
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 1-11884

ROYAL CARIBBEAN CRUISES LTD.

(Exact name of registrant as specified in its charter)

Republic of Liberia
(State or other jurisdiction of
incorporation or organization)

98-0081645
(I.R.S. Employer Identification No.)

1050 Caribbean Way, Miami, Florida
(Address of principal executive offices)

33132
(zip code)

(305) 539-6000

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.01 per share	RCL	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock at June 30, 2019 (based upon the closing sale price of the common stock on the New York Stock Exchange on June 28, 2019) held by those persons deemed by the registrant to be non-affiliates was approximately \$22.0 billion. Shares of the registrant's common stock held by each executive officer and director and by each entity or person that, to the registrant's knowledge, owned 10% or more of the registrant's outstanding common stock as of June 30, 2019 have been excluded from this number in that these persons may be deemed affiliates of the registrant. This determination of possible affiliate status is not necessarily a conclusive determination for other purposes.

There were 209,000,016 shares of common stock outstanding as of February 21, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to its 2020 Annual Meeting of Shareholders are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

ROYAL CARIBBEAN CRUISES LTD.

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PART I

As used in this Annual Report on Form 10-K, the terms “Royal Caribbean,” the “Company,” “we,” “our” and “us” refer to Royal Caribbean Cruises Ltd. and, depending on the context, Royal Caribbean Cruises Ltd.’s consolidated subsidiaries and/or affiliates. The terms “Royal Caribbean International,” “Celebrity Cruises,” “Azamara” and “Silversea Cruises” refer to our wholly- or majority-owned global cruise brands. Throughout this Annual Report on Form 10-K, we also refer to regional brands in which we hold an ownership interest, including “TUI Cruises,” and “Pullmantur.” However, because these regional brands are unconsolidated investments, our operating results and other disclosures herein do not include these brands unless otherwise specified. In accordance with cruise vacation industry practice, the term “berths” is determined based on double occupancy per cabin even though many cabins can accommodate three or more passengers.

This Annual Report on Form 10-K also includes trademarks, trade names and service marks of other companies. Use or display by us of other parties’ trademarks, trade names or service marks is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, these other parties other than as described herein.

Item 1. Business.

General

We are the world's second largest cruise company. We control and operate four global cruise brands: Royal Caribbean International, Celebrity Cruises, Azamara and Silversea Cruises (collectively, our "Global Brands"). We also own a 50% joint venture interest in the German brand TUI Cruises and a 49% interest in the Spanish brand Pullmantur (collectively, our "Partner Brands"). Together, our Global Brands and our Partner Brands operate a combined total of 61 ships in the cruise vacation industry with an aggregate capacity of approximately 141,570 berths as of December 31, 2019.

Our ships operate on a selection of worldwide itineraries that call on more than 1,000 destinations on all seven continents. In addition to our headquarters in Miami, Florida, we have offices and a network of international representatives around the world, which primarily focus on sales and market development.

We compete principally by operating valued brands that offer exceptional service provided by our crew and on the basis of innovation and quality of ships, variety of itineraries, choice of destinations and price. We believe that our commitment to build state-of-the-art ships and to invest in the maintenance and upgrade of our fleet to, among other things, incorporate many of our latest signature innovations, allows us to continue to attract new and loyal repeat guests.

We believe cruising continues to be a popular vacation choice due to its inherent value, extensive itineraries and variety of shipboard and shoreside activities. In addition, we believe our brands are well-positioned globally and possess the ability to attract a wide range of guests by appealing to multiple customer bases allowing our global sourcing to be well diversified.

Royal Caribbean was founded in 1968 as a partnership. Its corporate structure has evolved over the years and, 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.

Our Global Brands

Our Global Brands include Royal Caribbean International, Celebrity Cruises, Azamara, and Silversea Cruises.

We believe our Global Brands possess the versatility to enter multiple cruise market segments within the cruise vacation industry. Although each of our Global Brands has its own marketing style, as well as ships and crews of various sizes, the nature of the products sold and services delivered by our Global Brands share a common base (i.e., the sale and provision of cruise vacations). Our Global Brands also have similar itineraries as well as similar cost and revenue components. In addition, our Global Brands source passengers from similar markets around the world and operate in similar economic environments with a significant degree of commercial overlap. As a result, we strategically manage our Global Brands as a single business with the ultimate objective of maximizing long-term shareholder value.

Royal Caribbean International

Royal Caribbean International is positioned to compete in both the contemporary and premium segments of the cruise vacation industry. The brand appeals to families with children of all ages, as well as both older and younger couples, providing cruises that generally feature a casual ambiance, as well as a variety of activities and entertainment venues. We believe that the quality of the Royal Caribbean International brand allows it to achieve market coverage that is among the broadest of any of the major cruise brands in the cruise vacation industry. Royal Caribbean International's strategy is to attract an array of vacationing guests by providing a wide variety of itineraries to destinations worldwide, including Alaska, Asia, Australia, Bahamas, Bermuda, Canada, the Caribbean, Europe, the Panama Canal and New Zealand, with cruise lengths ranging from two to 19 nights. Royal Caribbean International offers multiple innovative options for onboard dining, entertainment and other onboard activities. Because of the brand's ability to deliver extensive and innovative product offerings at an excellent value to consumers, we believe Royal Caribbean International is well positioned to attract new consumers to cruising and to continue to bring loyal repeat guests back for their next vacation.

Royal Caribbean International operates 26 ships with an aggregate capacity of approximately 87,150 berths, including the brand's newest ship, *Spectrum of the Seas*, which entered service in April 2019. Additionally, as of December 31, 2019, we have six ships on order with an aggregate capacity of approximately 32,400 berths. These ships consist of our fifth Quantum-class ship, which is scheduled to enter service in the fourth quarter of 2020, our fifth and sixth Oasis-class ships, which are scheduled to enter service in the second quarter of 2021 and the fourth quarter of 2023, respectively, and the first three ships of a new generation, known as our Icon-class, which are expected to enter service in 2022, 2024 and 2025, respectively.

Celebrity Cruises

Celebrity Cruises is positioned within the premium segment of the cruise vacation industry. Celebrity Cruises' strategy is to target affluent consumers by delivering a destination-rich, modern luxury experience on upscale ships that offer, among other things, luxurious accommodations, refined design-forward spaces, high-standard service and fine dining. Celebrity Cruises offers a range of itineraries to destinations, including Alaska, Asia, Australia, Bermuda, Canada, the Caribbean, Europe, the Galapagos Islands, Hawaii, India, New Zealand, the Panama Canal and South America, with cruise lengths ranging from two to 19 nights.

Celebrity Cruises operates 14 ships with an aggregate capacity of approximately 26,220 berths, including the brand's newest ship designed for the Galapagos Islands, *Celebrity Flora*, which entered service in the second quarter of 2019. Additionally, as of December 31, 2019, we have three ships on order with an aggregate capacity of approximately 9,400 berths. These ships consist of three Edge-class ships, which are expected to enter service in the second quarter of 2020 and the fourth quarters of 2021 and 2022, respectively.

Azamara

Azamara is designed to serve the up-market segment of the North American, United Kingdom and Australian markets. The up-market segment incorporates elements of the premium segment and the luxury segment, which is generally characterized by smaller ships, high standards of accommodation and service and exotic itineraries. Azamara's strategy is to deliver distinctive destination experiences through unique itineraries with more overnights and longer stays as well as comprehensive tours allowing guests to experience the destination in more depth. These destination experiences include over 1,700 pre and post-voyage land programs. Azamara offers a variety of itineraries to popular destinations, including Asia, Australia/New Zealand, Northern and Western Europe, the Mediterranean, and South America with cruise lengths ranging from three to 26 nights.

Azamara operates three ships with an aggregate capacity of approximately 2,100 berths.

Silversea Cruises

On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruise Holding Ltd. ("Silversea Cruises"), an ultra-luxury and expedition cruise line. Silversea Cruises, formed in the early 1990's, is positioned as a luxury cruise line with smaller ships, high standards of accommodations, fine dining, personalized service and exotic itineraries. Silversea Cruises delivers distinctive destination experiences by visiting unique and remote destinations, including the Galapagos Islands, Antarctica and the Arctic.

Silversea Cruises operates eight ships, with an aggregate capacity of approximately 2,450 berths offering cruise itineraries generally ranging from six to 25 nights. As of December 31, 2019, Silversea Cruises has five ships on order with an aggregate capacity of approximately 2,400 berths. Two ships are scheduled to enter service in the third quarter of 2020, another in the third quarter of 2021, with the remaining two ships scheduled to enter service in the first quarters of 2022 and 2023.

Our Partner Brands

Our Global Brands are complemented by our 50% joint venture interest in TUI Cruises, which is specifically tailored for the German market and our 49% interest in the Spanish brand Pullmantur, which is primarily focused on the Spanish and Latin American cruise markets. We account for our investments in our Partner Brands under the equity method of accounting and, accordingly, the operating results of these Partner Brands are not included in our consolidated results of operations. Refer to Note 1. *General* and Note 8. *Other Assets* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further details.

TUI Cruises

TUI Cruises is a joint venture owned 50% by us and 50% by TUI AG, a German tourism company, which is designed to serve the contemporary and premium segments of the German cruise market by offering a product tailored for German guests. All onboard activities, services, shore excursions and menu offerings are designed to suit the preferences of this target market.

TUI Cruises operates seven ships, with an aggregate capacity of approximately 17,600 berths as of December 31, 2019, including the brand's newest ship, *Mein Schiff 2*, which entered service in January 2019. Additionally, TUI Cruises has three ships on order with an aggregate capacity of approximately 11,100 berths, that are scheduled to enter service in the second quarter of 2023, the third quarter of 2024 and the first quarter of 2026, respectively. On February 7, 2020, TUI Cruises entered into an agreement to acquire Hapag-Lloyd Cruises, a luxury and expedition brand for German-speaking guests, from TUI AG. Hapag-Lloyd Cruises operates two luxury liners and three smaller expedition ships. The transaction is subject to regulatory approval and customary closing conditions.

Pullmantur

The Pullmantur brand is a joint venture owned 49% by us and 51% by Cruises Investment Holdings S.A., an affiliate of Springwater Capital LLC. Pullmantur operates in the contemporary segment of the Spanish and Latin American cruise markets and is designed to attract Spanish-speaking families and couples and includes Spanish-speaking crew, as well as tailored food and entertainment options. The three ships operated by Pullmantur have an aggregate capacity of approximately 6,050 berths. *Zenith* was sold to a third party in January 2020. To offset the decrease in capacity to the Pullmantur brand, commencing in the second quarter of 2021, we expect to charter *Grandeur of the Seas* to Pullmantur.

Industry

Cruising is considered a well-established vacation sector in the North American, European and Australian markets and a developing sector in several other emerging markets. Industry data indicates that market penetration rates are still low and that a significant portion of cruise guests carried are first-time cruisers. We believe this presents an opportunity for long-term growth and a potential for increased profitability.

The following table details industry market penetration rates for North America, Europe and Asia/Pacific computed based on the number of annual cruise guests as a percentage of the total population:

Year	North America ⁽¹⁾⁽²⁾	Europe ⁽¹⁾⁽³⁾	Asia/Pacific ⁽¹⁾⁽⁴⁾
2015	3.36%	1.25%	0.08%
2016	3.43%	1.23%	0.11%
2017	3.56%	1.28%	0.15%
2018	3.87%	1.38%	0.16%
2019	3.89%	1.41%	0.20%

(1) Source: Our estimates are based on a combination of data obtained from publicly available sources including the International Monetary Fund, United Nations, Department of Economic and Social Affairs, Cruise Lines International Association ("CLIA") and G.P. Wild. In addition, our estimates incorporate our own analysis utilizing the same publicly available cruise industry data as a base.

(2) Our estimates include the United States and Canada.

(3) Our estimates include European countries relevant to the industry (most notably: the Nordics, Germany, France, Italy, Spain and the United Kingdom).

(4) Our estimates include Southeast Asia (most notably: Singapore, Thailand and the Philippines), East Asia (most notably: China and Japan), South Asia (most notably: India) and Oceania (most notably: Australia and New Zealand) regions.

We estimate that the global cruise fleet was served by a weighted average of approximately 579,000 berths during 2019 with approximately 354 ships at the end of 2019. As of December 31, 2019, there were approximately

67 ships with an estimated 159,000 berths that are expected to be placed in service in the global cruise market through 2024, although it is also possible that ships could be ordered or taken out of service during these periods. We estimate that the global cruise industry carried approximately 30.0 million cruise guests in 2019 compared to approximately 28.5 million cruise guests carried in 2018 and approximately 26.7 million cruise guests carried in 2017.

The following table details the growth in global weighted average berths and the global, North American, European and Asia/Pacific cruise guests over the past five years (in thousands, except berth data):

Year	Weighted-Average Supply of Berths Marketed Globally⁽¹⁾	Royal Caribbean Cruises Ltd. Total Berths⁽²⁾	Global Cruise Guests⁽¹⁾	North American Cruise Guests⁽¹⁾⁽³⁾	European Cruise Guests⁽¹⁾⁽⁴⁾	Asia/Pacific Cruise Guests⁽¹⁾⁽⁵⁾
2015	469,000	112,700	23,000	12,004	6,587	3,129
2016	493,000	123,270	24,000	12,274	6,512	4,466
2017	515,000	124,070	26,700	12,865	6,779	5,415
2018	546,000	135,520	28,500	14,062	7,343	5,685
2019	579,000	141,570	30,000	14,246	7,554	7,317

(1) Source: Our estimates of the number of global cruise guests and the weighted-average supply of berths marketed globally are based on a combination of data that we obtain from various publicly available cruise industry trade information sources. We use data obtained from Seatrade Insider, Cruise Industry News and company press releases to estimate weighted-average supply of berths and CLIA and G.P. Wild to estimate cruise guest information. In addition, our estimates incorporate our own analysis utilizing the same publicly available cruise industry data as a base.

(2) Total berths include our berths related to our Global Brands and Partner Brands.

(3) Our estimates include the United States and Canada.

(4) Our estimates include European countries relevant to the industry (most notably: the Nordics, Germany, France, Italy, Spain and the United Kingdom).

(5) Our estimates include Southeast Asia (most notably: Singapore, Thailand and the Philippines), East Asia (most notably: China and Japan), South Asia (most notably: India) and Oceania (most notably: Australia and New Zealand) regions.

North America

Industry cruise guests are primarily sourced from North America, which represented approximately 47% of global cruise guests in 2019. The compound annual growth rate in cruise guests sourced from this market was approximately 4% from 2015 to 2019.

Europe

Industry cruise guests sourced from Europe represented approximately 25% of global cruise guests in 2019. The compound annual growth rate in cruise guests sourced from this market was approximately 3% from 2015 to 2019.

Asia/Pacific

Industry cruise guests sourced from the Asia/Pacific region represented approximately 24% of global cruise guests in 2019. The compound annual growth rate in cruise guests sourced from this market was approximately 24% from 2015 to 2019. The recent coronavirus outbreak and the resulting measures taken by China and other countries to move aggressively to contain the disease, including travel restrictions, have resulted in the cancellation of several of our cruises in Southeast Asia and modification of several itineraries in the region. In addition, we have imposed several measures to protect our guests and crew, including denying boarding to those that have traveled from, to or through mainland China or Hong Kong. See *Outlook* for further discussion.

Competition

We compete with a number of cruise lines. Our principal competitors are Carnival Corporation & plc, which owns, among others, Aida Cruises, Carnival Cruise Line, Costa Cruises, Cunard Line, Holland America Line, P&O Cruises, Princess Cruises and Seabourn; Disney Cruise Line; MSC Cruises; and Norwegian Cruise Line Holdings Ltd, which owns Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises. Cruise lines also compete with other vacation alternatives such as land-based resort hotels, Internet-based alternative lodging sites and sightseeing destinations for consumers' leisure time. Interest for such activities is influenced by political and general economic conditions. Companies within the vacation market are dependent on consumer discretionary spending.

Operating Strategies

Our strategic emphasis on **People, Profits and Planet** has led us to focus on the following principal operating strategies:

- Protect the health, safety and security of our guests and employees,
- protect the environment in which our vessels and organization operate,
- invest in our workforce in order to better serve our global guest base and grow our business, and promote gender equality, diversity and inclusion,
- strengthen our consumer engagement in order to enhance our revenues,
- increase the awareness and market penetration of our brands globally,
- focus on cost efficiency, manage our operating expenditures and ensure adequate cash and liquidity, with the overall goal of maximizing our return on invested capital and long-term shareholder value,
- strategically invest in our fleet through the upgrade and maintenance of existing ships and the transfer of key innovations, while prudently expanding our fleet with new state-of-the-art cruise ships,
- capitalize on the portability and flexibility of our ships by deploying them into those markets and itineraries that provide opportunities to optimize returns, while continuing our focus on existing key markets,
- provide extraordinary destination experiences and state-of-the-art port facilities to our guests,
- continue to integrate digital technological capabilities, data analytics and artificial intelligence into our operations to service customer preferences and expectations in an innovative manner, create efficiencies and enhance employee satisfaction, and
- maintain strong relationships with travel agencies, which continue to be the principal industry distribution channel, while enhancing our consumer outreach programs.

Safety and health policies

We are committed to protecting the health, safety and security of our guests, employees and others working on our behalf. Our efforts in these areas are managed by our dedicated Safety, Security, Environment, Medical and Public Health Department which is responsible for all of our maritime safety, global security, environmental stewardship and medical/public health activities; overseen by the Safety, Environment and Health Committee of our board of directors and informed by a Maritime Advisory Board of experts.

Protect the environment

We are focused on the environmental health of the marine environment and communities in which we operate. This includes reducing our carbon footprint through the energy and carbon efficiencies included in the design of our new capacity, our ongoing energy management program on our existing fleet and the development of new technologies.

Our long-term partnership with the World Wildlife Fund focuses on greenhouse gas reduction strategies, sustainable food supplies, sustainable destinations and guest education on ocean conservation issues, including climate change, which supports onboard conservation efforts such as our reduced use of plastics and increased sourcing of sustainable seafood. We are also committed to water quality and management projects onboard and in the communities in which we operate.

We believe in transparent reporting on our environmental and sustainability stewardship, as well as our corporate governance efforts, and annually publish a Sustainability Report. This report, which is accessible on our corporate website, highlights our progress with regards to those environmental and social aspects of our business that we believe are most significant to our organization and stakeholders. In addition to providing an overview, the report complies with the guidelines of the Global Reporting Initiative to ensure the report is as complete and accurate as possible. Our corporate website also provides information about our environmental performance goals and sustainability initiatives. The foregoing information contained on our website is not part of any of these reports and is not incorporated by reference herein or in any other report or document we file with the Securities and Exchange Commission.

Investing in our workforce and promoting gender equality, diversity and inclusion

We believe that our employees, both shipboard and shoreside, are a critical success factor for our business. We strive to identify, hire, develop, motivate and retain the best employees, who provide our guests with extraordinary vacations. Our ability to attract, engage, and retain key employees has been and will remain critical to our success.

We focus on providing our employees with a competitive compensation structure, development opportunities, and other personal and professional growth opportunities in order to strengthen and support our human capital. We also select, develop and have strategies to retain high performing leaders to advance the enterprise now and in the future. To that end, we pay special attention to identifying high performing potential leaders and developing bench strength so these leaders can assume leadership roles throughout the organization.

We strive to maintain a work environment that reinforces collaboration, motivation and innovation, and believe that maintaining a strong employee-focused culture is beneficial to the growth and expansion of our business. We support the equal representation of women in all levels. We foster diversity and inclusion among our broad employee base.

Consumer engagement

We place a strong focus on identifying the needs of our guests and creating product features and innovations that our customers value. We are focused on targeting high-value guests by better understanding consumer data and insights to create communication strategies that resonate with our target audiences.

We target customers across all touch points and identify underlying needs for which guests are willing to pay a premium. We rely on various programs and technologies during the cruise-planning, cruising and after-cruise periods aimed at increasing ticket prices, onboard revenues and occupancy. We have and continue to strategically invest in onboard projects on our ships that we believe drive marketability, profitability and improve the guest experience.

Global awareness and market penetration

We increase brand awareness and market penetration of our cruise brands in various ways, including the use of communication strategies and marketing campaigns designed to emphasize the qualities of each brand and to broaden the awareness of the brand, especially among target groups. Our marketing strategies include the use of travel agencies, traditional media, mobile and digital media as well as social media, influencers and brand websites. Our brands engage past and potential guests by collaborating with travel partners and through call centers, international offices and international representatives. In addition, our Global Brands target repeat guests with exclusive benefits offered through their respective loyalty programs.

We sell and market our Global Brands, Royal Caribbean International, Celebrity Cruises, Azamara and Silversea Cruises, to guests outside of the United States and Canada through the combined efforts of internationally focused internal resources and a network of approximately 80 independent international representatives located throughout the world covering more than 183 countries. Historically, our focus has been to primarily source guests

for our Global Brands from North America. We continue to expand our focus on selling and marketing our cruise brands to guests in countries outside of North America by tailoring itineraries and onboard product offerings to the cultural characteristics and preferences of our international guests. In addition, we explore opportunities that may arise to acquire or develop brands tailored to specific markets.

Passenger ticket revenues generated by sales originating in countries outside of the United States were approximately 38% of total passenger ticket revenues in 2019, 39% in 2018 and 41% in 2017. International guests have grown from approximately 2.5 million in 2015 to approximately 2.6 million in 2019. Refer to Item 1A. *Risk Factors* - “*Conducting business globally may result in increased costs and other risks*” for a discussion of the risks associated with our international operations.

