

ROYAL CARIBBEAN CRUISES LTD

Form 20-F

March 24, 2003

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

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-11884

ROYAL CARIBBEAN CRUISES LTD.

(Exact name of Registrant as specified in its charter)

Republic of Liberia

(Jurisdiction of incorporation or organization)

1050 Caribbean Way, Miami, Florida 33132

(Address of principal executive offices)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.01 per share	New York Stock Exchange
Liquid Yield Option Notes due February 2, 2021	New York Stock Exchange
Zero Coupon Convertible Notes due May 18, 2021	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2002, the Registrant had outstanding 192,982,513 shares of common stock, par value \$.01 per share.

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

Yes No

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Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 [] Item 18 [X]

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As used in this Annual Report on Form 20-F, the terms *Royal Caribbean*, *the Company*, *we*, *our* and *us* refer to *Royal Caribbean Cruises Ltd.*, the term *Celebrity* refers to *Celebrity Cruise Lines Inc.* and the terms *Royal Caribbean International* and *Celebrity Cruises* refer to our two cruise brands. In accordance with cruise industry practice, the term *berths* represents double occupancy capacity per cabin even though many cabins can accommodate three or more guests.

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information**Selected Financial Data**

The following selected financial data are for each of the fiscal years in the period 1998 through 2002 and as of the end of each such fiscal year. The financial information presented for fiscal years 2002, 2001, and 2000 and as of the end of fiscal years 2002 and 2001 is derived from our financial statements and should be read together with such financial statements and the related notes included elsewhere herein.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
(in thousands, except per share data)					
Operating Data:					
Revenues	\$ 3,434,347	\$ 3,145,250	\$ 2,865,846	\$ 2,546,152	\$ 2,636,291
Operating income	550,975	455,605	569,540	480,174	488,735
Net income	351,284	254,457	445,363	383,853	330,770
Per Share Data Diluted:					
Operating income	\$ 2.81	\$ 2.35	\$ 2.95	\$ 2.58	\$ 2.70
Net income	\$ 1.79	\$ 1.32	\$ 2.31	\$ 2.06	\$ 1.83
Weighted-average shares and potentially dilutive shares	195,731	193,481	192,935	186,456	181,165
Dividends declared per common share	\$ 0.52	\$ 0.52	\$ 0.48	\$ 0.40	\$ 0.34
Balance Sheet Data:					
Total assets	\$ 10,538,531	\$ 10,368,782	\$ 7,828,465	\$ 6,380,511	\$ 5,686,076
Total debt, including capital leases	5,444,838	5,646,112	3,410,096	2,342,177	2,469,082
Common stock	1,930	1,923	1,921	1,812	1,690
Total shareholders' equity	4,034,694	3,756,584	3,615,915	3,261,156	2,454,758

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Risk Factors

The Risk Factors set forth below and elsewhere in this Annual Report on Form 20-F are important factors, among others, that could cause actual results to differ from expected or historic results. It is not possible to predict or identify all such factors. Consequently, this list should not be considered a complete statement of all potential risks or uncertainties. See Item 5. Operating and Financial Review and Prospects, for a note regarding forward-looking statements.

We may lose business to competitors throughout the vacation market

We operate in the vacation market and cruising is one of many alternatives for people choosing a vacation. We therefore risk losing business not only to other cruise lines, but also to other vacation operators which provide other leisure options including hotels, resorts and package holidays and tours.

We face significant competition from other cruise lines, both on the basis of cruise pricing and also in terms of the nature of ships and services we offer to cruise passengers. Our principal competitors within the cruise vacation industry include Carnival Corporation, which owns, among others, Carnival Cruise Lines, Holland America Line, Cunard Line and Costa Cruises; P&O Princess Cruises plc. (P&O Princess) which owns, among others, Princess Cruises, P&O Cruises, Swan Hellenic and AIDA; Star Cruises, which owns Star Cruises, Norwegian Cruise Line and Orient Line; and others.

On January 8, 2003, Carnival Corporation and P&O Princess announced that they had entered into an agreement to combine the two companies, subject to, among other things, shareholder approval. The combined companies would have a wide portfolio of cruise brands and could have stronger financial flexibility and greater access to capital markets than each currently has on an uncombined basis. The combined companies may also have better access to the travel agency distribution network and to berthing facilities in various ports throughout the world. These factors may make it more difficult for us to compete effectively within the cruise vacation market.

In the event that we do not compete effectively with other vacation alternatives and cruise companies, our market share could decrease and our results of operations and financial condition could be adversely affected.

