Cruise Industry News

The Inside News of the Cruise Industry

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CARNIVAL REPORTS

CARNIVAL CORPORATION gave a positive outlook for 2011 in its fourth quarter and year-end earnings call Dec. 21, forecasting earnings per share in the range of $2.90 to $3.10.

Chairman and CEO Micky Arison said in a prepared statement that booking trends have continued to improve for both the North American and European brands, particularly for the peak summer season. And the company expects a strong wave season.

The market responded by sending the shares up 4.5 percent or $1.93 by the end of the day to $45.18.

Financial Strength

Also, with reduced capital expenditures, free cash flow may reach $1.4 billion, and a January board meeting is expected to result in an increased dividend.

A 9 percent increase in revenue yield is forecast for 2011 based on a combination of a 3.5 to 4.5 percent increase in revenue yield year-over-year and a 5.2 percent increase in capacity.

At this point, approximately 50 percent of company's cruise capacity for 2011 has been booked, more or less the same as last year, according to Howard Frank, COO and vice chairman.

Starting next year, Carnival will split its reporting into four parts: for four North American brands; for its six European, Australian and Asian brands (EAA); for its cruise support infrastructure, including company-owned ports; and for its Alaska tour operations and so-called "other."

2011

Carnival will take delivery of four new ships next year for a fleetwide capacity increase of 5.2 percent, according to Frank. The North American fleet will see a 2.8 percent capacity increase and the European brands a 9.1 percent increase.

For 2011, Frank said that ticket prices are nicely ahead of 2010 both for the North American and EAA brands, with occupancy slightly lower.

He said the company is experiencing a solid, strong booking pace for the first three quarters.

(Continued on pages 2, 3 and 4)

NEW MEXICAN BRAND?

With **LOUIS CRUISES** recent sale of the Aquamarine, the ship has already reappeared in a brochure for **OCEAN STAR CRUISES** as the Ocean Star Pacific, sailing year-round out of Mexico.

While company officials did not respond to inquiries, according to its brochure, the ship will be sailing three-, four- and seven-day cruises on the Pacific Coast from Acapulco and Manzanillo, starting April 17 through December 28.

Ports of call include Cabo San Lucas, Puerto Vallarta, Ixtapa/Zihuatanejo, Huatulco and Puerto Chiapas.

The double-occupancy capacity for the 1971-built ship is 1,050.

Originally built for **ROYAL CARIBBEAN CRUISE LINE**, the ship started her service life as the Nordic Prince and was 18,350 tons, before being stretched to 23,200 tons in 1980. She was sold to **AIRTOURS** in 1995 and sailed as the Carousel for **SUN CRUISES**, a joint venture with Royal Caribbean. Acquired by Louis in 2004, she was charted to **TRANSOCEAN** from 2006 to 2008 and sailed as the Arielle.

Louis said it sold the Aquamarine for about $23.4 million.

PULLMANTUR CRUISES started to source from the Mexican market earlier this year, sailing both on the Gulf and Pacific coasts, and has announced plans to return in 2011.

The advantage to the Mexican market is that passengers will not need passports or visas; however, the product they are being offered is on (very) old ships.

KOREAN START UP?

The reports are vague on details, but Korean-based **HARMONY CRUISES**, owned by **POLARIS SHIPPING**, is said to be looking for ships in the 500-passenger range to launch international cruises from Korea as early as September.

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CARNIVAL (Continued)

Overall, pricing for the North American brands is moderately higher, excluding Caribbean cruises, for which pricing is moderately lower.

EAA brands are seeing higher prices year-over-year, including Caribbean sailings, despite the capacity increase.

"Overall, demand continues to be strong," Frank said, but pricing is not yet back to the level of 2008.

(In 2008, Carnival reported gross revenue per passenger day of $235.08, compared to $205.90 for 2010, and net income per passenger day of $37.40, compared to $28.15 this year.)

Operating costs are forecast to be from flat to up 1 percent, excluding fuel

Q1 2011

For Q1, capacity will be up 5.1 percent fleetwide, 1.7 percent in North America and 10.8 percent for EAA brands.

Pricing is higher, according to Frank, with occupancy at about the same level as last year.

The North American fleet has 67 percent of its capacity in the Caribbean, compared to 62 percent a year ago, with the balance in other itineraries. (Last year, 11 percent was on the Mexican Riviera and 12 percent the year before.)

Pricing is slightly lower for Caribbean cruises, but "nicely higher" on the Mexican Riviera and higher for all other itineraries, Frank said. (Combined) pricing is at the same level as last season, he added.

The EAA brands have 22 percent of their capacity in the Caribbean, compared to 27 percent for the European brands last year and 33 percent the year before.