Cost efficiency, operating expenditures and adequate cash and liquidity

We have adopted a number of strategies to control our operating costs and will continue to do so in 2020. For example, we have adopted numerous initiatives to reduce energy consumption and, by extension, fuel costs. These include the design of more energy-efficient ships as well as the implementation of more efficient hardware, including improvements in operations and voyage planning as well as improvements to the propulsion, machinery, HVAC and lighting systems. The overall impact of these efforts has resulted in an approximate 35% improvement in energy efficiency from 2005 through 2019 and we believe that our energy consumption per guest is currently the lowest in the cruise industry. In order to sustain our competitive advantage, we will continue to seek to lead with innovative technologies and commit to achieve our short and long-term sustainability goals.

We are focused on maintaining a strong liquidity position, investment grade credit metrics and a balanced debt maturity profile. We believe these strategies enhance our ability to achieve our overall goal of maximizing our long-term shareholder value.

Fleet upgrade, maintenance and expansion

We place a strong focus on innovation, which we seek to achieve by introducing new concepts on our new ships and continuously making improvements to our fleet through modernization projects. Several of these innovations have become signature elements of our brands. For the Royal Caribbean International brand, we introduced the “Royal Promenade” (a boulevard with shopping, dining and entertainment venues) and interior balconies on the Oasis class ships and a two-level family suite on *Symphony of the Seas*. For the Celebrity Cruises brand, we enhanced many of the brand's design features through the introduction of the Solstice class ships. More recently, with the introduction of *Celebrity Edge*, we introduced the "Magic Carpet" (a cantilevered, floating platform that reaches a height of 13 stories above sea level and can serve as a dining venue, full bar and platform for live music) and newly designed staterooms with an "Infinite Veranda" where, with the touch of a button, the veranda becomes part of the entire living space.

In 2018, the Royal Caribbean International and Celebrity Cruises brands announced the "Royal Amplified" and "Celebrity Revolution" modernization programs to upgrade vessels across their fleet. As part of these modernization programs, we incorporate certain innovations included in our newer ships to some of the ships in the remaining fleet. The process of integrating some of our latest innovations into our older vessels allows us to create a greater level of consistency of product across our fleet.

As part of the newbuild and modernization programs, we also seek to bring innovations in the areas of safety, reliability and energy efficiency to our fleet.

We are committed to building state-of-the-art ships at a moderate growth rate and we believe our success in this area provides us with a competitive advantage. Our newer vessels traditionally generate higher revenue yield premiums and are more efficient to operate than older vessels.

As of December 31, 2019, our Global Brands and Partner Brands have 17 ships on order. Refer to the *Operations* section below for further information on our ships on order.

In addition, we regularly evaluate opportunities to order new ships, purchase existing ships or sell ships in our current fleet while ensuring that we remain focused on the returns we generate on invested capital and maintaining a high level of discipline on capital spending and operating leverage. In the current environment of high industry

demand, we have placed new ship orders earlier than we have historically done as well as more aggressively sought to sell older capacity.

Markets and itineraries

In an effort to penetrate untapped markets, diversify our consumer base and respond to changing economic and geopolitical market conditions, we continue to seek opportunities to deploy ships to new and stronger markets and itineraries throughout the world. The portability of our ships allows us to deploy our ships to meet demand within our existing cruise markets. We make deployment decisions generally 18 to 28 months in advance, with the goal of optimizing the overall profitability of our portfolio. Additionally, the infrastructure investments we have made to create a flexible global sourcing model have made our brands relevant in a number of markets around the world, which allows us to be opportunistic and source the highest yielding guests for our itineraries.

Our ships offer a wide selection of itineraries that call on more than 1,000 destinations in 126 countries, spanning all seven continents. We are focused on obtaining the best possible long-term shareholder returns by operating in established markets while growing our presence in developing markets. New capacity allows us to expand into new markets and itineraries. Our brands have expanded their mix of itineraries while strengthening our ability to further penetrate the Asian and Australian markets. The acquisition of Silversea Cruises added more than 500 new destinations allowing us to expand and enhance our selection of exotic itineraries.

Destination experiences and port facilities

Additionally, in order to provide unique destination experiences to our guests, we are investing in our private land destinations. For instance, in 2018, we announced Perfect Day Island Collection, an initiative to develop a series of private island destinations around the world. The first island in the collection, Perfect Day at CocoCay, opened in Spring 2019 and includes a wide range of attractions, such as a water park, zip line and wave and freshwater pool. The second island in the collection, Perfect Day at Lelepa, is scheduled to open in 2022 and will offer its own unique experience. In 2019, we also announced the launch of a Royal Beach Club initiative to bring the unique features and cultures of each destination to life. The first will be Royal Beach Club in Antigua, launching 2021.

In an effort to secure desirable berthing facilities for our ships, and to provide new or enhanced cruise destinations for our guests, we actively assist or invest in the development or enhancement of certain port facilities and infrastructure, including mixed-use commercial properties, located in strategic ports of call. For instance, a new homeport cruise terminal of approximately 170,000 square feet was completed at PortMiami in Miami, Florida in 2018 and we are building a new homeport cruise terminal in Galveston, Texas of approximately 140,000 square feet to be completed in 2021.

Generally, we collaborate with local, private or governmental entities by providing management and/or financial assistance and often enter into long-term port usage arrangements. Our participation in these efforts is generally accomplished via investments with the relevant government authority and/or various other strategic partnerships established to develop and/or operate the port facilities, by providing direct development and management expertise or in certain limited circumstances, by providing direct or indirect financial support. In exchange for our involvement, we generally secure preferential berthing rights for our ships.

Technological capabilities

Technology is a pervasive part of virtually every business process we use to support our strategic focus and provide a quality experience to our customers before, during and after their cruise.

In past years, we have continued to integrate digital capabilities into our operations and have increased our focus in bringing in data analytics and artificial intelligence into our processes. For example, we have continued the deployment of our innovative guest journey solutions across our fleet from online check-in to port embarkation to onboard cruise experience. At the same time, we are investing in shipboard operational technology to facilitate casino play, hotel maintenance, as well as the optimization of marine maintenance. In concert with our destination focus, our island technology solutions are now enabling our guests to remain connected with WiFi access, order food and beverage as well as take advantage of all the island based activities with the same ease as onboard our ships.

Investments in our core platforms, as well as the trade and direct distribution channels, are delivering the benefit of more modernized solutions with scalability and faster self-service response times while also deploying new features such as flight packages and additional promotional offer capabilities.

Cyber security and data privacy are an ongoing focus, and we have made and will continue to make investments to protect our customer data, intellectual property and global operations.

Travel agency support and consumer outreach

Travel agencies continue to be the primary source of ticket sales for our ships. We believe in the value of this distribution channel and invest in maintaining strong relationships with our travel partners. To accomplish this goal, we seek to ensure that our commission rates and incentive structures remain competitive with the marketplace. We continuously work with travel agencies to sell upgrades and add-ons such as air and pre-cruise purchases to improve the retention and profitability of the channel. We provide brand dedicated sales representatives who serve as consultants to our travel partners. We also provide trained customer service representatives, call centers and online training tools.

In addition, we continue to operate our Consumer Outreach department, which provides consumers 24-hour access to our vacation planners and customer service agents in our call centers. In addition, we maintain and invest in our websites, including mobile applications and mobile websites. We enable our guests to communicate and book with us through various channels such as phone, web, chat, text message, and/or email.

We also have a robust Onboard Cruise Sales department to help guests to book their next cruise vacations while onboard our ships.

Guest Services

We offer to handle virtually all travel aspects related to guest reservations and transportation, including arranging guest pre- and post-hotel stay arrangements and air transportation.

Royal Caribbean International, Celebrity Cruises, Azamara and Silversea Cruises offer recognition and status upgrades to their guests through their loyalty programs, Crown & Anchor Society, Captain's Club, Le Club Voyage and Venetian Society, respectively, to encourage repeat business. Crown & Anchor Society has approximately 16 million members worldwide. Captain's Club, Le Club Voyage and Venetian Society have approximately 4.8 million members combined worldwide. Members are recognized through increasing membership status by accumulating cruise points or credits, depending on the brand, which may be redeemed on future sailings. Members are awarded points or credits in proportion to the number of cruise days and stateroom category. The loyalty programs provide tiers of membership benefits which entitle guests to upgraded experiences and recognition relative to the status achieved once the guests have accumulated the number of cruise points or credits specified for each tier. In addition, upon achieving a certain level of cruise points or credits, members benefit from reciprocal membership benefits across all of our loyalty programs. Examples of the benefits available under our loyalty programs include, but are not limited to, priority ship embarkation, priority waitlist for shore excursions, complimentary laundry service, complimentary Internet, booklets with onboard discount offers, upgraded bathroom amenities, private seating on the pool deck, ship tours and, in the case of our most loyal guests who have achieved the highest levels of cruise points or credits, complimentary cruise days. We regularly work to enhance each of our loyalty programs by adding new features and amenities in order to reward our repeat guests.

Operations

Cruise Ships and Itineraries

As of December 31, 2019, our Global Brands and Partner Brands collectively operated 61 ships with a selection of worldwide itineraries that call on more than 1,000 destinations.

The following table presents summary information concerning the ships we expect to operate in 2020 under our Global Brands and Partner Brands and their geographic areas of operation based on current 2020 itineraries (subject to change).

Ship	Year Ship Built	Year Ship Entered/ Will Enter Service⁽¹⁾	Approximate Berths	Primary Areas of Operation
Royal Caribbean International				
<i>Odyssey of the Seas</i>	2020	2020	4,200	Eastern/Western Caribbean
<i>Spectrum of the Seas</i>	2019	2019	4,250	Eastern Asia
<i>Symphony of the Seas</i>	2018	2018	5,500	Eastern/Western Caribbean
<i>Harmony of the Seas</i>	2016	2016	5,450	Eastern/Western Caribbean
<i>Ovation of the Seas</i>	2016	2016	4,100	Australia, Alaska
<i>Anthem of the Seas</i>	2015	2015	4,100	Southern Caribbean, Bahamas, Europe
<i>Quantum of the Seas</i>	2014	2014	4,150	Eastern Asia
<i>Allure of the Seas</i>	2010	2010	5,450	Eastern/Western Caribbean, Europe
<i>Oasis of the Seas</i>	2009	2009	5,650	Eastern/Western Caribbean, Bahamas
<i>Independence of the Seas</i>	2008	2008	3,850	Western Caribbean, Bahamas
<i>Liberty of the Seas</i>	2007	2007	3,750	Western Caribbean
<i>Freedom of the Seas</i>	2006	2006	3,750	Southern Caribbean
<i>Jewel of the Seas</i>	2004	2004	2,150	Western Caribbean, Europe, Middle East
<i>Mariner of the Seas</i>	2003	2003	3,300	Bahamas
<i>Serenade of the Seas</i>	2003	2003	2,100	Southern Caribbean, Alaska, Australia
<i>Navigator of the Seas</i>	2002	2002	3,350	Bahamas
<i>Brilliance of the Seas</i>	2002	2002	2,100	Western Caribbean, Europe, Canada
<i>Adventure of the Seas</i>	2001	2001	3,300	Eastern/Western Caribbean, Bermuda, Canada
<i>Radiance of the Seas</i>	2001	2001	2,100	Australia, Alaska
<i>Explorer of the Seas</i>	2000	2000	3,250	Europe, Western/Southern Caribbean
<i>Voyager of the Seas</i>	1999	1999	3,400	Eastern Asia, Australia
<i>Vision of the Seas</i>	1998	1998	2,000	Southern Caribbean, Europe, Canada
<i>Enchantment of the Seas</i>	1997	1997	2,250	Southern/Western Caribbean, Bahamas
<i>Rhapsody of the Seas</i>	1997	1997	2,000	Western Caribbean, Europe
<i>Grandeur of the Seas⁽²⁾</i>	1996	1996	1,950	Bahamas, Southern Caribbean, Bermuda, Canada
<i>Majesty of the Seas</i>	1992	1992	2,350	Western Caribbean, Bahamas
<i>Empress of the Seas</i>	1990	2016	1,550	Eastern/Western Caribbean, Canada, Bermuda
Celebrity Cruises				
<i>Celebrity Apex</i>	2020	2020	2,900	Europe, Eastern/Western Caribbean
<i>Celebrity Flora</i>	2019	2019	100	Galapagos Islands
<i>Celebrity Edge</i>	2018	2018	2,900	Eastern/Western Caribbean, Europe

Ship	Year Ship Built	Year Ship Entered/ Will Enter Service⁽¹⁾	Approximate Berths	Primary Areas of Operation
<i>Celebrity Reflection</i>	2012	2012	3,000	Southern Caribbean, Europe
<i>Celebrity Silhouette</i>	2011	2011	2,850	Southern Caribbean, Europe
<i>Celebrity Eclipse</i>	2010	2010	2,850	South America, Alaska
<i>Celebrity Equinox</i>	2009	2009	2,850	Eastern/Western Caribbean
<i>Celebrity Solstice</i>	2008	2008	2,850	Australia, Alaska
<i>Celebrity Xploration</i>	2007	2016	20	Galapagos Islands
<i>Celebrity Constellation</i>	2002	2002	2,150	Middle East, India, Europe, Caribbean
<i>Celebrity Summit</i>	2001	2001	2,200	Southern Caribbean, Bermuda, Canada
<i>Celebrity Infinity</i>	2001	2001	2,150	Western Caribbean, Bahamas, Europe
<i>Celebrity Xpedition</i>	2001	2004	50	Galapagos Islands
<i>Celebrity Millennium</i>	2000	2000	2,200	Eastern Asia, Alaska
<i>Celebrity Xperience</i>	1982	2016	50	Galapagos Islands
Azamara				
<i>Azamara Pursuit</i>	2001	2018	700	South America, Europe
<i>Azamara Quest</i>	2000	2007	700	Australia, Asia, Alaska
<i>Azamara Journey</i>	2000	2007	700	Europe
Silversea Cruises⁽³⁾				
<i>Silver Origin</i>	2020	2020	100	Galapagos Islands
<i>Silver Moon</i>	2020	2020	550	Europe, Caribbean
<i>Silver Muse</i>	2017	2017	550	Australia, Asia, Alaska
<i>Silver Spirit</i>	2009	2009	500	Southern Caribbean, Europe, Asia
<i>Silver Whisper</i>	2001	2001	350	Southern Caribbean, Europe
<i>Silver Shadow</i>	2000	2000	350	Asia, Europe, Southern Caribbean
<i>Silver Wind</i>	1995	1995	250	Southern Caribbean, Europe, Canada
<i>Silver Cloud</i>	1994	1994	250	South America, Europe
<i>Silver Galapagos</i>	1990	2013	100	Galapagos Islands
<i>Silver Explorer</i>	1989	2008	100	South America, Europe
Pullmantur⁽⁴⁾				
<i>Monarch</i>	1991	2013	2,350	Southern Caribbean
<i>Horizon</i>	1990	2010	1,400	Middle East, Europe
<i>Sovereign</i>	1988	2008	2,300	South America, Europe
TUI Cruises				
<i>Mein Schiff 2⁽⁵⁾</i>	2019	2019	2,900	Europe, Southern Caribbean
<i>Mein Schiff 1</i>	2018	2018	2,850	Europe, Canada, Western Caribbean
<i>Mein Schiff 6</i>	2017	2017	2,500	Western Caribbean, Europe, Asia
<i>Mein Schiff 5</i>	2016	2016	2,500	Southern Caribbean, Europe, Middle East
<i>Mein Schiff 4</i>	2015	2015	2,500	Middle East, Europe
<i>Mein Schiff 3</i>	2014	2014	2,500	Asia, Europe
<i>Mein Schiff Herz</i>	1997	2011	1,850	Europe
Total			149,320	

(1) The year a ship entered service refers to the year in which the ship commenced or is expected to commence cruise revenue operations for the brand.

(2) Commencing in the second quarter of 2021, *Grandeur of the Seas* is planned to no longer operate under the Royal Caribbean International brand and we expect to lease the ship to Pullmantur.

- (3) During 2019, the lease for *Discover* was terminated.
(4) In January 2020, we sold *Zenith* to a third party.
(5) TUI Cruises' newbuild entered service as *Mein Schiff 2* in February 2019 and the existing *Mein Schiff 2* was renamed *Mein Schiff Herz*.

As of December 31, 2019, our Global Brands and our Partner Brands have 17 ships on order. Three ships on order are being built in Germany by Meyer Werft GmbH, four are being built in Finland by Meyer Turku shipyard, five are being built in France by Chantiers de l'Atlantique (formerly known as STX France), four are being built in Italy by Fincantieri and one is being built in the Netherlands by De Hoop Lobith. As of December 31, 2019, the expected dates that the ships on order will enter service, subject to change in the event of construction delays, and their approximate berths are as follows:

Ship	Shipyard	Expected to Enter Service	Approximate Berths
Royal Caribbean International —			
Oasis-class:			
<i>Wonder of the Seas</i>	Chantiers de l'Atlantique	2nd Quarter 2021	5,700
<i>Unnamed</i>	Chantiers de l'Atlantique	4th Quarter 2023	5,700
Quantum-class:			
<i>Odyssey of the Seas</i>	Meyer Werft	4th Quarter 2020	4,200
Icon-class:			
<i>Unnamed</i>	Meyer Turku Oy	2nd Quarter 2022	5,600
<i>Unnamed</i>	Meyer Turku Oy	2nd Quarter 2024	5,600
<i>Unnamed</i>	Meyer Turku Oy	2nd Quarter 2025	5,600
Celebrity Cruises —			
Edge-class:			
<i>Celebrity Apex</i>	Chantiers de l'Atlantique	2nd Quarter 2020	2,900
<i>Celebrity Beyond</i>	Chantiers de l'Atlantique	4th Quarter 2021	3,250
<i>Unnamed</i>	Chantiers de l'Atlantique	4th Quarter 2022	3,250
Silversea Cruises ⁽¹⁾ —			
<i>Silver Origin</i>	De Hoop	3rd Quarter 2020	100
Muse-class:			
<i>Silver Moon</i>	Fincantieri	3rd Quarter 2020	550
<i>Silver Dawn</i>	Fincantieri	3rd Quarter 2021	550
Evolution-class:			
<i>Unnamed</i>	Meyer Werft	1st Quarter 2022	600
<i>Unnamed</i>	Meyer Werft	1st Quarter 2023	600
TUI Cruises (50% joint venture) —			
<i>Mein Schiff 7</i>	Meyer Turku Oy	2nd Quarter 2023	2,900
<i>Unnamed</i>	Fincantieri	3rd Quarter 2024	4,100
<i>Unnamed</i>	Fincantieri	1st Quarter 2026	4,100
Total Berths			55,300

- (1) The revenue impact from Silversea Cruises' new ships will be recognized on a three month reporting lag from the "Expected to Enter Service" dates above. Refer to Note 1. *General* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information.

In addition, as of December 31, 2019, we have an agreement in place with Chantiers de l'Atlantique to build an additional Edge-class ship for delivery in the 4th quarter of 2024, which is contingent upon completion of conditions precedent and financing.

Seasonality

Our revenues are seasonal based on the demand for cruises. Demand is strongest for cruises during the Northern Hemisphere's summer months and holidays. In order to mitigate the impact of the winter weather in the Northern Hemisphere and to capitalize on the summer season in the Southern Hemisphere, our brands have focused on deployment in the Caribbean, Asia and Australia during that period.

Passengers and Capacity

Selected statistical information is shown in the following table (see *Financial Presentation- Description of Certain Line Items* and *Selected Operational and Financial Metrics* under Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*, for definitions):

	Year Ended December 31,				
	2019 ⁽¹⁾	2018 ⁽²⁾	2017	2016 ⁽³⁾	2015
Passengers Carried	6,553,865	6,084,201	5,768,496	5,754,747	5,401,899
Passenger Cruise Days	44,803,953	41,853,052	40,033,527	40,250,557	38,523,060
Available Passenger Cruise Days (APCD)	41,432,451	38,425,304	36,930,939	37,844,644	36,646,639
Occupancy	108.1%	108.9%	108.4%	106.4%	105.1%

- (1) As a result of the three-month reporting lag, we included Silversea Cruises' results of operations from October 1, 2018 through September 30, 2019 for the twelve months ended December 31, 2019. Refer to Note 1. *General* and Note 3. *Business Combination* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for more information on the three-month reporting lag and the Silversea Cruises acquisition.
- (2) We acquired Silversea Cruises on July 31, 2018 and report their results on a three-month reporting lag. As a result, these amounts include only August and September 2018 amounts for Silversea Cruises. Refer to Note 1. *General* and Note 3. *Business Combination* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for more information on the three-month reporting lag and the Silversea Cruises acquisition.
- (3) These amounts do not include November and December 2015 amounts for Pullmantur as the net Pullmantur result for those months was included within *Other expense* in our consolidated statements of comprehensive income (loss) for the year ended December 31, 2016, as a result of the elimination of the Pullmantur two-month reporting lag, and did not affect Gross Yields, Net Yields, Gross Cruise Costs, Net Cruise Costs and Net Cruise Costs Excluding Fuel. Additionally, effective August 2016, following the sale of our 51% interest in Pullmantur Holdings, we no longer include Pullmantur in these amounts.

Cruise Pricing

Our cruise ticket prices include accommodations and a wide variety of activities and amenities, including meals and entertainment. Prices vary depending on many factors including the destination, cruise length, stateroom category selected and the time of year the cruise takes place. Although we grant credit terms in select markets mainly outside of the United States, our payment terms generally require an upfront deposit to confirm a reservation, with the balance due prior to the sailing. Our cruises are generally available for sale at least one year in advance and often more than two years in advance of sailing. During the selling period of a cruise, we continually monitor and adjust our cruise ticket prices for available guest staterooms based on demand, with the objective of maximizing net yields.

As we grow our business globally, our sale arrangements with travel agents may vary. For instance, although our direct business is growing at a rapid pace, sale arrangements through travel agent charter and group sales are proportionately higher in the China market than in our other markets which are primarily through retail agency and direct sales.

We have developed and implemented enhancements to our reservations system that provide us and our travel partners with additional capabilities, making it easier to do business with us. For example, we offer air transportation to our guests through our air transportation program available in major cities around the world.