Overcapacity within the cruise vacation industry, a reduction in demand or geo-political and economic uncertainties could have a negative impact on net revenue per available passenger cruise day (net revenue yields), result in impairment of ship assets and may adversely affect profitability

Cruising capacity has grown in recent years and we expect it to continue to increase as all of the major cruise vacation companies are expected to introduce new ships. In order to utilize new capacity, the cruise vacation industry will need to improve its position in the overall vacation market. Failure of the cruise vacation industry to do so could have a negative impact on net revenue yields. Net revenue represents gross revenue less costs of air transportation, travel agent commissions and other direct costs of sales. Should net revenue yields be negatively impacted, we could experience an adverse effect on our results of operations and financial condition, including ship asset impairments.

Demand for cruises and other vacation products has been and is expected to continue to be affected by the public's attitude towards the safety of travel and the geo-political climate. In the future, demand for cruises is also likely to be increasingly dependent on the underlying economic strength of the countries in which cruise companies market their products. Economic or political changes, including those that reduce disposable income in the countries in which we market our products, may affect demand for vacations, including cruise vacations, and may lead to price discounting which, in turn, may reduce the profitability of our business.

Furthermore, events such as terrorist attacks, war and other hostilities and the resulting political instability and concerns over safety and security aspects of traveling have had and could have in the future a significant adverse impact on demand and pricing in the travel and vacation industry. In addition, events such as terrorist attacks, war and other hostilities and the resulting security measures and concerns could impact our ability to source qualified crew from throughout the world, at competitive costs and, therefore, increase our shipboard employee costs.

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Incidents at sea or adverse publicity concerning the cruise industry could affect our reputation and harm our future sales and profitability

The operation of cruise ships involves the risk of accidents, illnesses and other incidents at sea which may bring into question passenger safety, health, security and vacation satisfaction and thereby adversely affect future industry performance. While we make passenger safety our foremost priority in the design and operation of our ships, incidents involving passenger cruise ships could adversely affect future sales and profitability. In addition, adverse media publicity concerning the cruise industry in general could impact demand and consequently have an adverse impact on our profitability.

Environmental and health and safety legislation could affect operations and increase operating costs

Some environmental groups have lobbied for more stringent regulation of cruise ships. Some groups have also generated negative publicity about the cruise industry and its environmental impact. Stricter environmental and health and safety regulations could affect our operations and increase the cost of compliance and adversely affect the cruise industry. It cannot be assured that our costs of complying with current and future environmental, health and safety laws, or liabilities arising from past or future releases of, or exposure to, hazardous substances or to ship discharges, will not materially adversely affect our business, results of operations or financial condition.

We may not be able to obtain financing on terms that are favorable or consistent with our expectations

To fund our capital expenditures and scheduled debt payments, we rely on a combination of cash flows provided by operations, drawdowns under our available credit facilities, the incurrence of additional indebtedness and the sales of equity or debt securities in private or public securities markets. Our \$1.0 billion revolving credit facility expires in June 2003. Any amounts outstanding at that time will be payable immediately if the facility is not replaced. We intend to replace this facility prior to its expiration date, although such replacement may be at an amount less than \$1.0 billion. Our credit ratings impact our ability to obtain financing in financial markets and the terms of the financing. Any future lowering of our credit ratings may have adverse consequences on our ability to access the financial markets or on our cost of financings. In addition, interest rates and our ability to obtain financing are dependent on many economic and political factors beyond our control. Accordingly, we can not be sure that our cash flows from operations and additional financings will be available in accordance with our expectations.

Conducting business internationally may result in increased costs

We operate our business internationally and plan to continue to develop our international presence. Operating internationally exposes us to a number of risks. Examples include currency fluctuations, interest rate movements, imposition of trade barriers and restrictions on repatriation of earnings. Additional risks include political risks and risk of increases in duties and taxes as well as changes in laws and policies affecting cruising, vacation or maritime businesses or the governing operations of foreign-based companies. If we are unable to address these risks adequately, our results of operations and financial condition could be adversely affected.

Ship construction delays or faults may result in cancellation of cruises and unscheduled drydocks and repairs

We depend on the shipyards to construct and deliver our cruise ships on a timely basis and in good working order. The inherent nature of building a ship involves risks similar to those encountered in other sophisticated projects. Delays or faults in ship construction have in the past and may continue in the future to result in delays or cancellation of cruises or necessitate unscheduled drydocks and repairs of the ship. Shipyard insolvency and other industrial actions could also delay or indefinitely postpone the timely delivery of new ships. We have experienced mechanical problems with the pod propulsion units on Millennium-class ships and there can be no assurance that we will not experience such problems in the future. These events together with any related adverse publicity could, to the extent they are not covered by contractual provisions or insurances, adversely affect our financial results.

Our operating costs could increase due to market forces and economic or political instability beyond our control

Some of our operating costs, including fuel, insurance and security costs, are subject to increases due to market forces and economic or political instability beyond our control. Increases in these operating costs could adversely affect our profitability.