The EAA brands also have 16 percent of their capacity in South America, compared to 17 percent for the European brands last year and 11 percent the year before, and the balance elsewhere.

(Frank did not comment on the capacity deployed in Europe or Asia. Last year, 27 percent of the European fleet was deployed in Europe during Q1.)

Ticket prices are "nicely higher" on higher occupancy, Frank commented.

Overall, for Q1, Carnival predicts a fleetwide yield increase in the range of 1.5 to 2.5 percent, driven mainly by the EAA fleet.

The earnings guidance is in the range of $0.15 to $0.19 per share compared to actual earnings of $0.12 in Q1, 2010.

Q2 2011

Fleetwide capacity will be up 4.8 percent, 2.5 percent in North America and 8.6 percent for EAA. Pricing is slightly higher on slightly lower occupancy, according to Frank.

The North American brands will have 55 percent of their capacity in the Caribbean, compared to 56 percent last year and 54 percent the year before.

Pricing is higher on lower occupancy.

While Caribbean pricing is lower, Q2 pricing is improving over Q1, according to Frank.

He noted that Q2 is getting better and that the Caribbean is holding its own and described it as "stable to up."

EAA brands will have 55 percent of their capacity in Europe, compared to 57 percent for the European brands last year and 59 percent the year before.

Ticket prices are ahead of last year, with occupancy slightly down.

"Bookings are progressing quite well," Frank said. Fleetwide yield is expected to be higher both in North America and for the EAA.

Q3 2011

For Q3, fleetwide capacity will be up 5.0 percent, 3.6 percent in North America and 7.2 percent for EAA brands. While it is in the early booking stages, Frank said that business so far showed pricing well ahead of last year.

North American brands will have 36 percent of their capacity in the Caribbean, compared to 43 percent last year and 36 percent the year before; 25 percent in Europe, compared to 17 percent last year and 19 percent the year before; and 23 percent in Alaska, compared to 25 percent last year and 28 percent the year before.

Frank commented that pricing is up year-over-year in Europe as well as in Mexico, although Mexican Riviera cruises are a small part of the business, he added. Alaska is strong and the Caribbean strong.

EAA brands will have 88 percent of their capacity in Europe, compared to 97 percent for the European brands last year.

Results Q4 2010

For its Q4, ended Nov. 30, 2010, Carnival reported net income of $248 million, or $0.31 per share, on revenues of $3.5 billion, compared to net income of $193 million, or $0.24 per share, on revenues of $3.3 billion for the same period last year.

The result was below the midpoint of the company's guidance, and David Bernstein, CFO and executive vice president, attributed that to the voyage disruptions of the Carnival Splendor, which reduced earnings by $0.07 per share. If that had not occurred, he said, the company would have exceeded its guidance by $0.04.

Fleetwide capacity was up 5 percent in the quarter, 10 percent in Europe and 1 percent in North America, with yields on both sides of the Atlantic being similar.

(Continued on pages 3 and 4)