Passenger ticket revenues accounted for approximately 72% of total revenues in 2019, 2018 and 2017.

Onboard Activities and Other Revenues

Our cruise brands offer modern fleets with a wide array of onboard services, amenities and activities which vary by brand and ship. While many onboard activities are included in the base price of a cruise, we realize additional revenues from, among other things, gaming, the sale of alcoholic and other beverages, Internet and other telecommunication services, gift shop items, shore excursions, photography, spa/salon and fitness services, art auctions, retail shops and a wide variety of specialty restaurants and dining options. Many of these services are available for pre-booking prior to embarkation. These activities are provided either directly by us or by independent concessionaires from which we receive a percentage of their revenues.

In conjunction with our cruise vacations, we offer pre- and post-cruise hotel packages to our Royal Caribbean International, Celebrity Cruises, Azamara and Silversea Cruises guests. We also offer cruise vacation protection coverage to guests in a number of markets, which provides guests with coverage for trip cancellation, medical protection and baggage protection. Onboard and other revenues accounted for approximately 28% of total revenues in 2019, 2018 and 2017.

Segment Reporting

We control and operate four cruise brands, Royal Caribbean International, Celebrity Cruises, Azamara, and Silversea Cruises. In addition, we have a 50% investment in a joint venture with TUI AG which operates the German brand TUI Cruises and a 49% interest in the Spanish brand Pullmantur. We believe our brands possess the versatility to enter multiple cruise market segments within the cruise vacation industry. Although each of our brands has its own marketing style as well as ships and crews of various sizes, the nature of the products sold and services delivered by our brands share a common base (i.e., the sale and provision of cruise vacations). Our brands also have similar itineraries as well as similar cost and revenue components. In addition, our brands source passengers from similar markets around the world and operate in similar economic environments with a significant degree of commercial overlap. As a result, our brands have been aggregated as a single reportable segment based on the similarity of their economic characteristics, types of consumers, regulatory environment, maintenance requirements, supporting systems and processes as well as products and services provided. Our Chairman and Chief Executive Officer has been identified as the chief operating decision-maker and all significant operating decisions including the allocation of resources are based upon the analyses of the Company as one segment. (For financial information, see Item 8. *Financial Statements and Supplementary Data*.)

Employees

As of December 31, 2019, our Global Brands employed approximately 85,400 employees, including 77,000 shipboard employees as well as 8,200 full-time and 100 part-time employees in our shoreside operations. As of December 31, 2019, approximately 89% of our shipboard employees were covered by collective bargaining agreements.

Insurance

We maintain insurance on the hull and machinery of our ships, with insured values generally equal to the net book value of each ship. This coverage is maintained with reputable insurance underwriters from the British, Scandinavian, French, United States and other reputable international insurance markets.

We are members of four Protection and Indemnity ("P&I") clubs, which are part of a worldwide group of 13 P&I clubs, known as the International Group of P&I Clubs (the "IG"). Liabilities, costs and expenses for illness and injury to crew, guest injury, pollution and other third-party claims in connection with our cruise activities are covered by our P&I clubs, subject to the clubs' rules and the limits of coverage determined by the IG. P&I coverage provided by the clubs is on a mutual basis and we are subject to additional premium calls in the event of a catastrophic loss incurred by any member of the 13 P&I clubs, whereby the reinsurance limits purchased by the IG are exhausted. We are also subject to additional premium calls based on investment and underwriting shortfalls experienced by our own individual insurers.

We maintain war risk insurance for legal liability to crew, guests and other third parties as well as for loss or damage to our vessels arising from acts of war, including invasion, insurrection, terrorism, rebellion, piracy and

hijacking. Our primary war risk coverage is provided by a Norwegian war risk insurance association and our excess war risk insurance is provided by our four P&I clubs. Consistent with most marine war risk policies, our coverage is subject to cancellation in the event of a change in risk. In the event of a war between major powers, our primary policies terminate after thirty days' notice and our excess policies terminate immediately. Our excess policies are also subject to cancellation after a notice period of seven days in the event of other changes in risk. These notice periods allow for premiums to be renegotiated based on changes in risk.

Insurance coverage for other exposures, such as shoreside property and casualty, passenger off-vessel, directors and officers and network security and privacy, are maintained with various global insurance companies.

We do not carry business interruption insurance for our ships based on our evaluation of the risks involved and protective measures already in place, as compared to the cost of insurance.

All insurance coverage is subject to certain limitations, exclusions and deductible levels. In addition, in certain circumstances, we either self-insure or co-insure a portion of these risks. Premiums charged by insurance carriers, including carriers in the maritime insurance industry, increase or decrease from time to time and tend to be cyclical in nature. These cycles are impacted both by our own loss experience and by losses incurred in direct and reinsurance markets. We historically have been able to obtain insurance coverage in amounts and at premiums we have deemed to be commercially acceptable. No assurance can be given that affordable and secure insurance markets will be available to us in the future, particularly for war risk insurance.

Trademarks

We own a number of registered trademarks related to the Royal Caribbean International, Celebrity Cruises, Azamara and Silversea Cruises cruise brands. The registered trademarks include the name "Royal Caribbean International" and its crown and anchor logo, the name "Celebrity Cruises" and its "X" logo, the name "Azamara" and its "open world" and "star logo", the name "Silversea Cruises" and its logo, and the names of various cruise ships, ship venues and other marketing programs. We believe our largest brands' trademarks are widely recognized throughout the world and have considerable value. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

Regulation

Our ships are regulated by various international, national, state and local laws, regulations and treaties in force in the jurisdictions in which they operate. In addition, our ships are registered in the Bahamas, Malta or in the case of our ships operating in the Galapagos Islands, Ecuador. Each ship is subject to regulations issued by its country of registry, including regulations issued pursuant to international treaties governing the safety of our ships, guests and crew as well as environmental protection. Each country of registry conducts periodic inspections to verify compliance with these regulations as discussed more fully below. Ships operating out of ports of call around the world are also subject to inspection by the maritime authorities of that country for compliance with international treaties and local regulations. Additionally, ships operating out of the United States ports are subject to inspection by the United States Coast Guard for compliance with international treaties and by the United States Public Health Service for sanitary and health conditions. Our ships are also subject to similar inspections pursuant to the laws and regulations of various other countries our ships visit.

We believe that we are in material compliance with all the regulations applicable to our ships and that we have all licenses necessary to conduct our business. Health, safety, security, environmental and financial responsibility issues are, and we believe will continue to be, an area of focus by the relevant government authorities in the United States and internationally. From time to time, various regulatory and legislative changes may be proposed that could impact our operations and subject us to increasing compliance costs in the future.

Safety and Security Regulations

Our ships are required to comply with international safety standards defined in the International Convention for Safety of Life at Sea ("SOLAS"), which, among other things, establishes requirements for ship design, structural features, materials, construction, lifesaving equipment and safe management and operation of ships to ensure guest and crew safety. The SOLAS standards are revised from time to time and changes are incorporated into the

operation of our ships. Compliance with these modified standards have not historically had a material effect on our operating costs. SOLAS incorporates the International Safety Management Code (“ISM Code”), which provides an international standard for the safe management and operation of ships and for pollution prevention. The ISM Code is mandatory for all vessels, including passenger vessel operators.

All of our operations and ships are regularly audited by various national authorities, and we are required to maintain the relevant certificates of compliance with the ISM Code.

Our ships are subject to various security requirements, including the International Ship and Port Facility Security Code (“ISPS Code”), which is part of SOLAS, and the U.S. Maritime Transportation Security Act of 2002 (“MTSA”), which applies to ships that operate in U.S. ports. In order to satisfy these security requirements, we implement security measures, conduct vessel security assessments, and develop security plans. The security plans for all of our ships have been submitted to and approved by the Recognized Security Organization on behalf of the ships' flag state and are in compliance with the ISPS Code and the MTSA.

The Cruise Vessel Security and Safety Act of 2010, which applies to passenger vessels which embark or include port stops within the United States, requires the implementation of certain safety design features as well as the establishment of practices for the reporting of and dealing with allegations of crime. The cruise industry supported this legislation and we believe that our internal standards are generally as strict or stricter than the law requires. Some provisions of the act call for regulations which have not been finalized. We do not expect the pending regulations will have a material impact to our operations.

Environmental Regulations

We are subject to various international and national laws and regulations relating to environmental protection. Under such laws and regulations, we are generally prohibited from discharging materials other than food waste into the waterways. We have made, and will continue to make, capital and other expenditures to comply with environmental laws and regulations. From time to time, environmental and other regulators consider more stringent regulations, which may affect our operations and increase our compliance costs. We believe that the impact of ships on the global environment will continue to be an area of focus by the relevant authorities throughout the world and, accordingly, may subject us to increasing compliance costs in the future, including the items described below.

Our ships are subject to the International Maritime Organization’s (“IMO”) regulations under the International Convention for the Prevention of Pollution from Ships (the “MARPOL Regulations”) and the International Convention for the Control and Management of Ships Ballast Water and Sediments (Ballast Water Management Convention), in addition to other regional and national regulations such as EU Directives and the US Vessel General Permit, which includes requirements designed to minimize pollution by oil, sewage, garbage, air emissions and the transfer of non-native/non-indigenous species. We have obtained the relevant international compliance certificates relating to oil, sewage, air pollution prevention and ballast water for all of our ships.

The MARPOL Regulations imposed reduced global limitations on the sulfur content of emissions emitted by ships operating worldwide to 0.5% as of January 1, 2020, which was reduced from 3.5%. We do not expect that this increased limitation will have a material impact to our results of operations largely due to a number of mitigating steps we have taken over the last several years, including equipping all of our new ships delivered during or after 2014 with advanced emissions purification (“AEP”) systems covering all engines and actively developing and installing AEP systems on the majority of our remaining fleet.

The MARPOL Regulations also establish special Emission Control Areas (“ECAs”) with additional stringent limitations on sulfur emissions in these areas. There are four established ECAs that restrict sulfur emissions: the Baltic Sea, the North Sea/English Channel, certain waters surrounding the North American coast, and the waters surrounding Puerto Rico and the U.S. Virgin Islands (the “Caribbean ECA”). Ships operating in these sulfur ECAs have been required to reduce their emissions sulfur content to 0.1%. This reduction has not had a significant impact on our results of operations to date due to the mitigating steps described above.

We continue to implement our AEP system strategy for both our ships on order and our existing fleet. As our new ships are delivered and additional existing ships are retrofitted with AEP systems, they will provide us with additional operational and deployment flexibility.

Additionally, all new ships operating within the North American and U.S. Caribbean Sea ECA that began construction after January 1, 2016 are required to meet more stringent nitrogen oxide emission limits. We comply with these rules for those relevant ships in service. As an added measure, all of our ships under construction are being built to comply with these rules. The rules have not had and are not expected to have a significant impact to our operations or costs.

Effective July 1, 2015, the European Commission adopted legislation that requires cruise ship operators with ships visiting ports in the European Union to monitor and report on the ship's annual carbon dioxide emissions starting in 2018. Additionally, in 2019, the IMO's monitoring and reporting system (IMO data and collection system), which is applicable to all ship itineraries, entered into force. While compliance with these regulations did not materially impact our costs or results of operations, the legislations contemplate further obligations and restrictions which could ultimately result in additional costs or charges associated with carbon dioxide emissions.

The IMO Ballast Water Management Convention, which came in effect in 2017, requires ships that carry and discharge ballast water to meet specific discharge standards by installing Ballast Water Treatment Systems by 2023. Compliance with this regulation has not had a material effect on our results of operations and we do not expect the continuing compliance with this regulation to have a material effect on our results of operations.

Refer to Item 1A. *Risk Factors - "Environmental, labor, health and safety, financial responsibility and other maritime regulations could affect operations and increase costs"* for further discussion of the risks associated with the regulations discussed above.

Consumer Financial Responsibility Regulations

We are required to obtain certificates from the United States Federal Maritime Commission relating to our ability to satisfy liability in cases of non-performance of obligations to guests, as well as casualty and personal injury. As a condition to obtaining the required certificates, we generally arrange through our insurers for the provision of surety for our ship-operating companies. The required amount is currently \$32.0 million per operator and is subject to additional consumer price index based adjustments.

We are also required by the United Kingdom, Norway, Finland and the Baltics to establish our financial responsibility for any liability resulting from the non-performance of our obligations to guests from these jurisdictions. In the United Kingdom we are currently required by the Association of British Travel Agents to provide performance bonds totaling approximately £82 million. Additionally, we were required by the Civil Aviation Authority to provide performance bonds totaling £8 million. The Norwegian Travel Guarantee Fund requires us to maintain performance bonds in varying amounts during the course of the year to cover our financial responsibility in Norway, Finland and the Baltics. These amounts ranged from NOK 32 million to NOK 57 million during 2019.

Certain other jurisdictions also require that we establish financial responsibility to our guests resulting from the non-performance of our obligations; however, the related amounts do not have a material effect on our costs.

Taxation of the Company

The following is a summary of our principal taxes, exemptions and special regimes. In addition to or instead of income taxation, virtually all jurisdictions where our ships call impose some tax or fee, or both, based on guest headcount, tonnage or some other measure. We also collect and remit value added tax (VAT) or sales tax in many jurisdictions where we operate.

Our consolidated operations are primarily foreign corporations engaged in the owning and operating of passenger cruise ships in international transportation.

U.S. Income Taxation

The following is a discussion of the application of the U.S. federal and state income tax laws to us and is based on the current provisions of the U.S. Internal Revenue Code, Treasury Department regulations, administrative rulings, court decisions and the relevant state tax laws, regulations, rulings and court decisions of the states where we have business operations. All of the foregoing is subject to change, and any such change could affect the accuracy of this discussion.

Application of Section 883 of the Internal Revenue Code

We, Celebrity Cruises, Inc. and Silversea Cruises Ltd. are engaged in a trade or business in the United States, and many of our ship-owning subsidiaries, depending upon the itineraries of their ships, receive income from sources within the United States. Additionally, our United Kingdom tonnage tax company is a ship-operating company classified as a disregarded entity for U.S. federal income tax purposes that may earn U.S. source income. Under Section 883 of the Internal Revenue Code, certain foreign corporations may exclude from gross income (and effectively from branch profits tax as such earnings do not give rise to effectively connected earnings and profits) U.S. source income derived from or incidental to the international operation of a ship or ships, including income from the leasing of such ships.

A foreign corporation will qualify for the benefits of Section 883 if, in relevant part: (1) the foreign country in which the foreign corporation is organized grants an equivalent exemption to corporations organized in the United States; and (2) the stock of the corporation (or the direct or indirect corporate parent thereof) is “primarily and regularly traded on an established securities market” in the United States. In the opinion of our U.S. tax counsel, Drinker Biddle & Reath LLP, based on the representations and assumptions set forth in that opinion, we, Celebrity Cruises Inc., Silversea Cruises Ltd. and relevant ship-owning subsidiaries with U.S. source shipping income qualify for the benefits of Section 883 because we and each of those subsidiaries are incorporated in Liberia or Bahamas, which are qualifying countries, and our common stock is primarily and regularly traded on an established securities market in the United States (i.e., we are a “publicly traded” corporation). If, in the future, (1) Liberia or Bahamas no longer qualify as equivalent exemption jurisdictions, and we do not reincorporate in a jurisdiction that does qualify for the exemption, or (2) we fail to qualify as a publicly traded corporation, we and all of our ship-owning or operating subsidiaries that rely on Section 883 to exclude qualifying income from gross income would be subject to U.S. federal income tax on their U.S. source shipping income and income from activities incidental thereto.

We believe that most of our income and the income of our ship-owning subsidiaries, including our U.K. tonnage tax company which is considered a division for U.S. tax purposes, is derived from or incidental to the international operation of a ship or ships and, therefore, is exempt from taxation under Section 883.

Regulations under Section 883 list activities that are not considered by the Internal Revenue Service to be incidental to the international operation of ships including the sale of air and land transportation, shore excursions and pre- and post-cruise tours. Our income from these activities that is earned from sources within the United States will be subject to U.S. taxation.

Taxation in the Absence of an Exemption Under Section 883

If we, the operator of our vessels, Celebrity Cruises Inc., Silversea Cruises Ltd., or our ship-owning subsidiaries were to fail to meet the requirements of Section 883 of the Internal Revenue Code, or if the provision was repealed, then, as explained below, such companies would be subject to U.S. income taxation on a portion of their income derived from or incidental to the international operation of our ships.

Because we, Celebrity Cruises Inc. and Silversea Cruises Ltd. conduct a trade or business in the United States, we, Celebrity Cruises Inc. and Silversea Cruises Ltd. would be taxable at regular corporate rates on our separate company taxable income (i.e., without regard to the income of our ship-owning subsidiaries) on income which is effectively connected with our U.S. trade or business (generally only income from U.S. sources). In addition, if any of our earnings and profits effectively connected with our U.S. trade or business were withdrawn, or were deemed to have been withdrawn, from our U.S. trade or business, those withdrawn amounts would be subject to a “branch profits” tax at the rate of 30%. We, Celebrity Cruises Inc. and Silversea Cruises Ltd. would also be potentially subject to tax on portions of certain interest paid by us at rates of up to 30%.

If Section 883 were not available to our ship-owning subsidiaries, each such subsidiary would be subject to a special 4% tax on its U.S. source gross transportation income, if any, each year because it does not have a fixed place of business in the United States and its income is derived from the leasing of a ship.

Other United States Taxation

We, Celebrity Cruises Inc. and Silversea Cruises Ltd. earn U.S. source income from activities not considered incidental to international shipping. The tax on such income is not material to our results of operation for all years presented.

State Taxation

We, Celebrity Cruises Inc., Silversea Cruises Ltd. and certain of our subsidiaries are subject to various U.S. state income taxes which are generally imposed on each state's portion of the U.S. source income subject to federal income taxes. Additionally, the state of Alaska subjects an allocated portion of the total income of companies doing business in Alaska and certain other affiliated companies to Alaska corporate state income taxes and also imposes a 33% tax on adjusted gross income from onboard gambling activities conducted in Alaska waters. This did not have a material impact to our results of operations for all years presented.

2017 Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. Among other things, the new legislation reduced the federal corporate income tax rate to 21% from 35%, resulting in an immaterial benefit in 2017 related to the reduction of our U.S. deferred tax liability. Although there are a number of provisions which apply to us, there was no material impact to our overall tax expense as a result of the legislation.

Maltese and Spanish Income Taxation

Effective July 31, 2016, we sold 51% of our interest in Pullmantur Holdings S.L. ("Pullmantur Holdings"), the parent company of the Pullmantur brand. We account for our retained investment under the equity method of accounting. There was no tax impact to us as a result of this sale transaction. The Pullmantur group continues to be subject to the tax laws of Spain and Malta, among others.

Under the sale agreement, we remain responsible for pre-sale tax matters with respect to years that are still open under the statute of limitations.

United Kingdom Income Taxation

During the year ended December 31, 2019, we operated 16 ships under the United Kingdom tonnage tax regime ("U.K. tonnage tax").

Companies subject to U.K. tonnage tax pay a corporate tax on a notional profit determined with reference to the net tonnage of qualifying vessels. The requirements for a company to qualify for the U.K. tonnage tax regime include being subject to U.K. corporate income tax, operating qualifying ships, which are strategically and commercially managed in the United Kingdom, and fulfilling a seafarer training requirement.

Relevant shipping profits include income from the operation of qualifying ships and from shipping related activities. Our U.K. income from non-shipping activities which do not qualify under the U.K. tonnage tax regime and which are not considered significant, remain subject to regular U.K. corporate income tax.

Chinese Taxation

Our U.K. tonnage tax company operates ships in international transportation in China. The income earned from this operation is exempt from taxation in China under the U.K./China double tax treaty and other circulars addressing indirect taxes. Changes to or failure to qualify for the treaty or circular could cause us to lose the benefits provided which would have a material impact on our results of operations. Our Chinese income from non-shipping activities or from shipping activities not qualifying for treaty or circular protection and which are considered insignificant, remain subject to Chinese taxation.

Other Taxation

We and certain of our subsidiaries are subject to value-added and other indirect taxes most of which are reclaimable, zero-rated or exempt.

Website Access to Reports

We make available, free of charge, access to our Annual Reports, all quarterly and current reports and all amendments to those reports, as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission through our website at www.rclcorporate.com. The information contained on our website is not a part of any of these reports and is not incorporated by reference herein.

Information About our Executive Officers

As of February 25, 2020, our executive officers are:

Name	Age	Position
Richard D. Fain	72	Chairman, Chief Executive Officer and Director
Jason T. Liberty	44	Executive Vice President, Chief Financial Officer
Michael W. Bayley	61	President and Chief Executive Officer, Royal Caribbean International
Lisa Lutoff-Perlo	62	President and Chief Executive Officer, Celebrity Cruises
Lawrence Pimentel	68	President and Chief Executive Officer, Azamara
Harri U. Kulovaara	67	Executive Vice President, Maritime
Bradley H. Stein	64	Senior Vice President, General Counsel, Chief Compliance Officer
Henry L. Pujol	52	Senior Vice President, Chief Accounting Officer

Richard D. Fain has served as a director since 1981 and as our Chairman and Chief Executive Officer since 1988. Mr. Fain is a recognized industry leader, having participated in shipping for over 40 years and having held a number of prominent industry positions, such as Chairman of the Cruise Lines International Association (CLIA), the largest cruise industry trade association. He currently serves on the University of Miami Board of Trustees as well as the National Board of the Posse Foundation. He is former chairman of the University of Miami Board of Trustees, Miami Business Forum, the Greater Miami Convention and Visitors Bureau, and the United Way of Miami-Dade.