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Unavailability of ports of call may adversely affect our profits

We believe that port destinations are a major reason why guests choose to go on a particular cruise or on a cruise vacation. The availability of ports is affected by a number of factors, including, but not limited to, existing capacity constraints, security concerns, adverse weather conditions and natural disasters, financial limitations on port development, local governmental regulations and local community concerns about port development and other adverse impacts on their communities from additional tourists. The inability to continue to maintain and increase our ports of call could adversely affect our profits.

A change in our tax status under the United States Internal Revenue Code may have adverse effects on our income

We and our wholly owned subsidiary, Celebrity Cruises Inc., the operator of Celebrity Cruises, are foreign corporations engaged in a trade or business in the United States and our ship-owning subsidiaries are foreign corporations that, in many cases, depending upon the itineraries of their ships, receive income from sources within the United States. Drinker, Biddle & Reath LLP, our United States tax counsel, has delivered to us an opinion to the effect that, pursuant to Section 883 of the Internal Revenue Code, our income, the income of Celebrity Cruises Inc. and the ship-owning subsidiaries, in each case derived from or incidental to the international operation of a ship or ships, is exempt from United States income tax. We believe that substantially all of our income, the income of Celebrity Cruises Inc. and our ship-owning subsidiaries is derived from or incidental to the international operation of a ship or ships within the meaning of Section 883 of the Internal Revenue Code.

Our tax counsel is of the opinion based on certain representations and assumptions that we, Celebrity Cruises Inc., and our ship-owning subsidiaries currently qualify for the Section 883 exemption because each of them is incorporated in a qualifying jurisdiction and our stock is primarily and regularly traded on an established securities market in the United States or Norway. To date, however, no final Treasury regulations or other definitive interpretations of the relevant portions of Section 883 have been promulgated, although regulations have been proposed and reissued in revised form in August 2002. As noted in our tax counsel's opinion, such final regulations or official interpretations could differ materially from our tax counsel's interpretation of this Internal Revenue Code provision and, even in the absence of such final regulations or official interpretations, the Internal Revenue Service might successfully challenge such interpretation. In addition, the provisions of Section 883 are subject to change at any time by legislation. Moreover, changes could occur in the future with respect to the identity, residence, or holdings of our direct or indirect shareholders that could affect our and our subsidiaries' eligibility for the Section 883 exemption. Accordingly, there can be no assurance that we, Celebrity Cruises Inc., and our ship-owning subsidiaries are, and will in the future be, exempt from United States income tax on United States source shipping income.

If we, Celebrity Cruises Inc., and our ship-owning subsidiaries were not entitled to the benefit of Section 883 of the Internal Revenue Code, each would be subject to United States taxation on a portion of its income. See *Taxation of the Company* within Item 4. for a discussion of the taxation of us, Celebrity Cruises Inc., and our ship-owning subsidiaries in the absence of an exemption under Section 883 of the Internal Revenue Code.

We are controlled by principal shareholders that have the power to determine our policies, management and actions requiring shareholder approval

As of February 21, 2003, A. Wilhelmsen AS., a Norwegian corporation indirectly owned by members of the Wilhelmsen family of Norway, owned approximately 24.0% of our common stock and Cruise Associates, a Bahamian general partnership indirectly owned by various trusts primarily for the benefit of certain members of the Pritzker family of Chicago, Illinois, and various trusts primarily for the benefit of certain members of the Ofer family, owned approximately 25.0% of our common stock. A. Wilhelmsen AS. and Cruise Associates have the power to determine, among other things:

our policies and the policies of our subsidiaries,

the persons who will be our directors and officers and the directors and officers of our subsidiaries and

actions requiring shareholder approval.

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A. Wilhelmsen AS. and Cruise Associates are parties to a shareholders agreement. The agreement provides that our board of directors will consist of the following persons:

four nominees of A. Wilhelmsen AS.,

four nominees of Cruise Associates and

our Chief Executive Officer.

The shareholders agreement provides that the boards of directors of our subsidiaries shall have substantially similar composition.

In connection with our acquisition of Celebrity, A. Wilhelmsen AS. and Cruise Associates have also agreed to vote their shares of our common stock to elect one additional director to our board of directors to be nominated by Archinav Holdings, Ltd., a former shareholder of Celebrity, for a specified period until 2004. In addition, until either of them should decide otherwise, A. Wilhelmsen AS. and Cruise Associates have agreed to vote their shares of common stock in favor of two additional named directors of our board of directors. During the term of the shareholders agreement, certain corporate actions require the approval of at least one director nominated by A. Wilhelmsen AS. and one director nominated by Cruise Associates. Our principal shareholders are not prohibited from engaging in a business that may compete with our business, subject to certain exceptions. The failure of A. Wilhelmsen AS. and Cruise Associates to continue to own a specified percentage of our common stock might obligate us to prepay indebtedness outstanding under and/or result in the termination of some of our credit facilities.