CARNIVAL CORP. EARNINGS

	Fourth Quarter					Year ended Nov. 30				
	2010		2009			**2010**		2009		
Revenue [1]					Percent Change					Percent Change
Tickets	$2,666.0	76.2%	$2,495.0	76.0%	6.9%	$11,084.0	76.6%	$10,288.0	76.4%	7.7%
Onboard	$791.0	22.6%	$753.0	22.9%	5.0%	$3,104.0	21.5%	$2,885.0	21.4%	7.6%
Other	$40.0	1.2%	$34.0	1.1%	17.6%	$281.0	1.9%	$287.0	2.2%	(2.0%)
Total	**$3,497.0**	**100%**	**$3,282.0**	**100%**	**6.6%**	**$14,469.0**	**100%**	**$13,460.0**	**100%**	**7.4%**
Op. Expenses [1]	$2,356.0	67.3%	$2,219.0	67.6%	6.2%	$9,092.0	62.8%	$8,407.0	62.5%	8.1%
(Fuel)	($413.0)	11.8%	($378.0)	11.5%	9.3%	($1,622.0)	11.2%	($1,156.0)	8.6%	40.3%
S&A [1]	$433.0	12.4%	$424.0	12.9%	2.1%	$1,614.0	11.2%	$1,590.0	11.8%	3.2%
D&A [1]	$367.0	10.5%	$345.0	10.5%	6.8%	$1,416.0	9.8%	$1,309.0	9.7%	8.1%
Total Cost and Expense [1]	**$3,156.0**	**90.2%**	**$2,988.0**	**91.0%**	**5.6%**	**$12,122.0**	**83.8%**	**$11,306.0**	**84.0%**	**7.2%**
Op. Income [1]	**$341.0**	**9.8%**	**$294.0**	**9.0%**	**16.0%**	**$2,347.0**	**16.2%**	**$2,154.0**	**16.0%**	**9.0%**
Other Income (expense) [1]	($94.0)		($101.0)			($369.0)		($364.0		
Net Income [1]	**$248.0**	**7.1%**	**$193.0**	**5.9%**	**28.5%**	**$1,978.0**	**13.7%**	**$1,790.0**	**13.3%**	**10.5%**
EPS	**$0.31**		**$0.24**		**29.1%**	**$2.47**		**$2.24**		**10.2%**
Fleet	98 ships		93 ships		5.4%	98 ships		93 ships		5.4%
Berths	191,000		180,000		6.1%	191,000		180,000		6.1%
Passengers	2,259,000		2,136,000		5.8%	9,147,000		8,519,000		7.4%
Pax Days	17,464,059		16,555,401		5.5%	70,271,693		65,521,741		7.2%
Load Factor	103.8%		103.2%		0.6%	105.6%		105.5%		0.1%
Revenue per Pax Day	**$200.24**		**$198.24**		**1.0%**	**$205.90**		**$205.43**		**0.2%**
Ticket per Pax Day	$152.66		$150.71		1.3%	$157.73		$157.03		**0.4%**
Onboard per Pax Day	$45.29		$45.48		(0.4%)	$44.17		$44.03		**0.3%**
Other	$2.29		$2.05		11.7%	$4.00		$4.38		(8.7%)
Op. Expense per Pax Day	$134.90		$134.02		0.7%	$129.38		$128.31		0.8%
Op. Expense Ex Fuel	$111.25		$111.20		0.0%	$106.30		$110.67		(4.1%)
Fuel per day	$23.65		$22.83		3.6%	$23.08		$17.64		30.8%
S&A per Pax Day	$24.79		$25.61		(3.2%)	$22.97		$24.27		(5.4%)
Total Costs and Expenses per Pax Day	**$180.71**		**$180.48**		**0.1%**	**$172.50**		**$172.55**		**0.0%**
Op. Income per Pax Day	**$19.53**		**$17.76**		**10.0%**	**$33.40**		**$32.88**		**1.5%**
Net Income per Pax Day	**$14.20**		**$11.66**		**21.8%**	**$28.15**		**$27.32**		**3.0%**

1) Amounts are in millions. 2) For 2009, Carnival changeds its classification of certain costs, which changed its reported ticket revenues and commissions, transportation and other costs, from what was reported previously. The bottom line remains the same.

Exhibit JN
Page 3 of 6

CARNIVAL (Continued)

North American yield was up, according to Bernstein, except for Caribbean cruises, where yield was flat due to the increase in capacity.

Results Year 2010

For its full fiscal year, ended Nov. 30, 2010, Carnival reported net income of $2.0 billion, or $2.47 per share, on revenues of $14.5 billion, compared to net income of $1.8 billion, or $2.24 per share, on revenues of $13.5 billion last year.

The results were driven by increased revenue yield and lower costs, partially offset by higher fuel prices, currency fluctuations and voyage disruptions, according to Bernstein

At the end of its fiscal year, Bernstein also noted that Carnival has $3.8 billion in cash for operating purposes – "more than enough to fund its expansion program."

Frank said that capital expenditures in 2011 will be $2.6 billion, down from $3.1 billion in 2010.

In response to questions from analysts, Frank said that the company is not concerned about the outlook for Europe, that it is already figured into his forecasting, although he admitted Europe may be a little more challenging going forward.

Industry Capacity

As for fewer new ships entering service in the coming years, Frank said he sees the slowing of new capacity as a positive sign, allowing demand to catch up. He said he expects to see good growth in ticket prices.

Beth Roberts, vice president of investor relations, said that industrywide capacity growth will be an estimated 5 percent in 2011 and 5 percent in 2012.

Arison reiterated that the company's newbuilding position is unchanged. He is looking at two to three new ships a year and said he does not see that changing for the time being.

Fuel Efficiencies

New ships are more fuel efficient. "The biggest benefit of new ships is their fuel efficiencies," said Arison. "They are something like 20 percent more efficient than prior ships. But it is all rolled into a 2 to 3 percent improvement fleetwide year-over-year."

Fuel costs for the full year 2011 are expected to increase $134 million, compared to 2010, costing $0.17 more per share.

Economies of Scale

While the company benefits from the economies of scale that new ships contribute, Bernstein said that a scale effect is gained from the total fleet.