Jason T. Liberty has been employed by the Company since 2005 and has served as Executive Vice President and Chief Financial Officer since February 2017. From May 2013 to February 2017, he served as Senior Vice President and Chief Financial Officer. Since February 2017, Mr. Liberty has overseen the Company's Treasury, Accounting, Corporate, Strategic and Revenue Planning, Corporate Development, Deployment, Internal Audit and Investor Relations functions. Since May 2018, in addition to the above functions, he has also overseen the Company's Information Technology, Supply Chain, Risk Management, Legal and Port Operations functions. Prior to his role as Chief Financial Officer, Mr. Liberty served as Senior Vice President, Strategy and Finance from September 2012 through May 2013, overseeing the Company's Corporate and Strategic Planning, Treasury, Investor Relations and Deployment functions. Prior to this, Mr. Liberty served, from 2010 through 2012, as Vice President of Corporate and Revenue Planning and, from 2008 to 2010, as Vice President of Corporate and Strategic Planning. Before joining Royal Caribbean, Mr. Liberty was a Senior Manager at the international public accounting firm of KPMG LLP. Mr. Liberty currently serves on the Board of Directors of WNS Holdings.

Michael W. Bayley has served as President and Chief Executive Officer of Royal Caribbean International since December 2014. Prior to this, he served as President and Chief Executive Officer of Celebrity Cruises since August 2012. Mr. Bayley has been employed by Royal Caribbean for over 30 years, having started as an Assistant Purser onboard one of the Company's ships. He has served in a number of roles including as Executive Vice President, Operations from February 2012 until August 2012. Other positions Mr. Bayley has held include Executive Vice President, International from May 2010 until February 2012; Senior Vice President, International from December 2007 to May 2010; Senior Vice President, Hotel Operations for Royal Caribbean International; and Chairman and Managing Director of Island Cruises.

Lisa Lutoff-Perlo has served as President and Chief Executive Officer of Celebrity Cruises since December 2014 and has been with the company since 1985. She also leads the Company's Global Marine Organization. Ms. Lutoff-Perlo was the Executive Vice President, Operations of Royal Caribbean International from 2012 to 2014; Senior Vice President, Hotel Operations of Celebrity Cruises from 2007 to 2012; and Vice President, Onboard

Revenue of Celebrity Cruises from 2005 to 2007. Ms. Lutoff-Perlo held various senior positions in sales and marketing with Royal Caribbean International from 1985 to 2005. Ms. Lutoff-Perlo also serves on the Board of Directors of AutoNation.

Lawrence Pimentel has served as President and Chief Executive Officer of Azamara since July 2009. From 2001 until January 2009, Mr. Pimentel was President, Chief Executive Officer, Director and co-owner of SeaDream Yacht Club, a privately held luxury cruise line located in Miami, Florida with two yacht-style ships that sailed primarily in the Caribbean and Mediterranean. From April 1991 to February 2001, Mr. Pimentel was President and Chief Executive Officer of Carnival Corp.'s Seabourn Cruise Line and from May 1998 to February 2001, he was President and Chief Executive Officer of Carnival Corp.'s Cunard Line.

Harri U. Kulovaara has served as Executive Vice President, Maritime since January 2005. Mr. Kulovaara is responsible for fleet design and newbuild operations. Mr. Kulovaara also chairs our Maritime Safety Advisory Board. Mr. Kulovaara has been employed with Royal Caribbean since 1995 in a variety of positions, including Senior Vice President, Marine Operations, and Senior Vice President, Quality Assurance. Mr. Kulovaara is a naval architect and engineer.

Bradley H. Stein has served as General Counsel and Corporate Secretary of the Company since 2006. He has also served as Senior Vice President and Chief Compliance Officer of the Company since February 2009 and February 2011, respectively. Mr. Stein has been with Royal Caribbean since 1992. Before joining Royal Caribbean, Mr. Stein worked in private practice in New York and Miami.

Henry L. Pujol has served as Senior Vice President, Chief Accounting Officer of the Company since May 2013. Mr. Pujol originally joined Royal Caribbean in 2004 as Assistant Controller and was promoted to Corporate Controller in May 2007. Before joining Royal Caribbean, Mr. Pujol was a Senior Manager at the international public accounting firm of KPMG LLP.

Item 1A. Risk Factors

The risk factors set forth below and elsewhere in this Annual Report on Form 10-K are important factors that could cause actual results to differ from expected or historical results. It is not possible to predict or identify all such risks. There may be additional risks that we consider not to be material, or which are not known, and any of these risks could have the effects set forth below. The ordering of the risk factors set forth below is not intended to reflect any Company indication of priority or likelihood. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a cautionary note regarding forward-looking statements.

Adverse worldwide economic or other conditions could reduce the demand for cruises and passenger spending, adversely impacting our operating results, cash flows and financial condition including potentially impairing the value of our ships and other assets.

The demand for cruises is affected by international, national and local economic conditions. Weak or uncertain economic conditions impact consumer confidence and pose a risk as vacationers may postpone or reduce discretionary spending. This, in turn, may result in cruise booking slowdowns, decreased cruise prices and lower onboard revenues. Given the global nature of our business, we are exposed to many different economies and our business could be hurt by challenging conditions in any of our markets. Any significant deterioration of international, national or local economic conditions, including those resulting from geopolitical events and/or international disputes, could result in a prolonged period of booking slowdowns, depressed cruise prices and/or reduced onboard revenues.

Fears of terrorist attacks, war, and other hostilities could have a negative impact on our results of operations.

Events such as terrorist attacks, war (or war-like conditions), conflicts (domestic or cross-border), civil unrest and other hostilities, including an escalation in the frequency or severity of incidents, and the resulting political instability, travel restrictions and advisories, and concerns over safety and security aspects of traveling or the fear of any of the foregoing have had, and could have in the future, a significant adverse impact on demand and pricing in the travel and vacation industry. In view of our global operations, we are susceptible to a wide range of adverse events. These events could also result in additional security measures taken by local authorities which may potentially impact access to ports and/or destinations.

Our operating costs could increase due to market forces and economic or geo-political factors beyond our control.

Our operating costs, including fuel, food, payroll and benefits, airfare, taxes, insurance and security costs, are all subject to increases due to market forces and economic or geo-political conditions or other factors beyond our control. Increases in these operating costs could adversely affect our profitability.

Fluctuations in foreign currency exchange rates, fuel prices and interest rates could affect our financial results.

We are exposed to market risk attributable to changes in foreign currency exchange rates, fuel prices and interest rates. Significant changes in any of the foregoing could have a material impact on our financial results, net of the impact of our hedging activities and natural offsets. Our operating results have been and will continue to be impacted, often significantly, by changes in each of these factors. The value of our earnings in foreign currencies is adversely impacted by a strong United States dollar. In addition, any significant increase in fuel prices could materially and adversely affect our business as fuel prices not only impact our fuel costs, but also some of our other expenses, such as crew travel, freight and commodity prices. Mandatory fuel restrictions, such as the International Maritime Organization's 2020 Low Sulphur Regulation ("IMO 2020"), may also create uncertainty related to the price and availability of certain fuel types potentially impacting operating costs and the value of our related hedging instruments. Also, a significant increase in interest rates could materially impact the cost of our floating rate debt. Furthermore, regulatory changes, such as the announcement of the United Kingdom's Financial Conduct Authority to phase out LIBOR by the end of 2021, may adversely affect our portfolio of floating-rate debt and interest rate derivatives. If LIBOR ceases to exist, we may need to renegotiate any credit agreements or interest rate derivatives agreements extending beyond 2021 that utilize LIBOR as a factor in determining the interest rate or hedge rate, which could adversely impact our cost of debt.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for more information.

Conducting business globally may result in increased costs and other risks.

We operate our business globally. Operating internationally exposes us to a number of risks, including increased exposure to a wider range of regional and local economic conditions, volatile local political conditions, potential changes in duties and taxes, including changing and/or uncertain interpretations of existing tax laws and regulations, required compliance with additional laws and policies affecting cruising, vacation or maritime businesses or governing the operations of foreign-based companies, currency fluctuations, interest rate movements, difficulties in operating under local business environments, port quality and availability in certain regions, U.S. and global anti-bribery laws or regulations, imposition of trade barriers and restrictions on repatriation of earnings.

Our future growth strategies increasingly depend on the growth and sustained profitability of certain international markets, such as China. Some factors that will be critical to our success in developing these markets may be different than those affecting our more-established North American and European markets. In the Chinese market, in particular, our future success depends on our ability to continue to raise awareness of our products, evolve the available distribution channels and adapt our offerings to best suit the Chinese consumer. China's economy differs from the economies of other developed countries in many respects and, as the legal and regulatory system in China continues to evolve, there may be greater uncertainty as to the interpretation and enforcement of applicable laws and regulations.

Operating globally also exposes us to numerous and sometimes conflicting legal, regulatory and tax requirements. In many parts of the world, including countries in which we operate, practices in the local business communities might not conform to international business standards. We must adhere to policies designed to promote legal and regulatory compliance as well as applicable laws and regulations. However, we might not be successful in ensuring that our employees, agents, representatives and other third parties with whom we associate throughout the world properly adhere to them. Failure by us, our employees or any of these third parties to adhere to our policies or applicable laws or regulations could result in penalties, sanctions, damage to our reputation and related costs which in turn could negatively affect our results of operations and cash flows.

We have operations in and source passengers from the United Kingdom and the European Union. On January 31, 2020, the United Kingdom withdrew from the European Union and immediately entered an 11-month transition period. Uncertainty during the transition period could lead to adverse effects on the economy of the United Kingdom, including the value of the British Pound, and the other economies in which we operate, making it more difficult to source passengers from these regions. Additionally, if the withdrawal is not executed effectively, it could adversely affect tax, legal and regulatory regimes to which our business in the region is subject. The withdrawal could also, among other potential outcomes, disrupt the free movement of goods, services and people between the United Kingdom and the European Union, if not executed effectively.

As a global operator, our business may be also impacted by changes in U.S. policy or priorities in areas such as trade, immigration and/or environmental or labor regulations, among others. Depending on the nature and scope of any such changes, they could impact our domestic and international business operations. Any such changes, and any international response to them, could potentially introduce new barriers to passenger or crew travel and/or cross border transactions, impact our guest experience and/or increase our operating costs.

If we are unable to address these risks adequately, our financial position and results of operations could be adversely affected, including potentially impairing the value of our ships and other assets.

Changes in U.S. foreign travel policy may affect our results of operations.

Changes in U.S. foreign policy could result in the imposition of travel restrictions or travel bans on U.S. persons to certain countries or result in the imposition of U.S. rules, regulations or legislation that could expose us to penalties or claims of monetary damages. The timing and scope of these changes are unpredictable, and they could cause us to cancel scheduled sailings, possibly on short notice, or could result in possible litigation against us. This, in turn, could decrease our revenue, increase our operating costs and otherwise impair our profitability. For instance, in June 2019, the U.S. government announced that cruise ships would no longer be allowed to travel between the U.S. and Cuba. This required us to change our high yielding Cuba sailings on short notice, which impacted our earnings. Moreover, in May 2019, the U.S. government activated Title III of the Cuban Liberty and Solidarity (Libertad) Act of 1996, popularly known as the Helms-Burton Act. This allowed certain individuals

whose property was confiscated by the Cuban government to sue in U.S. courts anyone who "traffics" in the property in question. The activation of Title III has resulted in litigation against us and others in the tourism industry.

Price increases for commercial airline service for our guests or major changes or reduction in commercial airline service and/or availability could adversely impact the demand for cruises and undermine our ability to provide reasonably priced vacation packages to our guests.

Many of our guests depend on scheduled commercial airline services to transport them to or from the ports where our cruises embark or disembark. Increases in the price of airfare would increase the overall price of the cruise vacation to our guests, which may adversely impact demand for our cruises. In addition, changes in the availability of commercial airline services could adversely affect our guests' ability to obtain air travel, as well as our ability to transfer our guests to or from our cruise ships, which could adversely affect our results of operations.

Incidents on ships, at port facilities, land destinations and/or affecting the cruise vacation industry in general, and the associated negative media coverage and publicity, could affect our reputation and impact our sales and results of operations.

The ownership and/or operation of cruise ships, private destinations, port facilities and shore excursions involves the risk of accidents, illnesses, mechanical failures, environmental incidents and other incidents which may bring into question safety, health, security and vacation satisfaction and can negatively impact our sales, operations and reputation. Incidents involving cruise ships, and, in particular the safety, health and security of guests and crew and the media coverage thereof have impacted and could in the future impact demand for our cruises and pricing in the industry. Our reputation and our business could also be damaged by negative publicity regarding the cruise industry in general, including publicity regarding the spread of contagious disease, over-tourism in key ports and destinations and the potentially adverse environmental impacts of cruising. The considerable expansion in the use of social and digital media over recent years has compounded the potential scope and reach of any negative publicity. If any such incident or news cycle occurs during a time of high seasonal demand, the effect could disproportionately impact our results of operations for the year. In addition, incidents involving cruise ships may result in additional costs to our business, increasing government or other regulatory oversight and, in certain cases, potential litigation.

Significant weather, climate events and/or natural disasters could adversely impact our business and results from operations.

Natural disasters (e.g. earthquakes), weather and/or climate events (including hurricanes and typhoons) could impact our source markets and operations resulting in travel restrictions, guest cancellations, an inability to source our crew or our provisions and supplies from certain places. We are often forced to alter itineraries and occasionally cancel a cruise or a series of cruises or to redeploy our ships due to these types of events, which could have an adverse effect on our sales, operating costs and profitability in the current and future periods. Increases in the frequency, severity or duration of these types of events could exacerbate their impact and cause further disruption to our operations or make certain destinations less desirable or unavailable impacting our revenues and profitability further. Any of the foregoing could have an adverse impact on our results of operations and on industry performance.

Disease outbreaks and an increase in concern about the risk of illness could adversely impact our business and results from operations.

Disease outbreaks and increased concern related to illness when travelling to, from, and on our ships could cause a drop in demand for cruises, guest cancellations, travel restrictions, an unavailability of ports and/or destinations, cruise cancellations, ship redeployments and an inability to source our crew, provisions or supplies from certain places. The recent coronavirus outbreak is currently having these impacts on our operations and, given its fluid and developing nature, has made it extremely difficult for us to forecast the impact it could have on our future operations. For instance, the resulting measures taken by China and other countries to contain the disease, including travel restrictions, have resulted in the cancellation or itinerary modification of an increasing number of our cruises in Southeast Asia. In addition, our imposition of measures to protect our guests and crew, including denying boarding to those that have traveled from, to or through mainland China or Hong Kong, has caused us to cancel cruise bookings or restrict certain guests from booking our cruises. All of these issues are having and are likely to continue to have a material impact on our bookings, operations and our overall financial performance.

An increase in capacity worldwide or excess capacity in a particular market could adversely impact our cruise sales and/or pricing.

Although our ships can be redeployed, cruise sales and/or pricing may be impacted by the introduction of new ships into the marketplace, reductions in cruise capacity, overall market growth and deployment decisions of ourselves and our competitors. As of December 31, 2019, a total of 67 new ships with approximately 159,000 berths are on order for delivery through 2024 in the cruise industry. The further net growth in capacity from these new ships and future orders, without an increase in the cruise industry's demand and/or share of the vacation market, could depress cruise prices and impede our ability to achieve yield improvement.

In addition, to the extent that we or our competitors deploy ships to a particular itinerary/region and the resulting capacity in that region exceeds the demand, we may lower pricing and profitability may be lower than anticipated. This risk exists in emerging cruise markets, where capacity has grown rapidly over the past few years and in mature markets where excess capacity is typically redeployed. Any of the foregoing could have an adverse impact on our results of operations, cash flows and financial condition, including potentially impairing the value of our ships and other assets.

Unavailability of ports of call may adversely affect our results of operations.

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 and destinations is affected by a number of factors, including industry demand and competition for key ports and destinations, existing capacity constraints, constraints related to the size of certain ships, security, financial limitations on port development, exclusivity arrangements that ports may have with our competitors, geopolitical developments and local governmental regulations. In addition, fuel costs may adversely impact the destinations on certain of our itineraries.

Increased demand and competition for key ports of call or destinations, limitations on the availability or feasibility of use of specific ports of call and/or constraints on the availability of shore excursions and other service providers at such ports or destinations could adversely affect our results of operations.

Growing anti-tourism sentiments and environmental concerns related to cruising could adversely impact our operations.

Certain ports and destinations are facing a surge of both cruise and non-cruise tourism which, in certain cases, has fueled anti-tourism sentiments and related countermeasures to limit the volume of tourists allowed in these destinations. In certain destinations, countermeasures to limit the volume of tourists are being contemplated and/or put into effect, including proposed limits on cruise ships and cruise passengers. For example, effective 2020, the local government of Dubrovnik, Croatia will cap the number of cruise ships that can dock each day to two and the number of corresponding passengers. Similar existing and potential restrictions in ports and destinations such as Venice and Barcelona could limit the itinerary and destination options we can offer our passengers going forward. Some environmental groups have also generated negative publicity about the environmental impact of the cruise vacation industry and are advocating for more stringent regulation of ship emissions at berth and at sea. These anti-tourism sentiments and growing environmental scrutiny of the cruise industry and any related countermeasures could adversely impact our operations and financial results and subject us to increasing compliance costs.

Our reliance on shipyards, their subcontractors and our suppliers to implement our newbuild and ship upgrade programs and to repair and maintain our ships exposes us to risks which, if realized, could adversely impact our business.

We rely on shipyards, their subcontractors and our suppliers to effectively construct our new ships and to repair, maintain and upgrade our existing ships on a timely basis and in a cost effective manner. There are a limited number of shipyards with the capability and capacity to build, repair, maintain and/or upgrade our ships.

Increased demand for available new construction slots and/or continued consolidation in the cruise shipyard industry could impact our ability to: (1) construct new ships, when and as planned, (2) cause us to continue to commit to new ship orders earlier than we have historically done so and/or (3) result in stronger bargaining power on the part of the shipyards and the export credit agencies providing financing for the project. Current market conditions characterized by limited shipyard capacity, high demand for shipyard and sub-contractor resources and the growing application of advanced technologies to newbuilds (e.g. LNG) could cause delays in ship deliveries and

scheduled drydocks across the industry. Our inability to timely and cost-effectively procure new capacity and the potential delay in ship deliveries and/or scheduled drydocks or modernizations could have a significant negative impact on our future business plans and results of operations.

Building, repairing, maintaining and/or upgrading a ship is also sophisticated work that involves significant risks. In addition, the prices of labor and/or various commodities that are used in the construction of ships can be subject to volatile price changes, including the impact of fluctuations in foreign exchange rates. Shipyards, their subcontractors and/or our suppliers may encounter financial, technical or design problems when doing these jobs. If materialized, these problems could impact the timely delivery or costs of new ships or the ability of shipyards to repair and upgrade our fleet in accordance with our needs or expectations. In addition, delays, mechanical faults and/or unforeseen incidents, such as the collapse of the drydock structure at the Grand Bahama Shipyard involving *Oasis of the Seas*, may result in cancellation of cruises or, in more severe situations, new ship orders, or necessitate unscheduled drydocks and repairs of ships. These events and any related adverse publicity could result in lost revenue, increased operating expenses, or both, and thus adversely affect our results of operations.

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, internet-based alternative lodging sites and package holidays and tours.

We face significant competition from other cruise lines on the basis of cruise pricing, travel agent preference and also in terms of the nature of ships, services and destinations that we offer to guests. Our principal competitors within the cruise vacation industry include Carnival Corporation & plc, which owns, among others, Aida Cruises, Carnival Cruise Line, Costa Cruises, Cunard Line, Holland America Line, P&O Cruises, Princess Cruises and Seabourn; Disney Cruise Line; MSC Cruises; and Norwegian Cruise Line Holdings Ltd, which owns Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises. Our revenues are sensitive to the actions of other cruise lines in many areas including pricing, scheduling, capacity and promotions, which can have a substantial adverse impact not only on our revenues, but on overall industry revenues.

In the event that we do not effectively market or differentiate our cruise brands from our competitors or otherwise compete effectively with other vacation alternatives and new or existing cruise companies, our results of operations and financial position could be adversely affected.

We may not be able to obtain sufficient financing or capital for our needs or may not be able to do so on terms that are acceptable or consistent with our expectations.

To fund our capital expenditures (including new ship orders), operations and scheduled debt payments, we have historically relied on a combination of cash flows provided by operations, drawdowns under available credit facilities, the incurrence of additional indebtedness and the sale of equity or debt securities in private or public securities markets. Any circumstance or event which leads to a decrease in consumer cruise spending, such as worsening global economic conditions or significant incidents impacting the cruise industry, could negatively affect our operating cash flows. See “-Adverse worldwide economic or other conditions...” and “-Incidents or adverse publicity concerning our ships and/or passengers or the cruise vacation industry...” for more information.

Although we believe we can access sufficient liquidity to fund our operations, investments and obligations as expected, there can be no assurances to that effect. Our ability to access additional funding as and when needed, our ability to timely refinance and/or replace our outstanding debt securities and credit facilities on acceptable terms and our cost of funding will depend upon numerous factors including, but not limited to, the vibrancy of the financial markets, our financial performance, the performance of our industry in general and the size, scope and timing of our financial needs. In addition, even where financing commitments have been secured, significant disruptions in the capital and credit markets could cause our banking and other counterparties to breach their contractual obligations to us. This could include failures of banks or other financial service companies to fund required borrowings under our loan agreements or to pay us amounts that may become due or return collateral that is refundable under our derivative contracts for hedging of fuel prices, interest rates and foreign currencies or other agreements. If any of the foregoing occurs it may have a negative impact on our cash flows, including our ability to meet our obligations, our results of operations and our financial condition.

Our liquidity could be adversely impacted if we are unable to satisfy the covenants required by our credit facilities.