The holders of our common stock may experience dilution in the value of their equity interest as a result of the issuance and sale of additional shares of our common stock

A substantial number of shares of our common stock were either issued by us in private transactions not involving a public offering and are therefore treated as restricted securities for purposes of Rule 144 under the Securities Act of 1933 (the Securities Act) or are held by our affiliates and, therefore, treated as restricted securities . These shares include the 46,409,330 shares of our common stock held by A. Wilhelmsen AS. and the 48,281,900 held by Cruise Associates. No predictions can be made as to the effect, if any, that market sales of such shares, or the availability of such shares for future market sales, will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of our common stock (including shares issued upon exercise of stock options), or the perceptions that such sales could occur, could materially adversely affect the prevailing market price for our common stock and could impair our future ability to raise capital through an offering of equity securities. Each of A. Wilhelmsen AS. and Cruise Associates has the right, pursuant to a registration rights agreement, to require us, subject to certain qualifications, to effect the registration under the Securities Act of all or a specified minimum number of their shares of common stock. Monument Capital Corporation, a Liberian corporation (holder, as nominee, of 1,071,412 shares of common stock), and Archinav Holdings, Ltd. (holder of 7,597,242 shares of common stock) are also parties to the registration rights agreement. See Share Ownership under Item 6. and Major Shareholders and Related Party Transactions under Item 7.

We are not a United States corporation and our shareholders may be subject to the uncertainties of a foreign legal system in protecting their interests

Our corporate affairs are governed by our Restated Articles of Incorporation and By-Laws and by the Business Corporation Act of Liberia. The provisions of the Business Corporation Act of Liberia resemble provisions of the corporation laws of a number of states in the United States. However, while most states have a fairly well developed body of case law interpreting their respective corporate statutes, there are very few judicial cases in Liberia interpreting the Business Corporation Act of Liberia. For example, the rights and fiduciary responsibilities of directors under Liberian law are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. Thus, our public shareholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

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Item 4. Information on the Company

History and Development of the Company

Royal Caribbean International was founded in 1968. The current parent corporation, Royal Caribbean Cruises Ltd., was incorporated on July 23, 1985 in the Republic of Liberia under the Business Corporation Act of Liberia. The address of the principal executive offices is 1050 Caribbean Way, Miami, Florida 33132; the telephone number is (305) 539-6000. Our registered agent is Michael J. Smith, Vice President, General Counsel and Secretary, 1050 Caribbean Way, Miami, Florida 33132.

We are the world's second largest cruise company with 25 cruise ships with 53,042 berths.

See the *Business Overview* section and Item 5. *Operating and Financial Review and Prospects* for more information regarding our history and development, significant capital expenditures, ships under construction and methods of financing.

Business Overview

General

We operate two brands, Royal Caribbean International and Celebrity Cruises, which was acquired in July 1997. Our brands offer a wide array of shipboard activities, services and amenities, including swimming pools, sun decks, beauty salons, exercise and spa facilities, ice skating rinks, rock climbing walls, gaming facilities, lounges, bars, Las Vegas-style entertainment, retail shopping and cinemas. Our ships operate on a selection of worldwide itineraries that call on approximately 200 destinations. We compete principally on the basis of quality of ships, quality of service, variety of itineraries and price.

The Royal Caribbean International Brand

Royal Caribbean International serves the volume cruise vacation sector which we categorize as the contemporary and premium segments. The contemporary segment is served by cruises that are generally seven days or shorter and feature a casual ambiance. The premium segment is served by cruises that are generally seven to 14 days and appeal to the more experienced cruiser who is usually more affluent. The brand operates 16 cruise ships with 36,688 berths, offering various cruise itineraries that range from three to 17 nights and call on destinations throughout the world.

Royal Caribbean International's strategy is to attract an array of vacationing consumers in the contemporary segment by providing a wide variety of itineraries and cruise lengths with multiple options for onboard dining, entertainment and other onboard activities. Additionally, Royal Caribbean International offers a variety of shore excursions at each port of call. We believe that the variety and quality of Royal Caribbean International's product offering represent excellent value to consumers, especially to couples and families traveling with children. Because of the brand's extensive product offerings, we believe Royal Caribbean International is well positioned to attract new consumers to the cruise industry and to continue to bring past guests back for their next vacation. While the brand is positioned at the upper end of the contemporary segment, we believe that Royal Caribbean International's quality enables it to attract consumers from the premium segment as well, thereby achieving one of the broadest market coverages of any of the major brands in the cruise industry.

The Celebrity Cruises Brand

Celebrity Cruises primarily serves the premium segment. Celebrity Cruises operates nine cruise ships with 16,354 berths and offers various cruise itineraries that range from six to 17 nights.