Carnival is forecasting its unit costs, excluding fuel to be flat in 2011, but executives said they are seeing inflationary pressures in food, cotton and freight rates.

New Reporting Metrics

In terms of the new reporting metrics, Bernstein identified the support infrastructure on the corporate level to consist of Grand Turk, Puerto Maya, Roatan and Long Beach, among other elements, and Frank added that each are profitable businesses, although they are small.

Dividend

As for an increased dividend, Arison said that is a board decision, but noted that the board has become more conservative following the recent economic downturn.

Carnival reinstated its dividend early in 2010 at the rate of $0.10 per quarter.

Onboard Revenue

Bernstein noted that the onboard component had grown 2 percent in 2010 and that Carnival is looking for 2.5 percent in 2011.

"We are seeing a gradual improvement among consumers," he said. "But we are taking steps (to generate more onboard spending); we are not just waiting." He noted facial recognition technology for photography and live bands for karaoke as examples. "We are working to expand the offering and increase revenue yield."

Pricing

Bernstein also noted that premium pricing fell the most in 2009 and is still trailing the pricing recovery in the contemporary market segment.

Direct Bookings

Carnival reported that 17 percent of its sales revenue was generated by direct bookings in 2009 and Arison said he would expect that level to continue at a slow growth pace. The company does not have the percentage of direct sales for 2010 yet.

Bernstein added that 60 percent of the bookings received from agents are automated, contributing to reduced costs.

South America

Arison said that South America is seeing a very good bounce back this year. He noted the massive capacity increase in Brazil last year and said there is a smaller increase this year in addition to more capacity being dedicated to Argentina.

SHORE POWER

The Port of San Diego hooked its first ship up to shorepower Dec. 11. Upon completing its $7.1 million installation, the port becomes the fifth in the country and the second in California offering shorepower.

The first ship was **HOLLAND AMERICA LINE**'s Oosterdam.

The infrastructure that will provide shore power to cruise ships docked at the B Street terminal will also have the capability of powering a ship docked at the new Port Pavilion on the Broadway Pier, which will serve as both an event center and auxiliary cruise ship terminal.

"Ships are our largest single source of air "emissions and this project is going to significantly reduce those emissions," said Michelle White, manager of the Green Port Program, in a prepared statement.

"It's a huge electrical system," White said. "We can provide up to 12 megawatts of power. That's enough to power a large college campus."

White said when a cruise ship uses the shore power system while docked, it prevents about one ton of pollutants from entering the air.

The **PORT OF SAN FRANCISCO** was the first port in California to complete installation of shore power for cruise ships.

The very first installation for cruise ships was in **JUNEAU**, Alaska, followed by **SEATTLE**, and then **SAN FRANCISCO** and **VANCOUVER**. Plans are also underway in **LOS ANGELES**.

To help pay for the system, the port of San Diego was awarded a $2.4 million state Carl Moyer grant by the California Air Resources Board through the county's Air Pollution Control District. This is the first shore power system the Carl Moyer grant has funded.

Required by Law

Also, according to the Port of San Diego, under a measure adopted by the California Air Resources Board to reduce emissions and associated health risks, beginning Jan. 1, 2014, a cruise line must use shore power for 50 percent of its calls to a port.

Last year, there were 223 cruise calls to San Diego, bringing more than 800,000 passengers. Each home-ported cruise ship call is estimated to have an economic impact of about $2 million. That number is calculated from passenger spending and the businesses that bring in revenue from serving the cruise lines. This includes everything from florists, food suppliers, and bus and transportation services to local attractions.

On the East Coast, New York expects to have shorepower shortly, at least at its Brooklyn Terminal, where the QM2 will be equipped to hook up after a fall drydocking to install the equipment onboard.

CAPTURING BENEFITS

Belize expects to see some 775,000 passengers as this year comes to an end, up 10 percent over 2009. While there were fewer calls this year, the ships were bigger so the passenger numbers were up, according to James Nisbet, port manager of the **FORT GEORGE TOURIST VILLAGE.**

The cruise business took off in Belize in 1998 when 14,000 passengers visited, according to Lloyd Enriquez, director of destination planning for the **BELIZE TOURISM BOARD**, following the reduction of the head tax from $20 to $5.

The busy season is from mid-October to mid-May. Enriquez described the summer as the "doldrums" and said that Belize, along with many other destinations would like to see more traffic throughout the year. The only year-round caller is **CARNIVAL CRUISE LINES**.

As Carnival has recently built a port in Roatan, Honduras, cruise lines are looking at the whole region to build itineraries, Enriquez said, and he thinks that Belize would be a good fit.

Passengers tender into the village, which Nisbet said is a joint venture between **ROYAL CARIBBEAN** and **DIAMONDS INTERNATIONAL**.

