, and the Far East.

Airtours

In April 1996, the company acquired a 29.5 percent interest in Airtours for approximately \$307 million. Airtours and its subsidiaries constituted the largest air-inclusive tour operator in the world and is publicly traded on the London Stock Exchange. Airtours provides air-inclusive packaged holidays to the British, Scandinavian, and North American markets. Airtours provides holidays to approximately 5 million people per year and owns or operates 32 hotels, 2 cruise ships, and 31 aircraft.

Airtours operates 18 aircraft (one additional aircraft is scheduled to enter service in the spring of 1997) exclusively for its U.K. tour operators, providing a large proportion of their flying requirements. In addition, Airtours’ subsidiary Premiair operates a fleet of 13 aircraft (one additional aircraft is also scheduled to enter service with Premiair in the spring of 1997), which provides most of the flying requirements for Airtours’ Scandinavian tour operators.

Airtours owns or operates 32 hotels (6500 rooms) that provide rooms to Airtours’ tour operators principally in the Mediterranean and the Canary Islands. In addition, Airtours has a 50 percent interest in Tenerife Sol, a joint venture with Sol Hotels Group of Spain, which owns and operates three additional hotels in the Canary Islands providing 1300 rooms.

Through its subsidiary Sun Cruises, Airtours owns and operates two cruise ships. Both the 800-berth *MS Seawing* and the 1062-berth *MS Carousel* commenced operations in 1995. Recently, Airtours acquired a third ship, the *MS Sundream*, which is the sister ship of the *MS Carousel*. The *MS*

Sundream is expected to commence operations in May 1997. The ships operate in the Mediterranean, the Caribbean, and around the Canary Islands and are booked exclusively by Airtours' tour operators.

Costa Crociere S.p.A.
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In June 1997, Carnival and Airtours purchased the equity securities of Costa from the Costa family at a cost of approximately \$141 million. Costa is headquartered in Italy and is considered Europe's largest cruise line with seven ships and 7710-passenger capacity. Costa operates primarily in the Mediterranean, northern Europe, the Caribbean, and South America. The major market for Costa is southern Europe, mainly Italy, Spain, and France. In January 1998, Costa signed an agreement to construct an eighth ship with a capacity of approximately 2100 passengers.

Cunard Line
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Carnival's most recent acquisition has been the Cunard Line, announced on May 28, 1998. Comprised of five ships, the Cunard Line is considered a luxury line with strong brand name recognition. Carnival purchased 50 percent of Cunard for an estimated \$255 million, with the other 50 percent being owned by Atle Brynstad. Cunard was immediately merged with Seabourn and, the resulting Cunard Cruise Line Limited (68 percent owned by Carnival), with its now eight ships, will be headed by the former president of Seabourn, Larry Pimentel.

Joint Venture with Hyundai Merchant Marine Co., Ltd.
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In September 1996, Carnival and Hyundai Merchant Marine Co., Ltd., signed an agreement to form a 50-50 joint venture to develop the Asian cruise vacation market. Each has contributed \$4.8 million as the initial capital of the joint venture. In addition, in November 1996, Carnival sold the cruise ship *Tropicale* to the joint venture for approximately \$95.5 million cash. Carnival then chartered the vessel from the joint venture until the joint venture is ready to begin cruise operations in the Asian market, targeting a start date in or around the spring of 1998. The joint venture borrowed the \$95.5 million purchase price from a financial insti-

tution, and Carnival and HMM each guaranteed 50 percent of the borrowed funds.

This arrangement, however, was short-lived, since in September 1997, the joint venture was dissolved, and the company repurchased the *Tropicale* for \$93 million.

FUTURE CONSIDERATIONS
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Carnival's management will have to continue to monitor several strategic factors and issues for the next few years. The industry itself should see further consolidation through mergers and buyouts, and the expansion of the industry could negatively affect the profitability of various cruise operators. Another factor of concern to management is how to reach the large North American market, of which only 5 to 7 percent has ever taken a cruise.

With the industry maturing, cruise competitors have become more sophisticated in their marketing efforts, and price competition is the norm in most cruise segments. (For a partial listing of major industry competitors, see Exhibit G.) Royal Caribbean Cruise Lines also has instituted a major shipbuilding program and is successfully challenging Carnival Cruise Lines in the contemporary segment. The announcement of the Walt Disney Company entering the cruise market with two 80,000-ton cruise liners by 1998 should significantly impact the family cruise vacation segment.