Celebrity Cruises' strategy is to attract consumers who want an enhanced cruise vacation in terms of modern ships, gourmet dining and service, extensive and luxurious spa facilities, large staterooms and a high staff-to-guest ratio. These are hallmarks of the premium cruise vacation segment, which is Celebrity Cruises' primary target. Celebrity Cruises also attracts experienced cruisers from the contemporary and luxury cruise categories. Celebrity Cruises has expanded its fleet to provide an increased variety of itineraries and cruise lengths and has a higher proportion of its fleet deployment in seasonal markets (i.e. Alaska, Bermuda, Europe and South America) than the Royal Caribbean International brand.

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In October 2002, our proposed combination with P&O Princess was terminated prior to its consummation and P&O Princess paid us a break fee of \$62.5 million. We incurred approximately \$29.5 million of merger-related costs. We also agreed to terminate, effective January 1, 2003, our joint venture with P&O Princess to create and operate a cruise line to target customers in southern Europe. The venture was terminated before it commenced business operations.

Industry

Since 1970, cruising has been one of the fastest growing sectors of the vacation market, as the number of North American guests has grown to an estimated 7.6 million in 2002 from 0.5 million in 1970, a compound annual growth rate of approximately 9%. We have sought to capitalize on the increasing popularity of cruises through an extensive fleet expansion program.

According to our estimates, the North American market was served by an estimated 102 cruise ships with approximately 110,500 berths at the end of 1997. We estimate that this capacity has increased to approximately 173,500 berths on 117 ships by the end of 2002. The increase in capacity over the last five years is net of approximately 36 ships with approximately 27,500 berths that have either been retired or moved out of the North American market. There are a number of cruise ships on order with an estimated 54,900 berths which will be placed in service between 2003 and 2006. Although we cannot predict the rate at which future retirements will occur, we believe ship retirements will continue due to competitive pressures and the age of the ships.

The following table details the growth in the North American cruise market of both guests and weighted-average berths over the past five years:

Year	North American Cruise Guests(1)	Weighted Average Supply of Berths Marketed in North America(2)
1998	5,428,000	118,747
1999	5,894,000	130,152
2000	6,886,000	144,499
2001	6,906,000	151,690
2002	7,640,000	163,187

(1) Source: Cruise Lines International Association based on guests carried for at least two consecutive nights.

(2) Source: Our estimates.

Cruise lines compete for consumers' disposable leisure time spending with other vacation alternatives such as land-based resort hotels and sightseeing destinations, and demand for such activities is influenced by general economic conditions. We believe that cruise guests currently represent only a small share of the vacation market and that a significant portion of cruise guests carried are first-time cruisers.

Our ships operate worldwide and have itineraries that call on destinations in Alaska, Australia/New Zealand, the Bahamas, Bermuda, California, Canada, the Caribbean, Europe, Hawaii, Mexico, New England, the Panama Canal, Scandinavia and South America. Competition for cruise guests seeking these itineraries is vigorous. We compete with a number of cruise lines; however, our principal competitors are Carnival Cruise Lines, Holland America Line, Norwegian Cruise Line and Princess Cruises. We compete principally on the basis of quality of ships, quality of service, variety of itineraries and price.

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Operating Strategies

Our principal operating strategies are to:

- improve the awareness and market penetration of both brands,
- continue to expand our fleet with state-of-the-art cruise ships,
- improve our competitive position with respect to the quality and innovation of our onboard product,
- expand into new markets and itineraries,
- further expand our international guest sourcing,
- utilize sophisticated yield management systems (revenue optimization per berth),
- further improve our technological capabilities, and
- maintain strong relationships with travel agencies, the principal industry distribution system.

Brand Awareness

Our strategy continues to broaden the recognition of both the Royal Caribbean International brand and the Celebrity Cruises brand in the cruise vacation sector. Each brand has a distinct identity and marketing focus but utilizes shared infrastructure resources.

We have positioned the Royal Caribbean International brand in the contemporary and premium segments of the cruise vacation sector. As such, Royal Caribbean International focuses on providing multiple choices to its guests through a variety of itineraries, accommodations, dining options, ship activities and shore excursions. Hallmarks of the brand include friendly and engaging service, modern ships, family programs, entertainment, health and fitness and energizing onboard and shore side activities designed for guests of all ages. In December 2002, *Recommend Magazine* recognized Royal Caribbean International for having the Best Large Ship, onboard entertainment and food in its Sixth Annual Readers' Choice Awards, which surveyed more than 1,000 travel agents.

We have positioned the Celebrity Cruises brand in the premium segment of the cruise vacation sector. The brand places emphasis on its gourmet dining, impeccable service, large staterooms, a high staff-to-guest ratio and luxurious spa facilities. Celebrity Cruises was rated number one among *Condé Nast Traveler's* World's Greatest Ships review in January 2003, in which five of the top 10 ships within the large ship category were Celebrity ships.