Our debt agreements contain covenants, including covenants restricting our and their ability to take certain actions and financial covenants. Our ability to maintain our credit facilities may also be impacted by changes in our ownership base. More specifically, we may be required to prepay our bank financing facilities if any person acquires ownership of more than 50% of our common stock or, subject to certain exceptions, during any 24-month period, a majority of our board of directors is no longer comprised of individuals who were members of our board of directors on the first day of such period. Our public debt securities also contain change of control provisions that would be triggered by a third-party acquisition of greater than 50% of our common stock coupled with a ratings downgrade.

Failure to comply with the terms of these debt facilities could result in an event of default. Generally, if an event of default under any debt agreement occurs, then pursuant to cross default acceleration clauses, our outstanding debt and derivative contract payables could become due and/or terminated. In addition, in such events, our credit card processors could hold back payments to create a reserve. We cannot provide assurances that we would have sufficient liquidity to repay, or the ability to refinance the debt if such amounts were accelerated upon an event of default.

If we are unable to appropriately balance our cost management and capital allocation strategies with our goal of satisfying guest expectations, it may adversely impact our business success.

Our goals call for us to provide high quality products and deliver high quality services. There can be no assurance that we can successfully balance these goals with our cost management and capital allocation strategies. Our business also requires us to make capital allocation decisions across a broad scope of investment options with varying return profiles and time horizons for value realization. These include significant capital investment decisions such as ordering new ships, upgrading our existing fleet, enhancing our technology and/or data capabilities, and expanding our portfolio of land-based assets, based on expected market preferences, competition and projected demand. There can be no assurance that our strategies will be successful, which could adversely impact our business, financial condition and results of operations. Investments in older tonnage, in particular, run the risk of not meeting expected returns and diluting related asset values.

Our attempts to expand our business into new markets and new ventures may not be successful.

We opportunistically seek to grow our business through, among other things, expansion into new destinations or source markets and establishment of new ventures complementary to our current offerings. These attempts to expand our business increase the complexity of our business, require significant levels of investment and can strain our management, personnel, operations and systems. There can be no assurance that these business expansion efforts will develop as anticipated or that we will succeed, and if we do not, we may be unable to recover our investment, which could adversely impact our business, financial condition and results of operations.

Risks associated with our development and operation of key land-based destination projects may adversely impact our business or results of operations.

We have invested, and will continue to invest, either directly or indirectly through joint ventures and partnerships, in a growing portfolio of key land-based projects including port and terminal facilities, private destinations and multi-brand destination projects. These investments can increase our exposure to certain key risks depending on the scope, location, and the ownership and management structure of these projects. These risks include susceptibility to weather events, exposure to local political/regulatory developments and policies, logistical challenges and human resource and labor risks.

Our reliance on travel agencies to sell and market our cruises exposes us to certain risks which, if realized, could adversely impact our business.

We rely on travel agencies to generate the majority of bookings for our ships. Accordingly, we must ensure that our commission rates and incentive structures remain competitive. If we fail to offer competitive compensation packages or fail to maintain our relationships, these agencies may be incentivized to sell cruises offered by our competitors to our detriment, which could adversely impact our operating results. Our reliance on third-party sellers is particularly pronounced in certain markets. In addition, the travel agent industry is sensitive to economic

conditions that impact discretionary income of consumers. Significant disruptions, especially disruptions impacting those agencies that sell a high volume of our business, or contractions in the industry could reduce the number of travel agencies available for us to market and sell our cruises, which could have an adverse impact on our financial condition and results of operations.

Disruptions in our shoreside or shipboard operations or our information systems may adversely affect our results of operations.

Our principal executive office and principal shoreside operations are located in Florida, and we have shoreside offices throughout the world. Actual or threatened natural disasters (e.g., hurricanes/typhoons, earthquakes, tornadoes, fires or floods) or similar events in these locations may have a material impact on our business continuity, reputation and results of operations. In addition, substantial or repeated information system failures, computer viruses or cyber attacks impacting our shoreside or shipboard operations could adversely impact our business. We do not generally carry business interruption insurance for our shoreside or shipboard operations or our information systems. As such, any losses or damages incurred by us could have an adverse impact on our results of operations.

The loss of key personnel, our inability to recruit or retain qualified personnel, or disruptions among our shipboard personnel due to strained employee relations could adversely affect our results of operations.

Our success depends, in large part, on the skills and contributions of key executives and other employees, and on our ability to recruit, develop and retain high quality personnel as well as having adequate succession plans. As demand for qualified personnel in the industry grows, we must continue to effectively recruit, train, motivate and retain our employees, both shoreside and on our ships, in order to effectively compete in our industry, maintain our current business and support our projected global growth.

As of December 31, 2019, 89% of our shipboard employees were covered by collective bargaining agreements. A dispute under our collective bargaining agreements could result in a work stoppage of those employees covered by the agreements. We may not be able to satisfactorily renegotiate these collective bargaining agreements when they expire. In addition, existing collective bargaining agreements may not prevent a strike or work stoppage on our ships. We may also be subject to or affected by work stoppages unrelated to our business or collective bargaining agreements. Any such work stoppages or potential work stoppages could have a material adverse effect on our financial results, as could a loss of key employees, our inability to recruit or retain qualified personnel or disruptions among our personnel.

Business activities that involve our co-investments with third parties may subject us to additional risks.

Partnerships, joint ventures and other business structures involving our co-investments with third parties generally include some form of shared control over the operations of the business and create additional risks, including the possibility that other investors in such ventures could become bankrupt or otherwise lack the financial resources to meet their obligations, or could have or develop business interests, policies or objectives that are inconsistent with ours. In addition to financial risks, our co-investment activities may also present managerial and operational risks and expose us to reputational or legal concerns. These or other issues related to our co-investments with third parties could adversely impact our operations.

Past or pending business acquisitions or potential acquisitions that we may decide to pursue in the future carry inherent risks which could adversely impact our financial performance and condition.

The Company, from time to time, has engaged in acquisitions (e.g., our Silversea Cruises acquisition) and may pursue acquisitions in the future, which are subject to, among other factors, the Company's ability to identify attractive business opportunities and to negotiate favorable terms for such opportunities. Accordingly, the Company cannot make any assurances that potential acquisitions will be completed timely or at all, or that if completed, we would realize the anticipated benefits of such acquisition. Acquisitions also carry inherent risks such as, among others: (1) the potential delay or failure of our efforts to successfully integrate business processes and realizing expected synergies; (2) difficulty in aligning procedures, controls and/or policies; and (3) future unknown liabilities and costs that may be associated with an acquisition. In addition, acquisitions may also adversely impact our liquidity and/or debt levels, and the recognized value of goodwill and other intangible assets can be negatively

affected by unforeseen events and/or circumstances, which may result in an impairment charge. Any of the foregoing events could adversely impact our financial condition and results of operations.

We rely on supply chain vendors and third-party service providers who are integral to the operations of our businesses. These vendors and service providers may be unable or unwilling to deliver on their commitments or may act in ways that could harm our business.

We rely on supply chain vendors to deliver key products to the operations of our businesses around the world. Any event impacting a vendor's ability to deliver goods of the expected quality at the location and time needed could negatively impact our ability to deliver our cruise experience. Events impacting our supply chain could be caused by factors beyond the control of our suppliers or us, including inclement weather, natural disasters, increased demand, problems in production or distribution and/or disruptions in third-party logistics or transportation systems, such as those caused by the recent coronavirus. Interruptions to our supply chain could increase costs and could limit the availability of products critical to our operations.

In order to achieve cost and operational efficiencies, we outsource to third-party vendors certain services that are integral to the operations of our global businesses, such as our onboard concessionaires, certain of our call center operations and operation of a large part of our information technology systems. We are subject to the risk that certain decisions are subject to the control of our third-party service providers and that these decisions may adversely affect our activities. A failure to adequately monitor a third-party service provider's compliance with a service level agreement or regulatory or legal requirements could result in significant economic and reputational harm to us. There is also a risk the confidentiality, privacy and/or security of data held by third parties or communicated over third-party networks or platforms could become compromised.

If we are unable to keep pace with developments in technology or technological obsolescence, our operations or competitive position could become impaired.

Our business continues to demand the use of sophisticated technology and systems. These technologies and systems require significant investment and must be proven, refined, updated, upgraded and/or replaced with more advanced systems in order to continue to meet our customers' demands and expectations. If we are unable to do so in a timely manner or within reasonable cost parameters or if we are unable to appropriately and timely train our employees to operate any of these new systems, our business could suffer. We also may not achieve the benefits that we anticipate from any new technology or system, which could result in higher than anticipated costs or impair our operating results.

We are exposed to cyber security attacks and data breaches, including the risks and costs associated with protecting our systems and maintaining integrity and security of our business information, as well as personal data of our guests, employees and business partners.

We are subject to cyber security attacks. These cyber attacks can vary in scope and intent from attacks with the objective of compromising our systems, networks and communications for economic gain to attacks with the objective of disrupting, disabling or otherwise compromising our maritime and/or shoreside operations. The attacks can encompass a wide range of methods and intent, including phishing attacks, illegitimate requests for payment, theft of intellectual property, theft of confidential or non-public information, installation of malware, installation of ransomware and theft of personal or business information. The breadth and scope of these attacks, as well as the techniques and sophistication used to conduct these attacks, have grown over time.

A successful cyber security attack may target us directly, or it may be the result of a third party's inadequate care. In either scenario, the Company may suffer damage to its systems and data that could interrupt our operations, adversely impact our reputation and brand and expose us to increased risks of governmental investigation, litigation, fines and other liability, any of which could adversely affect our business. Furthermore, responding to such an attack and mitigating the risk of future attacks could result in additional operating and capital costs in systems technology, personnel, monitoring and other investments.

In addition, we are also subject to various risks associated with the collection, handling, storage and transmission of sensitive information. In the course of doing business, we collect large volumes of employee, customer and other third-party data, including personally identifiable information and individual credit data, for various business purposes. We are subject to federal, state and international laws (including the European Union

General Data Protection Regulation), as well as industry standards, relating to the collection, use, retention, security and transfer of personally identifiable information and individual credit data. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between the Company and its subsidiaries, and among the Company, its subsidiaries and other parties with which the Company has commercial relations. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements has caused, and may cause us to incur substantial costs or require us to change our business practices. If we fail to comply with the various applicable data collection and privacy laws, we could be exposed to fines, penalties, restrictions, litigation or other expenses, and our business could be adversely impacted.

While we continue to evolve our cyber security practices in line with our business' reliance on technology and the changing external threat landscape, and we invest time, effort and financial resources to secure our systems, networks and communications, our security measures cannot provide absolute assurance that we will be successful in preventing or responding to all cyber security attacks. There can be no assurance that any breach or incident will not have a material impact on our operations and financial results.

Any breach, theft, loss, or fraudulent use of guest, employee, third-party or company data, could adversely impact our reputation and brand and our ability to retain or attract new customers, and expose us to risks of data loss, business disruption, governmental investigation, litigation and other liability, any of which could adversely affect our business. Significant capital investments and other expenditures could be required to remedy the problem and prevent future breaches, including costs associated with additional security technologies, personnel, experts and credit monitoring services for those whose data has been breached. Further, if we or our vendors experience significant data security breaches or fail to detect and appropriately respond to significant data security breaches, we could be exposed to government enforcement actions and private litigation.

The potential unavailability of insurance coverage, an inability to obtain insurance coverage at commercially reasonable rates or our failure to have coverage in sufficient amounts to cover our incurred losses may adversely affect our financial condition or results of operations.

We seek to maintain appropriate insurance coverage at commercially reasonable rates. We normally insure based on the cost of an asset rather than replacement value and we also elect to self-insure, co-insure, or use deductibles in certain circumstances for certain risks such as loss of use of a ship or a cyber security breach. The limits of insurance coverage we purchase are based on the availability of the coverage, evaluation of our risk profile and cost of coverage. Accordingly, we are not protected against all risks and we cannot be certain that our coverage will be adequate for liabilities actually incurred which could result in an unexpected decrease in our revenue and results of operations in the event of an incident.

We are members of four Protection and Indemnity ("P&I") clubs, which are part of a worldwide group of 13 P&I clubs, known as the International Group of P&I Clubs (the "IG"). P&I coverage provided by the clubs is on a mutual basis and we are subject to additional premium calls in the event of a catastrophic loss incurred by any member of the 13 P&I clubs, whereby the reinsurance limits purchased by the IG are exhausted. We are also subject to additional premium calls based on investment and underwriting shortfalls experienced by our own individual insurers.

We cannot be certain that insurance and reinsurance coverage will be available to us and at commercially reasonable rates in the future or at all or, if available, that it will be sufficient to cover potential claims. Additionally, if we or other insureds sustain significant losses, the result may be higher insurance premiums, cancellation of coverage, or the inability to obtain coverage. Such events could adversely affect our financial condition or results of operations.

Environmental, labor, health and safety, financial responsibility and other maritime regulations could affect operations and increase operating costs.

The United States and various state and foreign government or regulatory agencies have enacted or may enact environmental regulations or policies, such as requiring the use of low sulfur fuels (e.g. IMO 2020), that could increase our direct cost to operate in certain markets, increase our cost for fuel, limit the supply of compliant fuel, cause us to incur significant expenses to purchase and/or develop new equipment and adversely impact the cruise

vacation industry. While we have taken and expect to continue to take a number of actions to mitigate the potential impact of certain of these regulations, there can be no assurances that these efforts will be successful or completed on a timely basis.

There is increasing global regulatory focus on climate change, greenhouse gas (GHG) and other emissions. These regulatory efforts, both internationally and in the United States are still developing, and we cannot yet determine what the final regulatory programs or their impact will be in any jurisdiction where we do business. However, such climate change-related regulatory activity in the future may adversely affect our business and financial results by requiring us to reduce our emissions, purchase allowances or otherwise pay for our emissions. Such activity may also impact us by increasing our operating costs, including fuel costs.

In addition, we are subject to various international, national, state and local laws, regulations and treaties that govern, among other things, discharge from our ships, safety standards applicable to our ships, treatment of disabled persons, health and sanitary standards applicable to our guests, security standards on board our ships and at the ship/port interface areas, and financial responsibilities to our guests. These issues are, and we believe will continue to be, an area of focus by the relevant authorities throughout the world. This could result in the enactment of more stringent regulation of cruise ships that could subject us to increasing compliance costs in the future.

A change in our tax status under the United States Internal Revenue Code, or other jurisdictions, may have adverse effects on our income.

We and a number of our subsidiaries are foreign corporations that derive income from a U.S. trade or business and/or from sources within the United States. In connection with the year end audit, each year, Drinker Biddle & Reath LLP, our U.S. tax counsel, delivers to us an opinion, based on certain representations and assumptions set forth in it, to the effect that this income, to the extent derived from or incidental to the international operation of a ship or ships, is excluded from gross income for U.S. federal income tax purposes pursuant to Section 883 of the Internal Revenue Code. We believe that most of our income (including that of our subsidiaries) is derived from or incidental to the international operation of ships.

Our ability to rely on Section 883 could be challenged or could change in the future. Provisions of the Internal Revenue Code, including Section 883, are subject to legislative change at any time. Moreover, changes could occur in the future with respect to the identity, residence or holdings of our direct or indirect shareholders, trading volume or trading frequency of our shares, or relevant foreign tax laws of Liberia or Bahamas, such that they no longer qualify as equivalent exemption jurisdictions, that could affect our eligibility for the Section 883 exemption. Accordingly, there can be no assurance that we will continue to be exempt from U.S. income tax on U.S. source shipping income in the future. If we were not entitled to the benefit of Section 883, we and our subsidiaries would be subject to U.S. taxation on a portion of the income derived from or incidental to the international operation of our ships, which would reduce our net income.

Additionally, portions of our business are operated by companies that are within the United Kingdom tonnage tax regime. Further, some of our operations are conducted in jurisdictions where we rely on tax treaties to provide exemption from taxation. To the extent the United Kingdom tonnage tax laws change or we do not continue to meet the applicable qualification requirements or if tax treaties are changed or revoked, we may be required to pay higher income tax in these jurisdictions, adversely impacting our results of operations.

As budgetary constraints continue to adversely impact the jurisdictions in which we operate, increases in income tax regulations, tax audits or tax reform affecting our operations may be imposed.

Litigation, enforcement actions, fines or penalties could adversely impact our financial condition or results of operations and/or damage our reputation.

Our business is subject to various United States and international laws and regulations that could lead to enforcement actions, fines, civil or criminal penalties or the assertion of litigation claims and damages. In addition, improper conduct by our employees, agents or joint venture partners could damage our reputation and/or lead to litigation or legal proceedings that could result in civil or criminal penalties, including substantial monetary fines. In certain circumstances it may not be economical to defend against such matters and/or our legal strategy may not ultimately result in us prevailing in a matter. Such events could lead to an adverse impact on our financial condition or results of operations.

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 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. As such, 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 certain United States jurisdictions. For example, the right of shareholders to bring a derivative action in Liberian courts may be more limited than in United States jurisdictions. There may also be practical difficulties for shareholders attempting to bring suit in Liberia and Liberian courts may or may not recognize and enforce foreign judgments. Thus, our public shareholders may have more difficulty in protecting their interests with respect to actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

Provisions of our Articles of Incorporation, By-Laws and Liberian law could inhibit others from acquiring us, prevent a change of control, and may prevent efforts by our shareholders to change our management.

Certain provisions of our Articles of Incorporation and By-Laws and Liberian law may inhibit third parties from effectuating a change of control of the Company without approval from our board of directors which could result in the entrenchment of current management. These include provisions in our Articles of Incorporation that prevent third parties, other than A. Wilhelmsen AS. and Cruise Associates, from acquiring beneficial ownership of more than 4.9% of our outstanding shares without the consent of our board of directors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Information about our cruise ships, including their size and primary areas of operation, may be found within the *Operating Strategies - Fleet upgrade, maintenance and expansion* section and the *Operations - Cruise Ships and Itineraries* sections in Item 1. *Business*. Information regarding our cruise ships under construction, estimated expenditures and financing may be found within the *Future Capital Commitments* and *Funding Needs and Sources* sections of Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Our principal executive office and principal shoreside operations are located in leased office buildings at the Port of Miami, Florida. We also lease a number of other offices in the U.S. and throughout Europe, Asia, Mexico, South America and Australia to administer our brand operations globally.

We believe that our facilities are adequate for our current needs and that we are capable of obtaining additional facilities as necessary.

We also operate two private destinations which we utilize as ports-of-call on certain itineraries: (i) an island we own in the Bahamas which we call CocoCay; and (ii) Labadee, a secluded peninsula we lease on the north coast of Haiti.

Item 3. Legal Proceedings

On August 27, 2019, two lawsuits were filed against Royal Caribbean Cruises Ltd. in the U.S. District Court for the Southern District of Florida under Title III of the Cuban Liberty and Democratic Solidarity Act, also known as the Helms-Burton Act. The complaint filed by Havana Docks Corporation alleges it holds an interest in the Havana Cruise Port Terminal and the complaint filed by Javier Garcia-Bengochea alleges that he holds an interest in the Port of Santiago, Cuba, both of which were expropriated by the Cuban Government. The complaints further allege that Royal Caribbean Cruises Ltd. trafficked in those properties by embarking and disembarking passengers at these facilities. The plaintiffs seek all available statutory remedies, including the value of the expropriated property, plus interest, treble damages, attorneys' fees and costs. Royal Caribbean Cruises Ltd. filed its answer to each complaint on October 4, 2019. We believe we have meritorious defenses to the claims, and we intend to vigorously defend ourselves against them. We believe that it is unlikely that the outcome of these matters will have a material adverse impact to our financial condition, results of operations or cash flows. However, the outcome of litigation is inherently unpredictable and subject to significant uncertainties, and there can be no assurances that the final outcome of this case will not be material.

We are routinely involved in claims typical within the travel and tourism industry. The majority of these claims are covered by insurance. Although the outcome of any litigation is inherently unpredictable and subject to significant uncertainties, we believe it is unlikely that the outcome of such claims, net of expected insurance recoveries, will have a material adverse impact on our financial condition, results of operations and cash flows.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "RCL."

Holders

As of February 21, 2020, there were 1,318 record holders of our common stock. Since certain of our shares are held by brokers and other institutions on behalf of shareholders, the foregoing number is not representative of the number of beneficial owners.

Dividends

Holders of our common stock have an equal right to share in our profits in the form of dividends when and if declared by our board of directors out of funds legally available. Holders of our common stock have no rights to any sinking fund.

There are no exchange control restrictions on remittances of dividends on our common stock since (1) we are and intend to maintain our status as a nonresident Liberian entity under the Liberia Revenue Code of 2000 as Amended and the regulations thereunder, and (2) our ship-owning subsidiaries are not now engaged, and are not in the future expected to engage, in any business in Liberia, including voyages exclusively within the territorial waters of the Republic of Liberia. Under current Liberian law, no Liberian taxes or withholding will be imposed on payments to holders of our securities other than to a holder that is a resident Liberian entity or a resident individual or an individual or entity subject to taxation in Liberia as a result of having a permanent establishment within the meaning of the Liberia Revenue Code of 2000 as Amended in Liberia.

The declaration of dividends shall at all times be subject to the final determination of our board of directors that a dividend is prudent at that time in consideration of the needs of the business. Refer to Note 12. *Shareholders' Equity* to our consolidated financial statements under Item 8. *Financial Statements and Supplemental Data* for further information on dividends declared.