With competition intensifying, industry observers believe the wave of failures, mergers, buyouts, and strategic alliances will increase. Regency Cruises ceased operations on October 29, 1995, and has filed for Chapter 11 bankruptcy. American Family Cruises, a spin-off from Costa Cruise Lines, failed to reach the family market, and Carnival's *Fiestamarina* failed to reach the Spanish-speaking market. EffJohn International sold its Commodore Cruise subsidiary to a group of Miami-based investors that then chartered one of its two ships to World Explorer Cruises/Semester at Sea. Sun Cruise Lines merged with Epirotiki Cruise Line under the name of Royal Olympic Cruises, and Cunard bought the Royal Viking Line and its name from Kloster Cruise, Ltd., with one ship of its fleet being transferred to Kloster's Royal Cruise Line. All these failures, mergers, and buyouts occurred in 1995, which was not an unusual year for changes in the cruise line industry.

EXHIBIT G**Major Industry Competitors**

Celebrity Cruises, 5200 Blue Lagoon Drive, Miami, FL 33126

Celebrity Cruises operates four modern cruise ships on 4-, 7-, and 10-day cruises to Bermuda, the Caribbean, the Panama Canal, and Alaska. Celebrity attracts first-time cruisers as well as seasoned cruisers. Purchased by Royal Caribbean on July 30, 1997.

Norwegian Cruise Lines, 95 Merrick Way, Coral Gables, FL 33134

Norwegian Cruise Lines (NCL), formally Norwegian Caribbean Lines, was the first to base a modern fleet of cruise ships in the Port of Miami. It operates 10 modern cruise liners on 3-, 4-, and 7-day eastern and western Caribbean cruises and cruises to Bermuda. A wide variety of activities and entertainment attracts a diverse array of customers. NCL has just completed reconstruction of two ships and is building the *Norwegian Sky*, a 2000-passenger ship to be delivered in the summer of 1999.

Disney Cruise Line, 500 South Buena Vista Street, Burbank, CA 91521

Disney has just recently entered the cruise market with the introduction of the *Disney Magic* and *Disney Wonder*. Both ships will cater to both children and adults and will feature 875 staterooms each. Each cruise will include a visit to Disney's private island, Castaway Cay. Although Disney currently has only two ships and the cruise portion of Disney is small, its potential for future growth is substantial with over \$22 billion in revenues and \$1.9 billion net profits in 1997.

Princess Cruises, 10100 Santa Monica Boulevard, Los Angeles, CA 90067

Princess Cruises, with its fleet of nine "Love Boats," offers 7-day and extended cruises to the Caribbean, Alaska, Canada, Africa, the Far East, South America, and Europe. Princess's primary market is the upscale 50-plus experienced traveler, according to Mike Hannan, senior vice president for marketing services. Princess ships have an ambiance best described as casual elegance and are famous for their Italian-style dining rooms and onboard entertainment.

Royal Caribbean Cruise Lines, 1050 Caribbean Way, Miami, FL 33132

RCCL's nine ships have consistently been given high marks by passengers and travel agents over the past 21 years. RCCL's ships are built for the contemporary market, are large and modern, and offer 3-, 4-, and 7-day as well as extended cruises. RCCL prides itself on service and exceptional cuisine. With the purchase of Celebrity, RCCL has become the largest cruise line in the world with 17 ships and a passenger capacity of over 31,100. Plans include the introduction of six additional ships by the year 2002. In 1997, RCCL had net income of \$175 million on revenues of \$1.93 billion.