Fleet Expansion

Currently, our combined fleet has an average age of approximately five years, which we believe is one of the youngest of any major cruise company. Based on the ships currently on order, by December 31, 2004, our year-end capacity is expected to increase to 60,308 berths.

We have increased our average ship size and number of available berths, which has enabled us to achieve certain economies of scale. Larger ships allow us to transport more guests than smaller ships without a corresponding increase in certain operating expenses. This increase in fleet size also provides a larger revenue base to absorb our marketing, selling and administrative expenses.

Royal Caribbean International. Founded in 1968, Royal Caribbean International was the first cruise line to design ships especially for warm water year-round cruising. Royal Caribbean International operated a modern fleet in the 1970s and early 1980s, establishing a reputation for high quality. Between 1988 and 1992, the brand tripled its capacity by embarking on its first major capital expansion program.

Royal Caribbean International committed to its second capital expansion program with orders for six Vision-class ships, ranging in size from 1,804 to 2,000 berths, for delivery from 1995 through 1998. During this same period, Royal Caribbean International sold four of its original ships because these ships were older in age and design and no longer consistent with its image and marketing strategy.

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Royal Caribbean International is currently engaged in its third capital expansion program. It placed four Voyager-class ships, *Voyager of the Seas*, *Explorer of the Seas*, *Adventure of the Seas*, and *Navigator of the Seas* in service from 1999 through 2002. Royal Caribbean International has one additional Voyager-class ship on order. These Voyager-class ships are the largest cruise ships currently in existence and we believe they are the most innovative passenger cruise ships ever built. Each ship is approximately 140,000 gross tons with 3,114 berths. This new class of ships is designed to provide more diverse vacation options for families and for those seeking active sports and entertainment alternatives during their vacation experience. Each Voyager-class ship has a variety of unique features: the cruise industry's first horizontal atrium (which is four decks tall, longer than a football field and provides entertainment, shopping and dining experiences), recreational activities such as ice skating, rock climbing, miniature golf and full court basketball, enhanced staterooms, expanded dining options and a variety of intimate spaces.

Also in connection with the third capital expansion program, Royal Caribbean International introduced two Radiance-class ships, *Radiance of the Seas* and *Brilliance of the Seas* in 2001 and 2002, respectively. Royal Caribbean International has two additional Radiance-class ships on order and options to purchase two more ships. The Radiance-class ships (approximately 90,000 gross tons each) are a progression from the brand's Vision-class series and have approximately 2,076 berths each. The Radiance-class ships incorporate many of the dining and entertainment options of the Voyager-class ships, as well as offer a wide array of unique features. These features include panoramic glass elevators facing outward to the sea, floor to ceiling glass windows offering spectacular sea views, and a billiards club.

Celebrity Cruises. Celebrity Cruises was founded in 1990 and operated three ships between 1992 and 1995. Between 1995 and 1997, Celebrity Cruises undertook its first capital expansion program, adding three Century-class ships which range in size from 1,750 to 1,870 berths and disposing of one of its original three ships. Celebrity Cruises recently completed its second capital expansion program and took delivery of *Millennium*, *Infinity*, *Summit* and *Constellation*, the new Millennium-class series, from 2000 through 2002. Each Millennium-class ship has 2,034 berths and is approximately 90,000 gross tons.

The Millennium-class ships have elevated the Celebrity brand's position in the premium segment of the marketplace. This new class of ships, which are a progression from the Century-class ships, builds on the brand's primary strengths, including gourmet dining, luxurious spa facilities, impeccable service and spacious staterooms and suites complete with balconies. On the Millennium-class ships, an entire resort deck is dedicated to health, fitness and the rejuvenating powers of water. Celebrity Cruises' spas are among the most luxurious facilities afloat and offer a variety of features, including a large hydro pool with neck massage and body jets. Guests can relax in *Notes*, the music library, or stop by the champagne or martini bar for drinks and caviar.

Product Innovation

We recognize the need for new and innovative onboard products and experiences for our guests, which we develop based on guest feedback, crew suggestions, market research and competitive product reviews. Accordingly, we continue to invest in design innovations on new ships and additional product offerings on our existing fleet. Expanded dining options, recreational activities such as rock climbing, ice skating and the latest technology such as our Internet Café and interactive television, are among the services currently offered.

In 2001, we began the operation of Royal Celebrity Tours, a tour company offering fully-escorted, premium land tour programs in Alaska for guests traveling on our ships. We offer deluxe motorcoach and rail packages with glass-domed railcars that are among the largest in the world. In 2002, we doubled our Alaska tour capacity and in an effort to further increase our tour presence in North America, we launched a Canadian Rockies tour program. In addition, we launched a European tour program for the 2003 season.