Tendering is working, he said, but discussions are underway between the government and private entities to build a pier. The goal is to be able to accommodate ships as big as the Oasis of the Seas and at least three or four ships at a time.

Today, cruises represent a substantial portion of tourism to Belize, according to Enriquez, and particularly in the district with the port where the industry is also a major contributor to employment.

The **FLORIDA CARIBBEAN CRUISE ASSOCIATION** estimated shoreside spending to be almost $88 per passenger, while another survey pegged spending at $47, according to Enriquez.

Enriquez said the government has been encouraging local businesses to get involved, while it is also trying to manage the destination's resources better.

"The objective is to capture more economic benefits," he said, "and make it more equitable for more people here.

"We are putting in an enabling environment for independent tour operators; we have rotation system so more operators can participate."

Nisbet said that about 60 percent of the passengers book tours with the cruise lines; the rest book locally or go ashore by themselves. "We have put up signage, making it easier for passengers to go ashore," Enriquez added.

Taxis, horse-and-carriage operators and independent vendors are outside the official port facilities.

NOTED

• The **CRUISE LINES INTERNATIONAL ASSOCIATION** (CLIA) has named a new president and CEO, Christine Duffy, to succeed Terry Dale, who is leaving after seven years, effective Dec. 31, 2010. Duffy is president and CEO of **MARITZ TRAVEL**, and will assume her new position Feb. 1. However, she will be working out of what CLIA calls its office Washington D.C. Only a few years ago, Dale managed the organization's move from New York to Fort Lauderdale and also took on responsibility for the former Washington, D.C.-based **INTERNATIONAL COUNCIL OF CRUISE LINES**, consolidating operations in Fort Lauderdale.

Also, in a further changing of the guard, Jan Swartz, executive vice president of sales, marketing and customer service for **PRINCESS CRUISES** and **CUNARD LINE**, will take the helm of the association's marketing committee effective Jan. 1. She succeeds Richard Sasso, president and CEO of **MSC CRUISES USA**, in a normal rotation of responsibilities. Swartz has previously served as a member of the marketing committee.

• **CARNIVAL CRUISE LINES** has cancelled additional cruises on the Carnival Splendor, including the Jan. 16, 23 and 30 and February 6 and 13 sailings. The cruise line said that more time is needed for repairs following the engine room fire in November.

According to the cruise line, as repairs proceeded, more problems were discovered, while new parts were not readily available and have to be manufactured in Europe.

Currently in San Diego, the Splendor will go to San Francisco to drydock in mid-January.

Guests booked on the cancelled voyages are receiving full refunds or future cruise credit equal to the amount paid, along with reimbursement for air transportation change fees. Those who rebook may also receive a 25 percent future cruise discount and/or onboard credit depending on the ship and the sailing date of the new booking.

• **STX FRANCE** has started construction on the 139,400 ton cruise ship for Libyan **GNMTC**. Delivery is slated for mid-December 2012. Still no official word on the Libyan's company intentions – whether it will charter the ship out or attempt to launch its own brand.

HAPPY HOLIDAYS.
The next issue of *Cruise Industry News*, the newsletter, will be January 19, 2011.

ROUGH SEAS

The Carnival Inspiration was 12 hours late returning to Tampa last week because of rough seas. Local press reports said the ship elected to stay at sea to ride out the weather rather than chance hitting the Skyway Bridge on her way in. While passengers may have experienced some motion, no injuries or other problems were reported, however, some passengers undoubtedly missed their travel connections. In addition, the next cruise did not leave until the following day, so some people needed overnight accommodations. The next cruise was also shortened from five to four days, dropping one port, leaving Carnival with the added headache of offering compensation and/or refunds.

Also last week, the Brilliance of the Seas was hit by rough weather off the coast of Egypt in what the line called a "serious incident." According to **ROYAL CARIBBEAN**, while approaching Alexandria, the Brilliance encountered extreme wind and sea conditions, resulting in severe ship movement. There was damage to the ship's interior, forcing the closing of three public rooms for the rest of the cruise, and loss of electricity in some staterooms, but no impact on operating systems or the powerplant. However, more than 100 passenger injuries were reported, and the captain has reportedy been put on "voyage leave," pending a review of the incident. Royal Caribbean offered guests an onboard credit as well as a full refund of the cruise fare.

These incidents (above) followed the widely viewed YouTube video of the Clelia II, which was caught in a storm in the Drake Passage between Cape Horn and Antarctica last week, showing the small ship being tossed around by giant waves. The video also clearly demonstrated putting out lifeboats would have been impossible and at best useless.

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