Share Repurchases

The following table presents the total number of shares of our common stock that we repurchased during the quarter ended December 31, 2019:

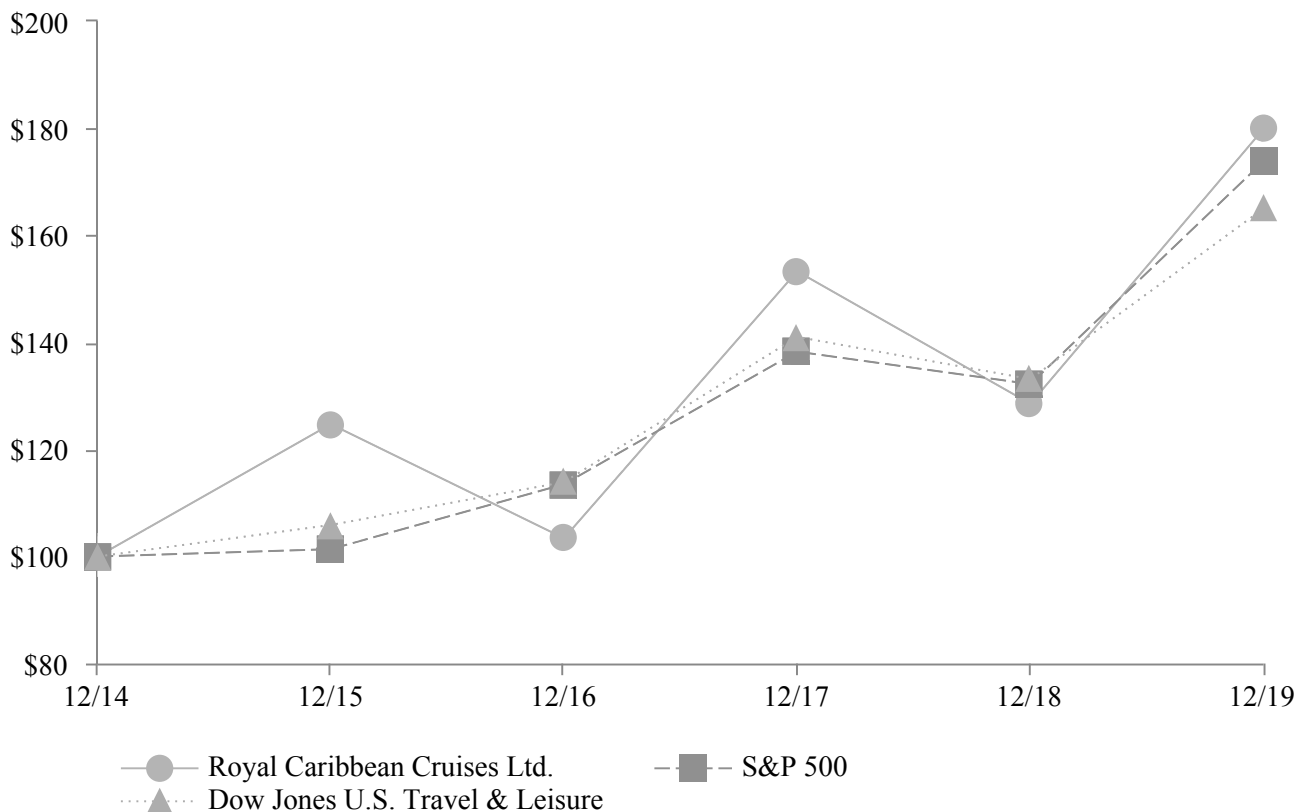
Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
October 1, 2019 - October 31, 2019	—	—	—	\$ 700,000,000
November 1, 2019 - November 30, 2019	859,701	\$ 115.83	859,701	\$ 600,417,000
December 1, 2019 - December 31, 2019	—	—	—	\$ 600,417,000
Total	859,701		859,701	

As of December 31, 2019, we have approximately \$600.0 million that remains available for future common stock repurchase transactions under a 24-month common stock repurchase program for up to \$1.0 billion authorized by our board of directors on May 9, 2018. Refer to Note 12. *Shareholders' Equity* to our consolidated financial statements under Item 8. *Financial Statements and Supplemental Data* for further information.

Performance Graph

The following graph compares the total return, assuming reinvestment of dividends, on an investment in the Company, based on performance of the Company's common stock, with the total return of the Standard & Poor's 500 Composite Stock Index ("S&P 500") and the Dow Jones United States Travel and Leisure Index for a five year period by measuring the changes in common stock prices from December 31, 2014 to December 31, 2019.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Royal Caribbean Cruises Ltd., the S&P 500 Index and the Dow Jones U.S. Travel & Leisure Index**



	12/14	12/15	12/16	12/17	12/18	12/19
Royal Caribbean Cruises Ltd.	100.00	124.74	103.42	153.30	128.55	179.92
S&P 500	100.00	101.38	113.51	138.29	132.23	173.86
Dow Jones U.S. Travel & Leisure	100.00	105.90	113.92	141.05	133.16	165.04

The stock performance graph assumes for comparison that the value of the Company's common stock and of each index was \$100 on December 31, 2014 and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

Item 6. Selected Financial Data

The selected consolidated financial data presented below for the years ended December 31, 2015 through December 31, 2019 and as of the end of each such year, except for Adjusted Net Income amounts, are derived from our audited consolidated financial statements and should be read in conjunction with those financial statements and the related notes as well as in conjunction with Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

	Year Ended December 31,				
	2019	2018 ⁽¹⁾	2017	2016	2015
(in thousands, except per share data)					
Operating Data:					
Total revenues	\$ 10,950,661	\$ 9,493,849	\$ 8,777,845	\$ 8,496,401	\$ 8,299,074
Operating Income	\$ 2,082,701	\$ 1,894,801	\$ 1,744,056	\$ 1,477,205	\$ 874,902
Net Income ⁽²⁾	\$ 1,907,600	\$ 1,815,792	\$ 1,625,133	\$ 1,283,388	\$ 665,783
Net Income attributable to Royal Caribbean Cruises Ltd.	\$ 1,878,887	\$ 1,811,042	\$ 1,625,133	\$ 1,283,388	\$ 665,783
Adjusted Net Income attributable to Royal Caribbean Ltd. ⁽³⁾⁽⁴⁾⁽⁵⁾	\$ 2,002,847	\$ 1,873,363	\$ 1,625,133	\$ 1,314,689	\$ 1,065,066
Per Share Data—Basic:					
Net Income attributable to Royal Caribbean Cruises Ltd.	\$ 8.97	\$ 8.60	\$ 7.57	\$ 5.96	\$ 3.03
Adjusted Net Income attributable to Royal Caribbean Cruises Ltd.	\$ 9.56	\$ 8.90	\$ 7.57	\$ 6.10	\$ 4.85
Weighted-average shares	209,405	210,570	214,617	215,393	219,537
Per Share Data—Diluted:					
Net Income attributable to Royal Caribbean Cruises Ltd.	\$ 8.95	\$ 8.56	\$ 7.53	\$ 5.93	\$ 3.02
Adjusted Net Income attributable to Royal Caribbean Cruises Ltd.	\$ 9.54	\$ 8.86	\$ 7.53	\$ 6.08	\$ 4.83
Weighted-average shares and potentially dilutive shares	209,930	211,554	215,694	216,316	220,689
Dividends declared per common share	\$ 2.96	\$ 2.60	\$ 2.16	\$ 1.71	\$ 1.35
Balance Sheet Data:					
Total assets ⁽⁶⁾⁽⁷⁾	\$ 30,320,284	\$ 27,698,270	\$ 22,360,926	\$ 22,310,324	\$ 20,782,043
Total debt, including commercial paper and capital leases	\$ 11,034,876	\$ 10,777,699	\$ 7,539,451	\$ 9,387,436	\$ 8,527,243
Common stock	\$ 2,365	\$ 2,358	\$ 2,352	\$ 2,346	\$ 2,339
Total shareholders' equity	\$ 12,163,846	\$ 11,105,461	\$ 10,702,303	\$ 9,121,412	\$ 8,063,039

- (1) On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruise Holding Ltd ("Silversea Cruises"). Refer to Note 3. *Business Combination* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for information on the Silversea Cruises acquisition.
- (2) Amount for 2017 includes a gain of \$30.9 million related to the sale of *Legend of the Seas*.
- (3) For 2019, 2018 and 2017, refer to *Financial Presentation and Results of Operations* under Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* for the definition of Adjusted Net Income and a reconciliation of Adjusted Net Income to Net income.
- (4) Amount for 2016 excludes the net loss related to the elimination of the Pullmantur reporting lag of \$21.7 million, the net gain related to the sale of the Pullmantur and CDF Croisieres de France brands of \$3.8 million, restructuring charges of \$8.5 million and other initiative costs of \$5.0 million.
- (5) Amount for 2015 excludes the impairment of Pullmantur related assets of \$399.3 million.
- (6) We reclassified prepaid commissions of \$64.6 million from *Customer deposits* to *Prepaid expenses and other assets* in our consolidated balance sheet as of December 31, 2017 in order to conform to the current year presentation.

- (7) Upon adoption of the new Lease accounting guidance effective January 1, 2019, we recognized right-of-use assets relating to operating leases within *Operating lease right-of-use assets* in our consolidated balance sheet. As of December 31, 2019, we reported *Operating lease right-of-use assets* of \$687.6 million in our consolidated balance sheet. The comparative information presented has not been recast and continues to be reported under the accounting standards in effect for those periods. For further information on leases, refer to Note 10. *Leases*.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Concerning Forward-Looking Statements

The discussion under this caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this document, includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance (including our expectations for the first quarter and full year of 2020, our earnings and yield estimates for 2020 set forth under the heading "Outlook" below and our goals for our *2020-25 by 2025* program), business and industry prospects or future results of operations or financial position, made in this Annual Report on Form 10-K are forward-looking. Words such as "anticipate," "believe," "could," "estimate," "expect," "goal," "intend," "may," "plan," "project," "seek," "should," "will," "driving" and similar expressions are intended to further identify any of these forward-looking statements. Forward-looking statements reflect management's current expectations but they are based on judgments and are inherently uncertain. Furthermore, they are subject to risks, uncertainties and other factors that could cause our actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in those forward-looking statements. Examples of these risks, uncertainties and other factors include, but are not limited to, those discussed in this Annual Report on Form 10-K and, in particular, the risks discussed under the caption "Risk Factors" in Part I, Item 1A herein.

All forward-looking statements made in this Annual Report on Form 10-K speak only as of the date of this document. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

The discussion and analysis of our financial condition and results of operations is organized to present the following:

- a review of our critical accounting policies and of our financial presentation, including discussion of certain operational and financial metrics we utilize to assist us in managing our business;
- a discussion of our results of operations for the year ended December 31, 2019 compared to the same period in 2018 and the year ended December 31, 2018 compared to the same period in 2017;
- a discussion of our business outlook, including our expectations for selected financial items for the first quarter and full year of 2020; and
- a discussion of our liquidity and capital resources, including our future capital and contractual commitments and potential funding sources.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). (Refer to Note 1. *General* and Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data*). Certain of our accounting policies are deemed "critical," as they require management's highest degree of judgment, estimates and assumptions. We have discussed these accounting policies and estimates with the audit committee of our board of directors. We believe our most critical accounting policies are as follows:

Ship Accounting

Ships represent our most significant assets and are stated at cost less accumulated depreciation and amortization. Depreciation of ships is generally computed net of a 10%-15% projected residual value, using the straight-line method over the estimated useful life of the asset, which is generally 30-35 years. The 30-35 year useful life and 10%-15% residual value is the weighted-average of all major components of a ship. Our useful life and residual value estimates take into consideration the impact of anticipated technological changes, long-term cruise and vacation market conditions and historical useful lives of similarly-built ships. In addition, we take into consideration our estimates of the weighted-average useful lives of the ships' major component systems, such as hull, superstructure, main electric, engines and cabins. We employ a cost allocation methodology at the component level, in order to support the estimated weighted-average useful lives and residual values, as well as to determine the net cost basis of assets being replaced. Given the very large and complex nature of our ships, our accounting estimates related to ships and determinations of ship improvement costs to be capitalized require considerable judgment and are inherently uncertain. We do not have cost segregation studies performed to specifically componentize our ship systems. However, we estimate the costs, useful lives and residual values of component systems based principally on general and technical information known about major ship component systems and their lives, as well as our knowledge of the cruise vacation industry. We do not identify and track depreciation by ship component systems, but instead utilize these estimates to determine the net cost basis of assets replaced or refurbished. Improvement costs that we believe add value to our ships are capitalized as additions to the ship and depreciated over the shorter of the improvements' estimated useful lives or that of the associated ship. The estimated cost and accumulated depreciation of replaced or refurbished ship components are written off and any resulting losses are recognized within *Cruise operating expenses* in our Consolidated Statements of Comprehensive Income (Loss).

We periodically review estimated useful lives and residual values for ongoing reasonableness, considering long term views on our intended use of each class of ships and the planned level of improvements to maintain and enhance vessels within those classes. In the event a factor is identified that may trigger a change in the estimated useful lives and residual values of our ships, a review of the estimate is completed. In the fourth quarter of 2019, we completed a modernization of the *Oasis of the Seas* under our ship upgrade program. The level of capital investment, as well as planned investment levels in the other ships within the Oasis class, triggered a review of the estimated useful lives and residual values of the Oasis-class ships. Following a review of the estimate, considering the intended use of the vessel and assessment of the estimated lives of component assets forming the Oasis class ships, we concluded a change to the estimated lives and residual values of Oasis class ships was required. Effective fourth quarter of 2019, we revised the estimated useful lives and residual values of the Oasis-class ships from 30 years with a 15% residual value to 35 years with a 10% residual value. The change in the estimated useful lives and residual values was accounted for prospectively as a change in accounting estimate. For further information regarding this change in accounting estimate, refer to Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data*.

We use the deferral method to account for drydocking costs. Under the deferral method, drydocking costs incurred are deferred and charged to expense on a straight-line basis over the period to the next scheduled drydock, which we estimate to be a period of thirty to sixty months based on the vessel's age as required by Class. Deferred drydock costs consist of the costs to drydock the vessel and other costs incurred in connection with the drydock which are necessary to maintain the vessel's Class certification. Class certification is necessary in order for our cruise ships to be flagged in a specific country, obtain liability insurance and legally operate as passenger cruise ships. The activities associated with those drydocking costs cannot be performed while the vessel is in service and, as such, are done during a drydock as a planned major maintenance activity. The significant deferred drydock costs consist of hauling and wharfage services provided by the drydock facility, hull inspection and related activities (e.g., scraping, pressure cleaning, bottom painting), maintenance to steering propulsion, thruster equipment and ballast

tanks, port services such as tugs, pilotage and line handling, and freight associated with these items. We perform a detailed analysis of the various activities performed for each drydock and only defer those costs that are directly related to planned major maintenance activities necessary to maintain Class. The costs deferred are related to activities not otherwise routinely periodically performed to maintain a vessel's designed and intended operating capability. Repairs and maintenance activities are charged to expense as incurred.

We use judgment when estimating the period between drydocks, which can result in adjustments to the estimated amortization of drydock costs. If the vessel is disposed of before the next drydock, the remaining balance in deferred drydock is written-off to the gain or loss upon disposal of vessel in the period in which the sale takes place. We also use judgment when identifying costs incurred during a drydock which are necessary to maintain the vessel's Class certification as compared to those costs attributable to repairs and maintenance which are expensed as incurred.

We believe we have made reasonable estimates for ship accounting purposes. However, should certain factors or circumstances cause us to revise our estimates of ship useful lives or projected residual values, depreciation expense could be materially higher or lower. If circumstances cause us to change our assumptions in making determinations as to whether ship improvements should be capitalized, the amounts we expense each year as repairs and maintenance costs could increase, partially offset by a decrease in depreciation expense. If we had reduced our estimated average ship useful life by one year, depreciation expense for 2019 would have increased by approximately \$129.3 million. If our ships were estimated to have no residual value, depreciation expense for 2019 would have increased by approximately \$325.1 million.

Business Combinations

On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruises for \$1.02 billion in cash and contingent consideration. Refer to Note 3. *Business Combination* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information on the acquisition.

We account for business combinations in accordance with ASC 805, *Business Combinations*, by applying the acquisition method of accounting. The acquisition method of accounting requires that we record the assets acquired and liabilities assumed, and the noncontrolling interest, if any, at their respective fair values at the acquisition date. Goodwill is recognized as the excess of the purchase price over the fair value of the net assets acquired. Significant estimates and assumptions are made by management to value such assets and liabilities based on third party valuations such as appraisals or internal valuations based on discounted cash flow analyses or other valuation techniques. Although we believe that those estimates and assumptions are reasonable and appropriate, they are inherently uncertain and subject to change. If during the measurement period (not to exceed one year), additional information is obtained about facts and circumstances that existed as of the acquisition date related to the fair value of the assets acquired and liabilities assumed, we may adjust our estimates to account for subsequent adjustments to the provisional amounts recognized at the acquisition date, resulting in an offsetting adjustment to the goodwill associated with the business acquired.

Uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. We continue to collect information and reevaluate these estimates and assumptions quarterly. We will record any adjustments to our preliminary estimates to goodwill, provided that we are within the one-year measurement period. Our purchase price measurement period for the Silversea Cruises acquisition was closed during 2019.

Any contingent consideration is estimated at fair value at the acquisition date. Liability-classified contingent consideration is remeasured each reporting period, with changes in fair value recognized in earnings until the contingent consideration is settled.

Valuation of Goodwill, Indefinite-Lived Intangible Assets and Long-Lived Assets

We review goodwill and indefinite-lived intangible assets for impairment at the reporting unit level annually or, when events or circumstances dictate, more frequently. The impairment review for goodwill consists of a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying amount, and if necessary, a two-step goodwill impairment test. Factors to consider when performing the qualitative assessment include general economic conditions, limitations on accessing capital, changes in forecasted operating results, changes in fuel prices and fluctuations in foreign exchange rates. If the qualitative assessment demonstrates

that it is more-likely-than-not that the estimated fair value of the reporting unit exceeds its carrying value, it is not necessary to perform the two-step goodwill impairment test. We may elect to bypass the qualitative assessment and proceed directly to step one, for any reporting unit, in any period. On a periodic basis, we elect to bypass the qualitative assessment and proceed to step one to corroborate the results of recent years' qualitative assessments. We can resume the qualitative assessment for any reporting unit in any subsequent period.

When performing the two-step goodwill impairment test, the fair value of the reporting unit is determined and compared to the carrying value of the net assets allocated to the reporting unit. We estimate the fair value of our reporting units using a probability-weighted discounted cash flow model. The estimation of fair value utilizing discounted expected future cash flows includes numerous uncertainties which require our significant judgment when making assumptions of expected revenues, operating costs, marketing, selling and administrative expenses, interest rates, ship additions and retirements as well as assumptions regarding the cruise vacation industry's competitive environment and general economic and business conditions, among other factors. The principal assumptions we use in the discounted cash flow model are projected operating results, weighted-average cost of capital, and terminal value. The discounted cash flow model uses the most current projected operating results for the upcoming fiscal year as a base. To that base, we add future years' cash flows assuming multiple revenue and expense scenarios that reflect the impact of different global economic environments beyond the base year on the reporting unit. We discount the projected cash flows using rates specific to the reporting unit based on its weighted-average cost of capital. If the fair value of the reporting unit exceeds its carrying value, no further analysis or write-down of goodwill is required. If the fair value of the reporting unit is less than the carrying value of its net assets, the implied fair value of the reporting unit is allocated to all its underlying assets and liabilities, including both recognized and unrecognized tangible and intangible assets, based on their fair value. If necessary, goodwill is then written down to its implied fair value.

The impairment review for indefinite-life intangible assets can be performed using a qualitative or quantitative impairment assessment. The quantitative assessment consists of a comparison of the fair value of the asset with its carrying amount. We estimate the fair value of these assets using a discounted cash flow model and various valuation methods depending on the nature of the intangible asset, such as the relief-from-royalty method for trademarks and trade names. If the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. If the fair value exceeds its carrying amount, the indefinite-life intangible asset is not considered impaired. Other intangible assets assigned finite useful lives are amortized on a straight-line basis over their estimated useful lives. Refer to Note 6. *Intangible Assets* to our consolidated financial statements under Item 8. *Financial Statements and Supplemental Data* for further information on indefinite-life intangible assets.

We review our ships and other long-lived assets for impairment whenever events or changes in circumstances indicate, based on estimated undiscounted future cash flows, that the carrying amount of these assets may not be fully recoverable. We evaluate asset impairment at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The lowest level for which we maintain identifiable cash flows that are independent of the cash flows of other assets and liabilities is at the ship level for our ships and, prior to the sale of the aircraft, at the aggregated asset group level for our aircraft. If estimated future cash flows are less than the carrying value of an asset, an impairment charge is recognized to the extent its carrying value exceeds fair value.

We estimate fair value based on quoted market prices in active markets, if available. If active markets are not available, we base fair value on independent appraisals, sales price negotiations and projected future cash flows discounted at a rate estimated by management to be commensurate with the business risk. Quoted market prices are often not available for individual reporting units and for indefinite-life intangible assets. Accordingly, we estimate the fair value of a reporting unit and an indefinite-life intangible asset using an expected present value technique.

Royal Caribbean International

During the fourth quarter of 2019, we performed a qualitative assessment of the Royal Caribbean International reporting unit. Based on our qualitative assessment, we concluded that it was more-likely-than-not that the estimated fair value of the Royal Caribbean International reporting unit exceeded its carrying value and thus, we did not proceed to the two-step goodwill impairment test. No indicators of impairment exist primarily because the reporting unit's fair value has consistently exceeded its carrying value by a significant margin and forecasts of operating results expected to be generated by the reporting unit appear sufficient to support its carrying value. As of

December 31, 2019, the carrying amount of goodwill attributable to our Royal Caribbean reporting unit was \$299.2 million.

Silversea Cruises

The goodwill for the Silversea Cruises reporting unit was recorded at fair value at July 31, 2018, the acquisition date. Refer to Note 3. *Business Combination* to our consolidated financial statements under Item 8. *Financial Statements and Supplemental Data* for further information on the Silversea Cruises acquisition. During the fourth quarter of 2019, we performed a qualitative assessment of the Silversea Cruises reporting unit. Based on our qualitative assessment, we concluded that it was more-likely-than-not that the estimated fair value of the Silversea Cruises reporting unit exceeded its carrying value and thus, we did not proceed to the two-step goodwill impairment test. No indicators of impairment exist primarily because forecasts of operating results expected to be generated by the reporting unit appear sufficient to support its carrying value. As of December 31, 2019, the carrying amount of goodwill attributable to our Silversea Cruises reporting unit was \$1.1 billion.