Worldwide Itineraries

Our ships operate worldwide with a selection of itineraries that call on approximately 200 ports. New ships allow us to expand into new destinations, itineraries and markets. Both Royal Caribbean International and Celebrity Cruises have added new itineraries departing from major United States drive markets, with Royal Caribbean International expanding into Tampa, New Orleans, Galveston and Port Canaveral and Celebrity Cruises expanding into San Francisco, San Diego, Baltimore and Charleston. Both brands also have expanded their mix of itineraries in Alaska and Europe and are now also offering a wide variety of cruise tours from these destinations in order to provide vacationers with a much broader range of product options.

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In an effort to secure satisfactory berthing facilities for our ships, and to provide new or enhanced cruise destinations for our passengers, we assist from time to time in the development or enhancement of certain port facilities and infrastructure located in strategically important ports of call. Generally, we collaborate with local private or governmental entities by providing management and financial assistance. In exchange for our involvement, we generally secure preferential berthing rights for our ships.

International Guests

International guests have grown from approximately 7% of total guests in 1991 to approximately 16% of total guests in 2002. One of our strategies is to use fleet deployment and expanded itineraries to increase our guest sourcing outside North America. We carry out our international sales effort through our sales offices located in London, Frankfurt, Oslo and Genoa, and a network of 41 independent international representatives located throughout the world. We also are able to accept bookings in various currencies. See Note 2 of the Notes to the Consolidated Financial Statements for additional information on revenues by geographic area for each of the last three financial years.

In connection with our international strategy, in July 2000 we entered into a multi-faceted strategic alliance with First Choice Holidays PLC, one of the United Kingdom's largest integrated tour operators. First Choice Holidays PLC now provides both brands with a significantly larger distribution base in the United Kingdom and access to First Choice Holidays PLC's significant retail outlets, operated under several well-known brand names, as well as use of its new distribution technology, including its unique interactive digital sales technology and online e-retail outlets. We have provided First Choice Holidays PLC with special training and promotional material geared at increasing distribution of both brands. This marketing alliance was solidified by our investment in 2000 of approximately \$300 million in convertible preferred stock issued by First Choice Holidays PLC. If fully converted, our holding would represent approximately a 17% interest in First Choice Holidays PLC.

Separately, we entered into a joint venture with First Choice Holidays PLC to launch a new cruise brand, Island Cruises. *Viking Serenade*, a 1,512-passenger ship which operated under the Royal Caribbean International brand until February 14, 2002, is the first ship operated by Island Cruises. As part of the transaction, *Viking Serenade* was renamed *Island Escape* and it offers itineraries designed to attract international guests.

Revenue Management

We believe we have the most advanced revenue management capabilities in the industry, which enable us to make more advantageous decisions about pricing, inventory and marketing actions. We are continuously working to refine these systems and tools through increased forecasting capabilities, ongoing improvements to our understanding of price/demand relationships, and greater automation of the decision process.

Technological Development

We continue to invest in information technology to support our corporate infrastructure and guest and travel trade relations. Both Royal Caribbean International and Celebrity Cruises have extensive websites that are world-class marketing portals with consumer booking engines, providing access to millions of Internet users throughout the world. We have streamlined our documentation process by providing cruise-only passengers electronic documents accessible online. We also offer guests the ability to complete their embarkation forms online prior to the embarkation date and have automated our pierside embarkation process. To further enhance our customer service, we have provided online access so guests can book shore excursions via our websites. Other innovations include royalcaribbean onlineSM and online@celebritycruisesSM, which allow guests access to the Internet while onboard our ships. We also have installed interactive televisions in guests' staterooms on most ships, enabling guests to shop for shore excursions, select a dinner wine and monitor their onboard accounts. For the trade, we have cruisingpower.com, a website dedicated to Internet communications with the travel community, which enables fast access to online tools. These online tools include *CruiseMatch@ 2000 Online*, an Internet browser-based booking system, *CruisePay*SM, an online payment service, and *Cruise Writer*SM, which provides the capability to customize brochures and flyers. We have also launched *CruiseManager*, an independent browser-based booking tool for travel agents.

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Travel Agency Support

Independent travel agencies generate the majority of the bookings for our ships and we are committed to further developing and strengthening this very important distribution channel. Royal Caribbean International and Celebrity Cruises continue to have one of the largest sales forces in the industry which is focused on assisting travel agencies in growing and developing their business. For our key accounts, we have moved from a single-branded sales force representing both Royal Caribbean International and Celebrity Cruises to separate brand champions dedicated to each brand. We were the first cruise company to develop an automated booking system for the trade, *CruiseMatch® 2000*. This automated reservations system allows travel agents direct access to our computer reservation system to improve ease of bookings. More than 30,000 independent travel agencies worldwide can book cruises for both brands using *CruiseMatch® 2000*. We have customer service representatives that are trained to assist travel agents in providing a higher guest service level. We operate two reservation call centers, one in Miami, Florida and the other in Wichita, Kansas, thereby offering flexibility and extended hours of operations.