Other Industry Competitors (Partial List)

American Hawaii Cruises	(2 ships, Hawaiian Islands)
Club Med	(2 ships, Europe, Caribbean)
Commodore Cruise Line	(1 ship, Caribbean)
Cunard Line	(8 ships, Caribbean, worldwide)
Dolphin Cruise Line	(3 ships, Caribbean, Bermuda)
Radisson Seven Seas Cruises	(3 ships, worldwide)
Royal Olympic Cruises	(6 ships, Caribbean, worldwide)
Royal Cruise Line	(4 ships, Caribbean, Alaska, WW)

EXHIBIT H**Liners Completed and Placed in Service during the Past 3 Years**

Carrier and Vessel Name	Passengers	Year
Carnival Cruise Lines, <i>Elation</i>	2040	1998
Carnival Cruise Lines, <i>Destiny</i>	2642	1997
Carnival Cruise Lines, <i>Inspiration</i>	2040	1996
Celebrity Cruises, <i>Mercury</i>	1870	1997
Celebrity Cruises, <i>Galaxy</i>	1870	1996
Costa Cruises, <i>Costa Victoria</i>	1950	1996
Holland America Line, <i>Veendam</i>	1266	1996
Holland America Line, <i>Rotterdam VI</i>	1316	1997
Princess Cruises, <i>Dawn Princess</i>	1950	1997
Princess Cruises, <i>Grand Princess</i>	2600	1998
Radisson Seven Seas Cruises, <i>Paul Gauguin</i>	320	1997
Royal Caribbean Cruises, <i>Rhapsody of the Seas</i>	2000	1997
Royal Caribbean Cruises, <i>Enchantment of the Seas</i>	1950	1997
Royal Caribbean Cruises, <i>Splendour of the Seas</i>	1800	1996
Royal Caribbean Cruises, <i>Grandeur of the Seas</i>	1850	1996
Royal Caribbean Cruises, <i>Visions of the Seas</i>	2000	1998

Future Liners Now under Construction

Carrier and Vessel Name	Passengers	Expected Launch
Disney Cruise Line, <i>Disney Magic</i>	1740	Summer, 1998
Carnival Cruise Lines, <i>Paradise</i>	2040	Winter, 1998-99
Disney Cruise Line, <i>Disney Wonder</i>	1740	Winter, 1998-99
Carnival Cruise Lines, <i>Triumph</i>	2758	1999
Holland America Line, <i>Volendam</i>	1440	1999
Holland America Line, <i>Zaandam</i>	1440	1999
Norwegian Cruise Line, <i>Norwegian Sky</i>	2000	1999
Princess Cruises, <i>Sea Princess</i>	1950	1999
Princess Cruises, <i>Ocean Princess</i>	2022	1999
Radisson Seven Seas, unnamed	490	1999
Renaissance Cruises, <i>R3</i>	684	1999
Renaissance Cruises, <i>R4</i>	684	1999
Royal Caribbean Cruises, <i>Voyager of the Seas</i>	3114	1999
Carnival Cruise Lines, <i>Victory</i>	2642	2000
Carnival Cruise Lines, unnamed	2100	2000
Costa Cruises, unnamed	1950	2000
Celebrity Cruises, unnamed	1950	2000
Delta Queen Steamboat Co., unnamed	225	2000
Holland America Line, unnamed	1380	2000
P & O Cruises, unnamed	1840	2000
Royal Caribbean Cruises, <i>Project Eagle</i>	3114	2000
Silversea Cruises, unnamed	396	2000
Celebrity Cruises, unnamed	1950	2001
Princess Cruises, unnamed	2600	2001
Princess Cruises, unnamed	2600	2001
Royal Caribbean Cruises, unnamed	2000	2001
Silversea Cruises, unnamed	396	2000
Royal Caribbean Cruises, unnamed	3114	2002
American Hawaii Cruises, 2 unnamed		Undetermined

The increasing industry capacity is also a source of concern to cruise operators. The slow growth in industry demand is occurring during a period when industry berth capacity continues to grow. The entry of Disney and the ships already on order by current operators will increase industry berth capacity by over 10,000 per year for the next 3 years, a significant increase. (See Exhibit H for new ships under construction.) The danger lies in cruise operators using the “price” weapon in their marketing campaigns to fill cabins. If cruise operators cannot make a reasonable return on investment, operating costs will have to be reduced (affecting quality of services) to remain profitable.

• This will increase the likelihood of further industry acquisitions, mergers, and consolidations. A “worst case” scenario would be the financial failure of weaker lines.

• Still, Carnival’s management believes that demand should increase during the remainder of the 1990s. Considering that only 5 to 7 percent of the North American market has taken a cruise vacation, reaching more of the North American target market would improve industry profitability. Industry analysts state the problem is that an “assessment of market potential” is only an educated guess, and what if the current demand figures are reflective of the future?