The indefinite-life intangible asset related to the Silversea Cruises trade name acquired in the Silversea Cruises acquisition was recorded at fair value at July 31, 2018, the acquisition date. During the fourth quarter of 2019, we performed a qualitative assessment of the Silversea Cruises trade name. As a result of the assessment performed no impairment charge was recorded related to trade name intangible assets for the year ended December 31, 2019. As of December 31, 2019 and 2018, the carrying amount of indefinite-life intangible assets was \$352.3 million and \$351.7 million, respectively, which primarily relates to the Silversea Cruises trade name acquired in the Silversea Cruises acquisition.

Derivative Instruments

We enter into various forward, swap and option contracts to manage our interest rate exposure and to limit our exposure to fluctuations in foreign currency exchange rates and fuel prices. These instruments are recorded on the balance sheet at their fair value and the vast majority are designated as hedges. We also use non-derivative financial instruments designated as hedges of our net investment in our foreign operations and investments. Although certain of our derivative financial instruments do not qualify or are not accounted for under hedge accounting, we do not hold or issue derivative financial instruments for trading or other speculative purposes. We account for derivative financial instruments in accordance with authoritative guidance. Refer to Note 2. *Summary of Significant Accounting Policies* and Note 18. *Fair Value Measurements and Derivative Instruments* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for more information on related authoritative guidance, the Company's hedging programs and derivative financial instruments.

On a regular basis, we enter into foreign currency forward contracts, interest rate and fuel swaps and options with third-party institutions in over-the-counter markets. We estimate the fair value of our foreign currency forward contracts and interest rate swaps using expected future cash flows based on the instruments' contract terms and published forward prices for foreign currency exchange and interest rates. We value floors which are embedded within our interest rate swaps using standard option pricing models with inputs based on the options' contract terms, such as exercise price and maturity, and readily available market data, such as forward interest rates and interest rate volatility. We apply present value techniques and LIBOR or EURIBOR-based discount rates to convert the expected future cash flows to the current fair value of the instruments.

We estimate the fair value of our fuel swaps using expected future cash flows based on the swaps' contract terms and forward prices. We derive forward prices from published forward fuel curves which in turn are based on actual market transactions and published price quotes for similar assets. We apply present value techniques and LIBOR-based discount rates to convert the expected future cash flows to the current fair value of the instruments. We also corroborate our fair value estimates using valuations provided by our counterparties.

We adjust the valuation of our derivative financial instruments to incorporate credit risk.

We believe it is unlikely that materially different estimates for the fair value of our foreign currency forward contracts and interest rate and fuel swaps and options would be derived from other appropriate valuation models using similar assumptions, inputs or conditions suggested by actual historical experience.

Contingencies—Litigation

On an ongoing basis, we assess the potential liabilities related to any lawsuits or claims brought against us. While it is typically very difficult to determine the timing and ultimate outcome of such actions, we use our best judgment to determine if it is probable that we will incur an expense related to the settlement or final adjudication of such matters and whether a reasonable estimation of such probable loss, if any, can be made. In assessing probable losses, we take into consideration estimates of the amount of insurance recoveries, if any, which are recorded as assets when recoverability is probable. We accrue a liability when we believe a loss is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertainties related to the eventual outcome of litigation and potential insurance recoveries, it is possible that certain matters may be resolved for amounts materially different from any provisions or disclosures that we have previously made.

Seasonality

Our revenues are seasonal based on demand for cruises. Demand is strongest for cruises during the Northern Hemisphere's summer months and holidays. In order to mitigate the impact of the winter weather in the Northern Hemisphere and to capitalize on the summer season in the Southern Hemisphere, our brands have focused on deployment to the Caribbean, Asia and Australia during that period.

Financial Presentation

Description of Certain Line Items

Revenues

Our revenues are comprised of the following:

- *Passenger ticket revenues*, which consist of revenue recognized from the sale of passenger tickets and the sale of air transportation to and from our ships; and
- *Onboard and other revenues*, which consist primarily of revenues from the sale of goods and/or services onboard our ships not included in passenger ticket prices, cancellation fees, sales of vacation protection insurance, pre- and post-cruise tours and fees for operating certain port facilities. *Onboard and other revenues* also include revenues we receive from independent third party concessionaires that pay us a percentage of their revenues in exchange for the right to provide selected goods and/or services onboard our ships, as well as revenues received for our bareboat charter, procurement and management related services we perform on behalf of our unconsolidated affiliates.

Cruise Operating Expenses

Our cruise operating expenses are comprised of the following:

- *Commissions, transportation and other expenses*, which consist of those costs directly associated with passenger ticket revenues, including travel agent commissions, air and other transportation expenses, port costs that vary with passenger head counts and related credit card fees;
- *Onboard and other expenses*, which consist of the direct costs associated with onboard and other revenues, including the costs of products sold onboard our ships, vacation protection insurance premiums, costs associated with pre- and post-cruise tours and related credit card fees as well as the minimal costs associated with concession revenues, as the costs are mostly incurred by third-party concessionaires and costs incurred for the procurement and management related services we perform on behalf of our unconsolidated affiliates;
- *Payroll and related expenses*, which consist of costs for shipboard personnel (costs associated with our shoreside personnel are included in *Marketing, selling and administrative expenses*);
- *Food expenses*, which include food costs for both guests and crew;
- *Fuel expenses*, which include fuel and related delivery, storage and emission consumable costs and the financial impact of fuel swap agreements; and

- *Other operating expenses*, which consist primarily of operating costs such as repairs and maintenance, port costs that do not vary with passenger head counts, vessel related insurance, entertainment and gains and/or losses related to the sale of our ships, if any.

We do not allocate payroll and related expenses, food expenses, fuel expenses or other operating expenses to the expense categories attributable to passenger ticket revenues or onboard and other revenues since they are incurred to provide the total cruise vacation experience.

Selected Operational and Financial Metrics

We utilize a variety of operational and financial metrics which are defined below to evaluate our performance and financial condition. As discussed in more detail herein, certain of these metrics are non-GAAP financial measures. These non-GAAP financial measures are provided along with the related GAAP financial measures as we believe they provide useful information to investors as a supplement to our consolidated financial statements, which are prepared and presented in accordance with GAAP. The presentation of non-GAAP financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

2025 by 2025 Program refers to the multi-year program designed to communicate and motivate employees to work towards company specific goals. The program includes five goals by 2025: delivering \$20.00 adjusted earnings per share; further reducing the company's carbon footprint by 25% against a 2019 base; delivering strong returns on invested capital; and continuing to improve on record guest satisfaction and employee engagement metrics. These goals have been put in place to focus our leadership on achieving outsized improvements in our performance going forward and are purposely aspirational. The strategies that we will employ to achieve the goals of the program are consistent with our ongoing operating strategies as listed in the *Operating Strategies* section. During the six-year time horizon of this program, there are many factors that will impact our ability to achieve these ambitious goals. In particular, our goal of reducing our carbon footprint by 25% will be challenging and will depend on our ability to take aggressive steps including the use of new technologies that have not yet been developed or proven.

Adjusted Earnings per Share ("Adjusted EPS") represents Adjusted Net Income attributable to Royal Caribbean Cruises Ltd. divided by weighted average shares outstanding or by diluted weighted average shares outstanding, as applicable. We believe that this non-GAAP measure is meaningful when assessing our performance on a comparative basis.

Adjusted Net Income represents net income less net income attributable to noncontrolling interest excluding certain items that we believe adjusting for is meaningful when assessing our performance on a comparative basis. For the periods presented, these items included (i) costs, net of insurance recoveries, related to the Grand Bahama drydock structure incident involving *Oasis of the Seas*; (ii) our equity share of the write-off of the Grand Bahama drydock and other incidental expenses by Grand Bahama; (iii) the noncontrolling interest adjustment to exclude the impact of the contractual accretion requirements associated with the put option held by Heritage Cruise Holding Ltd.'s (previously known as Silversea Cruises Group Ltd.) noncontrolling interest; (iv) the change in fair value in the contingent consideration related to the Silversea Cruises acquisition; (v) a loss on the early extinguishment of debt related to the repayment of certain loans; (vi) the amortization of the Silversea Cruises intangible assets resulting from the acquisition; (vii) integration costs related to the Silversea Cruises acquisition; (viii) transaction costs related to the Silversea Cruises acquisition; (ix) restructuring charges incurred in relation to the reorganization of our international sales and marketing structure and other initiatives; (x) the impairment loss and other costs related to the exit of our tour operations business; (xi) the impairment loss related to Skysea Holding; and (xii) the impact of the change in accounting principle related to the recognition of stock-based compensation expense from the graded attribution method to the straight-line attribution method for time-based stock awards.

Available Passenger Cruise Days ("APCD") is our measurement of capacity and represents double occupancy per cabin multiplied by the number of cruise days for the period, which excludes canceled cruise days and drydock days. We use this measure to perform capacity and rate analysis to identify our main non-capacity drivers that cause our cruise revenue and expenses to vary.

Gross Cruise Costs represent the sum of total cruise operating expenses plus marketing, selling and administrative expenses. For the periods presented, Gross Cruise Costs exclude (i) restructuring charges incurred

in relation to the reorganization of our international sales and marketing structure and other initiatives; (ii) transaction costs related to the Silversea Cruises acquisition; (iii) integration costs related to the Silversea Cruises acquisition; (iv) the impairment loss and other costs related to the exit of our tour operations business; and (v) the impact of the change in accounting principle related to the recognition of stock-based compensation expense from the graded attribution method to the straight-line attribution method for time-based stock awards, which were included within *Marketing, selling and administrative expenses*.

Gross Yields represent total revenues per APCD.

Net Cruise Costs and *Net Cruise Costs Excluding Fuel* represent Gross Cruise Costs excluding commissions, transportation and other expenses and onboard and other expenses and, in the case of *Net Cruise Costs Excluding Fuel*, fuel expenses (each of which is described above under the *Description of Certain Line Items* heading). In measuring our ability to control costs in a manner that positively impacts net income, we believe changes in *Net Cruise Costs* and *Net Cruise Costs Excluding Fuel* to be the most relevant indicators of our performance. A reconciliation of historical Gross Cruise Costs to *Net Cruise Costs* and *Net Cruise Costs Excluding Fuel* is provided below under *Results of Operations*. *Net Cruise Costs* and *Net Cruise Costs Excluding Fuel* exclude the costs, net of insurance recoveries, related to the Grand Bahama drydock structure incident involving *Oasis of the Seas*.

Net Revenues represent total revenues less commissions, transportation and other expenses and onboard and other expenses (each of which is described above under the *Description of Certain Line Items* heading).

Net Yields represent *Net Revenues* per APCD. We utilize *Net Revenues* and *Net Yields* to manage our business on a day-to-day basis as we believe that they are the most relevant measures of our pricing performance because they reflect the cruise revenues earned by us net of our most significant variable costs, which are commissions, transportation and other expenses and onboard and other expenses. A reconciliation of historical *Gross Yields* to *Net Yields* is provided below under *Results of Operations*.

Occupancy, in accordance with cruise vacation industry practice, is calculated by dividing *Passenger Cruise Days* by APCD. A percentage in excess of 100% indicates that three or more passengers occupied some cabins.

Passenger Cruise Days represent the number of passengers carried for the period multiplied by the number of days of their respective cruises.

We believe *Net Yields*, *Net Cruise Costs* and *Net Cruise Costs Excluding Fuel* are our most relevant non-GAAP financial measures. However, a significant portion of our revenue and expenses are denominated in currencies other than the United States dollar. Because our reporting currency is the United States dollar, the value of these revenues and expenses can be affected by changes in currency exchange rates. Although such changes in local currency prices are just one of many elements impacting our revenues and expenses, they can be an important element. For this reason, we also monitor *Net Yields*, *Net Cruise Costs* and *Net Cruise Costs Excluding Fuel* as if the current period's currency exchange rates had remained constant with the comparable prior period's rates, or on a "Constant Currency" basis.

It should be emphasized that Constant Currency is primarily used for comparing short-term changes and/or projections. Changes in guest sourcing and shifting the amount of purchases between currencies can change the impact of the purely currency-based fluctuations.

The use of certain significant non-GAAP measures, such as *Net Yields*, *Net Cruise Costs* and *Net Cruise Costs Excluding Fuel*, allows us to perform capacity and rate analysis to separate the impact of known capacity changes from other less predictable changes which affect our business. We believe these non-GAAP measures provide expanded insight to measure revenue and cost performance in addition to the standard GAAP based financial measures. There are no specific rules or regulations for determining non-GAAP and Constant Currency measures, and as such, they may not be comparable to other companies within the industry.

We have not provided a quantitative reconciliation of (i) projected Total revenues to projected *Net Revenues*, (ii) projected *Gross Yields* to projected *Net Yields*, (iii) projected *Gross Cruise Costs* to projected *Net Cruise Costs* and projected *Net Cruise Costs Excluding Fuel* and (iv) projected *Net Income* attributable to Royal Caribbean Cruises Ltd. and *Earnings per Share* to projected *Adjusted Net Income* and *Adjusted Earnings per Share* because preparation of meaningful GAAP projections of *Total revenues*, *Gross Yields*, *Gross Cruise Costs*, *Net Income* attributable to Royal Caribbean Cruises Ltd. and *Earnings per Share* would require unreasonable effort. Due to

significant uncertainty, we are unable to predict, without unreasonable effort, the future movement of foreign exchange rates, fuel prices and interest rates inclusive of our related hedging programs. In addition, we are unable to determine the future impact of restructuring expenses or other non-core business related gains and losses which may result from strategic initiatives. These items are *uncertain and* could be material to our results of operations in accordance with GAAP. Due to this uncertainty, we do not believe that reconciling information for such projected figures would be meaningful.

Executive Overview

By all accounts, 2019 was another year of very strong performance. We introduced three new vessels - *Spectrum of the Seas*, *Celebrity Flora*, and TUI Cruises *Mein Schiff 2*, launched a very successful Perfect Day destination at Coco Cay, modernized six ships and implemented Excalibur, our digital transformation platform, on most of the fleet. In addition, we continued to find efficiencies, implement synergies and reduce costs, while at the same time, remained focused on strategic investments in areas that will boost revenue.

Our 2019 net income was \$1.9 billion, or \$8.95 per diluted share, compared to \$1.8 billion, or \$8.56 per diluted share, in 2018. Adjusted Net Income for 2019 was \$2.0 billion, or \$9.54 per diluted share, compared to \$1.9 billion, or \$8.86 per diluted share, in 2018. Adjusted EPS for 2019, on a diluted basis, represents an 8% increase in earnings compared to 2018. We were able to achieve these results despite the dry-dock incident in the Grand Bahama shipyard, the cancellation of cruises to Cuba beginning in June of this year and an unusual hurricane season, all of which negatively impacted the company's adjusted earnings per share for the year by approximately \$0.80.

Total revenues increased \$1.5 billion in 2019 to \$11.0 billion, compared to \$9.5 billion in 2018, primarily driven by increases in both ticket and onboard yields. During 2019, our Gross Yields and Net Yields increased by 8.0%, on a Constant-Currency basis, marking the tenth consecutive year of revenue growth. The addition of new vessels to the fleet, the consolidation of Silversea Cruises, Perfect Day at CocoCay and our Miami terminal operation also contributed to our year-over-year revenue growth. Onboard revenue and Net onboard revenue growth came from a variety of revenue enhancing initiatives, including beverage package sales and promotions, gaming initiatives and new strategies and promotions on our shore excursions, specialty restaurants and Internet services.

Cruise operating expenses increased \$801.0 million in 2019 to \$6.1 billion from \$5.3 billion in 2018. Adjusting for capacity, our Gross Cruise Costs and Net Cruise Costs Excluding Fuel increased by 8.7% and 11.4%, respectively, on a Constant Currency basis compared to 2018 driven primarily by the consolidation of Silversea Cruises, our new operations of Perfect Day at CocoCay and our terminal operation in Miami.

The Company remains focused on improving returns for our shareholders. In 2019, we bought back \$100.0 million in shares of common stock and have \$600.0 million remaining under our \$1.0 billion share repurchase program that was announced in May 2018. Consistent with our earnings growth, we also announced a 11% increase to our common stock dividend, our seventh consecutive year with a dividend increase.

Perfect Day at CocoCay is the first of our Perfect Day Island Collection of next-level private destinations. The island debuted a combination of first-of-their-kind thrills and one-of-a-kind ways to chill that significantly change what is possible in a vacation destination. The island features the tallest waterslide in North America, the Up and Away helium balloon, and the Caribbean's largest wave pool.

The year 2020 has started off challenging as we address the impact of the recent coronavirus outbreak on our operations. Prior to the outbreak, our sailings in China were trending particularly well both in terms of rate and volume. Our itineraries in China were expected to represent 6% and 4% of our full year and first quarter 2020 capacity, respectively. The travel restrictions and other measures taken by China and other countries to contain the disease have resulted in the cancellation of an increasing number of our cruises in the region. We have also implemented several measures restricting the boarding of certain at-risk guests and crew on our ships. These and other concerns and restrictions relating to the coronavirus outbreak are having an impact on the demand for cruises and causing travel restrictions, guest cancellations, an unavailability of ports and/or destinations, ship redeployments and an inability to source our crew, provisions or supplies from certain places. All of these issues are having and are likely to continue to have a material impact on our bookings, operations and our overall financial performance. However, given the fluidity and uncertainty of this situation, we are unable to predict the full financial impact that this incident will have on our operations and financial condition, including what our yields and earnings for 2020 will be (see *Outlook*).

In 2020, we expect our capacity to increase 4.8% year-over-year as we add *Odyssey of the Seas* and *Celebrity Apex* as well as two Silversea vessels, *Silver Origin* and *Silver Moon*, to the fleet. We've slightly

increased our capacity in the Caribbean to over 50% of our total capacity in 2020, driven by the inaugural winter seasons of *Odyssey of the Seas* and *Celebrity Apex*. Our European itineraries will account for 17% of our 2020 capacity with the year-over-year increase driven by the timing of drydocks and the addition of *Celebrity Apex* and *Silver Moon*. Excluding the impact of the recent coronavirus outbreak, we expect another year of total revenue and net yield growth driven by our new ships, strong demand for our core products and continued growth from our onboard revenue areas.

In addition, we recently announced our **20►25 by 2025** program which presents specific goals to be achieved by 2025: delivering \$20.00 adjusted earnings per share; further reducing the company's carbon footprint by 25%; delivering strong returns on invested capital; and continuing to improve on record guest satisfaction and employee engagement metrics. Our management team is goal motivated and our aim, through this program, is to establish clear, simple, and ambitious targets that will motivate our people and drive superior results. Adopting these clear and simple **20►25 by 2025** goals will help guide our everyday decision-making to focus on **People, Profits and Planet**.

Results of Operations

For reporting purposes, we include Silversea Cruises' results of operations on a three-month reporting lag from October 1, 2018 through September 30, 2019 in our consolidated results of operations for the year ended December 31, 2019 and from the date of acquisition through September 30, 2018 in our consolidated results of operations for the year ended December 31, 2018. Refer to *Note 1. General* and *Note 3. Business Combinations* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information on the three-month reporting lag and the Silversea Cruises acquisition.

In addition to the items discussed above under "Executive Overview," significant items for 2019 include:

- Our Net Income attributable to Royal Caribbean Cruises Ltd. and Adjusted Net Income for the year ended December 31, 2019 was \$1.9 billion and \$2.0 billion, or \$8.95 and \$9.54 per share on a diluted basis, respectively, as compared to Net Income attributable to Royal Caribbean Cruises Ltd. and Adjusted Net Income of \$1.8 billion and \$1.9 billion, or \$8.56 and \$8.86 per share on a diluted basis, respectively, for the year ended December 31, 2018.
- Total revenues, excluding the effect of changes in foreign currency rates, increased by \$1.6 billion for the year ended December 31, 2019 compared to the same period in 2018 primarily due to an increase in capacity and an increase in ticket prices and onboard spending on a per passenger basis, which are further discussed below.
- The effect of changes in foreign currency exchange rates related to our passenger ticket and onboard and other revenue transactions, denominated in currencies other than the United States dollar, resulted in a decrease in total revenues of \$127.4 million for the year ended December 31, 2019 compared to the same period in 2018.
- Total cruise operating expenses, excluding the effect of changes in foreign currency rate, increased by \$837.5 million for the year ended December 31, 2019 compared to the same period in 2018, primarily due to an increase in capacity, which is further discussed below.
- The effect of changes in foreign currency exchange rates related to our cruise operating expenses, denominated in currencies other than the United States dollar, resulted in a decrease in total operating expenses of \$36.9 million for the year ended December 31, 2019 compared to the same period in 2018.
- Effective June 5th, 2019, we stopped sailings to Cuba as the U.S government rescinded authorized travel to Cuba under the People-to-People program and prohibited travel to Cuba via cruise ships. The estimated negative impact resulting from this regulatory change, primarily due to changes in itineraries, is approximately \$0.29 per share on a diluted basis to our Net Income attributable to Royal Caribbean Cruises Ltd.
- The estimated negative impact resulting from the Grand Bahama drydock structure incident involving *Oasis of the Seas*, net of insurance recoveries and including our share of the write-off of the related drydock by Grand Bahama, is approximately \$0.36 per share on a diluted basis to our Net Income attributable to Royal Caribbean Cruises Ltd.
- The estimated negative impact resulting from 2019 hurricane-related disruptions was approximately \$0.15 per share on a diluted basis to our Net Income attributable to Royal Caribbean Cruises Ltd.
- In April 2019, we entered into and drew in full on an unsecured three-year term loan agreement in the amount of \$1.0 billion. Proceeds of this loan were used to repay the \$700 million 364-day loan due July 2019 related to the acquisition of Silversea Cruises and the remaining balance of the unsecured term loan originally incurred in 2010 to purchase *Allure of the Seas*. The repayment of these loans resulted in a total loss on the extinguishment of debt of \$6.3 million, which was recognized within *Other (expense) income* within our consolidated statements of comprehensive income (loss).