Sales, Marketing and Guest Services

Royal Caribbean International has a comprehensive marketing program which positions the brand as providing high quality, excellent value cruise vacations. Royal Caribbean International's marketing strategies focus on active adults and families who are vacation enthusiasts interested in exploring new destinations, seeking new experiences and having a real lust for life. As a member of our Crown & Anchor Society, frequent cruisers can enjoy a host of new and exciting benefits.

Celebrity Cruises has revamped and transformed its brand image with a series of cutting-edge, fully integrated consumer campaigns designed to build awareness and bookings. Marketing strategies deliver the brand message to experienced travelers who appreciate quality and value. Past guest relationship programs have been enhanced to reward the most loyal Celebrity Cruises passengers by offering special services and amenities.

We offer to handle virtually all travel aspects related to guest reservations and transportation, including arranging guest air transportation. Our air/sea program offers guests the choice of our standard air or custom air. Our standard air program allows our guests to benefit from comprehensive relationships that we maintain with many of the major airlines ranging from fare negotiation and space handling to baggage transfer. Custom air service enables a guest to customize their flight arrangements, including selection of airline, specific flights and class of service.

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We operate 25 ships, under two brands, on a selection of worldwide itineraries ranging from three to 17 nights that call on approximately 200 destinations. The following table represents summary information concerning our ships and their areas of operation based on 2003 itineraries (subject to change):

Ship	Year Ship Entered Service	Berths	Primary Areas of Operation
Royal Caribbean International			
<i>Mariner of the Seas (1)</i>	2003	3,114	Eastern/Western Caribbean
<i>Serenade of the Seas (1)</i>	2003	2,076	Canada/New England, Southern Caribbean
<i>Navigator of the Seas</i>	2002	3,114	Eastern/Western Caribbean
<i>Brilliance of the Seas</i>	2002	2,076	Caribbean, Europe
<i>Adventure of the Seas</i>	2001	3,114	Southern Caribbean
<i>Radiance of the Seas</i>	2001	2,064	Eastern/Western/Southern Caribbean, Hawaii, Alaska, Panama Canal
<i>Explorer of the Seas</i>	2000	3,114	Eastern/Western Caribbean
<i>Voyager of the Seas</i>	1999	3,114	Western Caribbean
<i>Vision of the Seas</i>	1998	2,000	Hawaii, Alaska, Mexican Riviera
<i>Enchantment of the Seas</i>	1997	1,950	Eastern/Western Caribbean
<i>Rhapsody of the Seas</i>	1997	2,000	Western Caribbean
<i>Grandeur of the Seas</i>	1996	1,950	Western Caribbean, Panama Canal, Canada/New England, Europe
<i>Splendour of the Seas</i>	1996	1,804	Caribbean, Panama Canal, Europe
<i>Legend of the Seas</i>	1995	1,804	Hawaii, Alaska, Panama Canal, Australia/New Zealand
<i>Majesty of the Seas</i>	1992	2,354	Bahamas
<i>Monarch of the Seas</i>	1991	2,354	Western Caribbean, Baja Mexico
<i>Nordic Empress</i>	1990	1,600	Western Caribbean, Bermuda
<i>Sovereign of the Seas</i>	1988	2,276	Bahamas
Celebrity Cruises			
<i>Constellation</i>	2002	2,034	Southern Caribbean, Europe
<i>Summit</i>	2001	2,034	Caribbean, Alaska, Panama Canal
<i>Infinity</i>	2001	2,034	Hawaii, Alaska, Panama Canal
<i>Millennium</i>	2000	2,034	Eastern Caribbean, Europe
<i>Mercury</i>	1997	1,870	Western Caribbean, Alaska, Coastal California/Mexican Riviera
<i>Galaxy</i>	1996	1,870	Caribbean, Canada/New England
<i>Century</i>	1995	1,750	Eastern/Western Caribbean
<i>Zenith</i>	1992	1,374	Western Caribbean, Southern Caribbean, South America, Bermuda
<i>Horizon</i>	1990	1,354	Eastern/Western Caribbean, Panama Canal, Bermuda

(1) Ship is scheduled for delivery in 2003, but is not yet in service.

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Currently, the combined fleets of Royal Caribbean International and Celebrity Cruises have an average age of approximately five years, which we believe is among the youngest of the major cruise companies.

We have three ships on order for the Royal Caribbean International brand. The planned berths and expected delivery dates of the ships on order are as follows:

Ship	Expected Delivery Date	Berths
Voyager class:		
<i>Mariner of the Seas</i>	4 th Quarter 2003	3,114
Radiance class:(1)		
<i>Serenade of the Seas</i>		