Other items for 2019 include:

- In February 2019, TUI Cruises, our 50% joint venture, took delivery of a new *Mein Schiff 2* and the existing *Mein Schiff 2* was renamed *Mein Schiff Herz*.
- During the second quarter of 2019, we took delivery of *Spectrum of the Seas* and *Celebrity Flora*. To finance the purchases, we borrowed \$908.0 million and €80.0 million, or approximately \$89.8 million based on the exchange rate at December 31, 2019, respectively, under previously committed unsecured term loans. Refer to Note 9. Debt to our consolidated financial statements under Item 1. Financial Statements for further information. Additionally, *Spectrum of the Seas* and *Celebrity Flora* entered service in April 2019 and at the end of June 2019, respectively.
- In April 2019, we amended our \$1.4 billion unsecured revolving credit facility due in 2020 to extend the termination date through April 2024, increase the facility size to \$1.7 billion and reduce pricing. Refer to Note 9. Debt to our consolidated financial statements under Item 1. Financial Statements for further information.
- In April 2019, Silversea Cruises entered into an agreement with Meyer Werft to build two ships of a new generation, known as the Evolution-class. In September 2019, we entered into credit agreements for the unsecured financing of these ships for up to 80% of each ship's contract price. Refer to Note 11. Commitments and Contingencies to our consolidated financial statements under Item 1. Financial Statements for further information.
- In May 2019, we amended our \$1.15 billion unsecured revolving credit facility due in 2022 to reduce pricing to match pricing on our \$1.7 billion unsecured revolving credit facility due in 2024.
- In June 2019, we entered into a \$300 million unsecured term loan facility for the financing of Silversea Cruises' *Silver Moon*. Refer to Note 9. Debt to our consolidated financial statements under Item 1. Financial Statements for further information.
- In June 2019, we entered into an agreement with Meyer Turku to build a third Icon-class ship. In December 2019, we entered into a credit agreement for the unsecured financing for up to 80% of the ship's contract price. Refer to Note 19. Commitments and Contingencies to our consolidated financial statements for further information.
- In December 2019, we entered into a credit agreement for the unsecured financing for up to 80% contract price for the sixth Oasis-class ship. Refer to Note 19. Commitments and Contingencies to our consolidated financial statements for further information.

We reported Net Income attributable to Royal Caribbean Cruises Ltd, Adjusted Net Income, earnings per share and Adjusted Earnings per Share as shown in the following table (in thousands, except per share data):

	Year Ended December 31,		
	2019	2018	2017
Net Income attributable to Royal Caribbean Cruises Ltd.	\$ 1,878,887	\$ 1,811,042	\$ 1,625,133
Adjusted Net Income attributable to Royal Caribbean Cruises Ltd.	2,002,847	1,873,363	1,625,133
Net Adjustments to Net Income attributable to Royal Caribbean Cruises Ltd. - Increase	<u>\$ 123,960</u>	<u>\$ 62,321</u>	<u>\$ —</u>
Adjustments to Net Income attributable to Royal Caribbean Cruises Ltd.:			
Oasis of the Seas incident, Grand Bahama's drydock write-off and other incidental expenses ⁽¹⁾	35,239	—	—
Loss on extinguishment of debt	6,326	—	—
Change in the fair value of contingent consideration and amortization of Silversea Cruises intangible assets related to Silversea Cruises acquisition ⁽²⁾	30,675	2,046	—
Restructuring charges and other initiatives expense ⁽³⁾	13,707	—	—
Transaction and integration costs related to the Silversea Cruises acquisition ⁽²⁾	2,048	31,759	—
Noncontrolling interest adjustment ⁽⁴⁾	35,965	3,156	—
Impairment loss related to Skysea Holding ⁽⁵⁾	—	23,343	—
Impairment and other costs related to exit of tour operations business ⁽⁶⁾	—	11,255	—
Impact of change in accounting principle ⁽⁷⁾	—	(9,238)	—
Net Adjustments to Net Income attributable to Royal Caribbean Cruises Ltd. - Increase	<u>\$ 123,960</u>	<u>\$ 62,321</u>	<u>\$ —</u>
Basic:			
Earnings per Share	\$ 8.97	\$ 8.60	\$ 7.57
Adjusted Earnings per Share	<u>\$ 9.56</u>	<u>\$ 8.90</u>	<u>\$ 7.57</u>
Diluted:			
Earnings per Share	\$ 8.95	\$ 8.56	\$ 7.53
Adjusted Earnings per Share	<u>\$ 9.54</u>	<u>\$ 8.86</u>	<u>\$ 7.53</u>
Weighted-Average Shares Outstanding:			
Basic	209,405	210,570	214,617
Diluted	209,930	211,554	215,694

- (1) Amount includes incidental costs, net of insurance recoveries of \$14.5 million related to the collapse of the drydock structure at the Grand Bahama Shipyard involving *Oasis of the Seas*, which were reported primarily within *Other operating expenses* in our consolidated statements of comprehensive income (loss) for the year ended December 31, 2019; and \$20.7 million regarding the Grand Bahama incident involving one of its drydocks, included in our equity investment income within our consolidated statements of comprehensive income (loss) for the year ended December 31, 2019. Refer to Note 8. *Other Assets* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for information.
- (2) Refer to Note 3. *Business Combination* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for information on the Silversea Cruises acquisition.
- (3) Represents restructuring charges incurred in relation to the reorganization of our international sales and marketing structure and other initiatives expenses. Refer to Note 20. *Restructuring Charges* to our consolidated financial statements under item 8. *Financial Statements and Supplementary Data* for further information on the restructuring activities.
- (4) Adjustment made to exclude the impact of the contractual accretion requirements associated with the put option held by Silversea Cruises Group Ltd.'s noncontrolling interest. Refer to Note 11. *Noncontrolling Interest* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information on noncontrolling interest.
- (5) Refer to Note 8. *Other Assets* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for information on the impairment loss related to Skysea Holding.

- (6) In 2014, we created a tour operations business that focused on developing, marketing and selling land based tours around the world through an e-commerce platform. During the second quarter of 2018, we decided to cease operations and exit this business. As a result, we incurred exit costs, primarily consisting of fixed asset impairment charges and severance expense.
- (7) In January 2018, we elected to change our accounting policy for recognizing stock-based compensation expense from the graded attribution method to the straight-line attribution method for time-based stock awards. Refer to Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information on our accounting policy.

The following table presents operating results as a percentage of total revenues for the last three years:

	Year Ended December 31,		
	2019	2018	2017
Passenger ticket revenues	71.7 %	71.5 %	71.9 %
Onboard and other revenues	28.3 %	28.5 %	28.1 %
Total revenues	100.0 %	100.0 %	100.0 %
Cruise operating expenses:			
Commissions, transportation and other	15.1 %	15.1 %	15.5 %
Onboard and other	5.8 %	5.7 %	5.6 %
Payroll and related	9.9 %	9.7 %	9.7 %
Food	5.3 %	5.5 %	5.6 %
Fuel	6.4 %	7.5 %	7.8 %
Other operating	12.8 %	12.0 %	11.5 %
Total cruise operating expenses	55.4 %	55.4 %	55.8 %
Marketing, selling and administrative expenses	14.2 %	13.7 %	13.5 %
Depreciation and amortization expenses	11.4 %	10.9 %	10.8 %
Operating income	19.0 %	20.0 %	19.9 %
Other income (expense):			
Interest income	0.2 %	0.3 %	0.3 %
Interest expense, net of interest capitalized	(3.7)%	(3.5)%	(3.4)%
Equity investment income	2.1 %	2.2 %	1.8 %
Other (expense) income	(0.2)%	0.1 %	(0.1)%
	(1.6)%	(0.8)%	(1.4)%
Net Income	17.4 %	19.1 %	18.5 %
Less: Net Income attributable to noncontrolling interest	0.3 %	0.1 %	— %
Net Income attributable to Royal Caribbean Cruises Ltd.	17.2 %	19.1 %	18.5 %

Selected statistical information is shown in the following table:

	Year Ended December 31,		
	2019⁽¹⁾	2018⁽¹⁾	2017
Passengers Carried	6,553,865	6,084,201	5,768,496
Passenger Cruise Days	44,803,953	41,853,052	40,033,527
APCD	41,432,451	38,425,304	36,930,939
Occupancy	108.1 %	108.9 %	108.4 %

- (1) We acquired Silversea Cruises on July 31, 2018 and report their results on a three-month reporting lag. As a result, 2019 figures include October 2018 through September 2019 Silversea Cruises amounts and 2018 figures include August and September 2018 Silversea Cruises amounts. Refer to Note 1. *General* and Note 3. *Business Combination* to our consolidated financial statements

under Item 8. *Financial Statements and Supplementary Data* for further information on the three-month reporting lag and the Silversea Cruises acquisition.

Gross Yields and Net Yields were calculated as follows (in thousands, except APCD and Yields:

	Year Ended December 31,			
	2019	2019 On a Constant Currency basis	2018	2017
Passenger ticket revenues	\$ 7,857,057	\$ 7,968,116	\$ 6,792,716	\$ 6,313,170
Onboard and other revenues	3,093,604	3,109,939	2,701,133	2,464,675
Total revenues	<u>10,950,661</u>	<u>11,078,055</u>	<u>9,493,849</u>	<u>8,777,845</u>
Less:				
Commissions, transportation and other	1,656,297	1,675,941	1,433,739	1,363,170
Onboard and other	639,782	643,350	537,355	495,552
Net Revenues	<u>\$ 8,654,582</u>	<u>\$ 8,758,764</u>	<u>\$ 7,522,755</u>	<u>\$ 6,919,123</u>
APCD	41,432,451	41,432,451	38,425,304	36,930,939
Gross Yields	\$ 264.30	\$ 267.38	\$ 247.07	\$ 237.68
Net Yields	\$ 208.88	\$ 211.40	\$ 195.78	\$ 187.35

Gross Cruise Costs, Net Cruise Costs and Net Cruise Costs Excluding Fuel were calculated as follows (in thousands, except APCD and costs per APCD):

	Year Ended December 31,			
	2019	2019 On a Constant Currency basis	2018	2017
Total cruise operating expenses	\$ 6,062,765	\$ 6,099,657	\$ 5,262,207	\$ 4,896,579
Marketing, selling and administrative expenses ⁽¹⁾⁽²⁾	1,543,498	1,555,703	1,269,368	1,186,016
Gross Cruise Costs	<u>7,606,263</u>	<u>7,655,360</u>	<u>6,531,575</u>	<u>6,082,595</u>
Less:				
Commissions, transportation and other	1,656,297	1,675,941	1,433,739	1,363,170
Onboard and other	639,782	643,350	537,355	495,552
Net Cruise Costs Including Other Costs	<u>5,310,184</u>	<u>5,336,069</u>	<u>4,560,481</u>	<u>4,223,873</u>
Less:				
Costs, net of insurance recoveries, related to the <i>Oasis of the Seas</i> incident included within cruise operating expenses	14,530	14,530	—	—
Net Cruise Costs	5,295,654	5,321,539	4,560,481	4,223,873
Less:				
Fuel	697,962	697,981	710,617	681,118
Net Cruise Costs Excluding Fuel	<u>\$ 4,597,692</u>	<u>\$ 4,623,558</u>	<u>\$ 3,849,864</u>	<u>\$ 3,542,755</u>
APCD	41,432,451	41,432,451	38,425,304	36,930,939
Gross Cruise Costs per APCD	\$ 183.58	\$ 184.77	\$ 169.98	\$ 164.70
Net Cruise Costs per APCD	\$ 127.81	\$ 128.44	\$ 118.68	\$ 114.37
Net Cruise Costs Excluding Fuel per APCD	\$ 110.97	\$ 111.59	\$ 100.19	\$ 95.93

- (1) For the year ended December 31, 2019, the amount does not include integration costs related to the Silversea Cruises acquisition of \$0.9 million, transaction costs related to the Silversea Cruises acquisition of \$1.2 million and restructuring and other initiative costs of \$13.7 million.
- (2) For the year ended December 31, 2018, the amount does not include transaction costs related to the Silversea Cruises acquisition of \$31.8 million, the impairment and other costs related to the exit of our tour operations business of \$11.3 million and the impact of the change in accounting principle of \$9.2 million related to the recognition of stock-based compensation expense. Refer to Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information on the change in an accounting principle.

Outlook

The widely reported coronavirus outbreak and efforts by China and other countries to move aggressively to contain the spread of the disease have adversely impacted our business, including a drop in demand for cruises, guest cancellations, travel restrictions, an unavailability of ports and/or destinations, cruise cancellations, ship redeployments and an inability to source our crew, provisions or supplies from certain places. We have implemented several measures to protect guest and crew, including denying boarding to those that have travelled from, to or through mainland China or Hong Kong in the past 15 days and performing mandatory specialized health screenings on at-risk guest and crew. These measures have caused us to cancel cruise bookings or restrict certain guests from booking our cruises. We are assessing the developments constantly and will update our protective measures as needed.

As a result of these measures, we have now cancelled 30 sailings in Southeast Asia and modified several itineraries in the region which overall have an estimated impact of \$0.90 per share to our 2020 financial performance. If the company were to cancel all of its remaining sailings in Asia through the end of April, it would impact our 2020 financial performance by an additional \$0.30.

There are still too many variables and uncertainties regarding the impact of this outbreak on our business in Asia and elsewhere to reasonably forecast the full impact on our business, including what our yields and earnings for 2020 will be. These concerns and restrictions over the outbreak are impacting our bookings and are having, and are likely to continue to have, a material impact on our overall financial performance.

The company does not make predictions about fuel pricing, interest rates or currency exchange rates but does provide guidance about its future business activities. On February 4, 2020, we announced the following initial full year and first quarter 2020 guidance based on the then current fuel pricing, interest rates and currency exchange rates. Given the fluidity of the circumstances related to the recent coronavirus and the actions being taken to contain its spread, the following 2020 guidance does not include any financial impact related to the coronavirus outbreak:

Full Year 2020

	As Reported	Constant Currency
Net Yields	2.5% to 4.5%	2.25% to 4.25%
Net Cruise Costs per APCD	1.75% to 2.25%	1.75% to 2.25%
Net Cruise Costs per APCD, excluding Fuel	1.75% to 2.25%	1.75% to 2.25%
Capacity Change	4.8%	
Depreciation and Amortization	\$1,376 to \$1,392 million	
Interest Expense, net	\$368 to \$384 million	
Fuel Consumption (metric tons)	1,534,300	
Fuel Expenses	\$744 million	
Percent Hedged (fwd consumption)	54%	
10% change in Fuel Prices	\$37 million	
1% Change in Currency	\$21 million	
1% Change in Net Yields	\$91 million	
1% Change in NCC x Fuel	\$48 million	
100 basis pt. Change in LIBOR	\$37 million	
Adjusted Earnings per Share — Diluted	\$10.40 to \$10.70	

First Quarter 2020

	As Reported	Constant Currency
Net Yields	(0.5%) to (1.0%)	Approx. (0.5%)
Net Cruise Costs per APCD	Approx. 4.25%	Approx. 4.5%
Net Cruise Costs per APCD, excluding Fuel	Approx. 3.0%	Approx. 3.0%
Capacity Change	4.5%	
Depreciation and Amortization	\$321 to \$325 million	
Interest Expense, net	\$85 to \$89 million	
Fuel Consumption (metric tons)	375,200	
Fuel Expenses	\$191 million	
Percent Hedged (fwd consumption)	62%	
10% change in Fuel Prices	\$9 million	
1% Change in Currency	\$4 million	
1% Change in Net Yields	\$20 million	
1% Change in NCC x Fuel	\$12 million	
100 basis pt. Change in LIBOR	\$7 million	
Adjusted Earnings per Share — Diluted	\$0.80 to \$0.85	

Since our earnings release on February 4, 2020, fuel prices and foreign currency exchange rates have fluctuated and are likely to continue to do so. Accordingly, except for the impact of the recent coronavirus outbreak, described above, fuel prices and foreign currency exchange rates, our forecast remains essentially unchanged.

Volatility in foreign currency exchange rates affects the United States dollar value of our earnings. Based on our highest net exposure for each quarter and the full year 2020, the top five foreign currencies are ranked below. For example, the Australian Dollar is the most impactful currency in the first and fourth quarters of 2020. Rankings are based on estimated net exposures.

Ranking	Q1	Q2	Q3	Q4	YTD 2020
1	AUD	GBP	GBP	AUD	GBP
2	CAD	CAD	CNH	GBP	AUD
3	GBP	AUD	EUR	CAD	CAD
4	BRL	CNH	CAD	EUR	CNH
5	MXN	EUR	AUD	CNH	EUR

The currency abbreviations above are defined as follows:

Currency Abbreviation	Currency
AUD	Australian Dollar
BRL	Brazilian Real
CAD	Canadian Dollar
CNH	Chinese Yuan
EUR	Euro
GBP	British Pound
MXN	Mexican Peso

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

In this section, references to 2019 refer to the year ended December 31, 2019 and references to 2018 refer to the year ended December 31, 2018.

Revenues

Total revenues for 2019 increased \$1.5 billion, or 15.3%, to \$11.0 billion from \$9.5 billion in 2018.

Passenger ticket revenues comprised 71.7% of our 2019 total revenues. *Passenger ticket revenues* increased by \$1.1 billion, or 15.7% from 2018. The increase was primarily due to:

- an 7.8% increase in capacity, which increased *Passenger ticket revenues* by \$565.0 million, primarily due to the additions of *Spectrum of the Seas* in the second quarter of 2019, *Symphony of the Seas* in the second quarter of 2018, *Azamara Pursuit* in the third quarter of 2018, *Celebrity Edge* in the fourth quarter of 2018 and the acquisition of Silversea Cruises in the second half of 2018, partially offset by a significant increase in dry dock days in 2019 compared to 2018 and the negative impact of canceled and modified sailings resulting from the dry-dock incident in the Grand Bahama shipyard and hurricane-related disruptions during 2019.
- an increase of \$614.0 million in ticket prices primarily driven by the addition of *Spectrum of the Seas*, *Symphony of the Seas*, *Azamara Pursuit*, *Celebrity Edge* and the Silversea Cruises fleet, and the higher pricing on our Caribbean and Asia/Pacific sailings, net of the negative impact to our ticket price on a per passenger basis resulting from itinerary changes related to the travel restrictions to Cuba.

The increase in *Passenger ticket revenues* was partially offset by the unfavorable effect of changes in foreign currency exchange rates related to our revenue transactions denominated in currencies other than the United States dollar of \$(111.1) million.

The remaining 28.3% of 2019 total revenues was comprised of *Onboard and other revenues*, which increased \$392.5 million, or 14.5%. The increase in *Onboard and other revenues* was primarily due to:

- a \$118.4 million increase in onboard revenue attributable to higher spending on a per passenger basis primarily due to shore excursions, Perfect Day at CocoCay, specialty restaurants, internet services, beverage package sales and promotions, gaming initiatives and new programs and activities offered to our guests;
- a \$193.6 million increase attributable to the 7.8% increase in capacity noted above, net of the negative impact of canceled and modified sailings resulting from the dry-dock incident in the Grand Bahama shipyard and hurricane-related disruptions in 2019; and
- a \$79.7 million increase in other revenues primarily due to revenue associated with our new cruise terminal at PortMiami and cancellation fees associated with non-refundable deposits and higher pricing.

Onboard and other revenues included concession revenues of \$363.8 million in 2019 and \$339.0 million in 2018.

Cruise Operating Expenses

Total *cruise operating expenses* for 2019 increased \$800.6 million, or 15.2%, to \$6.1 billion in 2019 from \$5.3 billion in 2018. The increase was primarily due to:

- the 7.8% increase in capacity noted above, which increased cruise operating expenses by \$433.3 million;
- a \$367.3 million increase in total cruise operating expenses, excluding capacity, was primarily due to the addition of Silversea Cruises to our fleet in the second half of 2018 as well as incidental costs related to the collapse of the drydock structure at the Grand Bahama Shipyard involving *Oasis of the Seas*, expenses associated with operating Perfect Day at CocoCay and our new cruise terminal at PortMiami.

The increase in Cruise operating expenses was partially offset by:

- a \$47.0 million decrease in fuel expenses, excluding the impact of capacity. Our cost of fuel (net of the financial impact of fuel swap agreements) for 2019 decreased 11% per metric ton compared to 2018; and

- a favorable effect of changes in foreign currency exchange rates related to costs denominated in currencies other than the United States dollar of \$37.0 million.

Marketing, Selling and Administrative Expenses

Marketing, selling and administrative expenses for 2019 increased \$256.1 million, or 19.7%, to \$1.6 billion from \$1.3 billion in 2018. The increase was primarily due to the addition of Silversea Cruises in the second half of 2018, higher spending on advertisement and media promotions and an increase in payroll and benefits expense primarily driven by an increase in headcount and higher stock price year over year related to our performance share awards. Additionally, 2019 includes expenses associated with Hurricane Dorian relief efforts, which did not occur in 2018.

Marketing, selling and administrative expenses for 2019 and 2018 include transaction costs incurred by us related to the Silversea Cruises acquisition of \$1.2 million and \$31.8 million, respectively.

Depreciation and Amortization Expenses

Depreciation and amortization expenses for 2019 increased \$212.2 million, or 20.5%, to \$1.2 billion. The increase was primarily due to the addition of *Spectrum of the Seas* in the second quarter of 2019, *Symphony of the Seas* in the second quarter of 2018, *Azamara Pursuit* in the third quarter of 2018, *Celebrity Edge* in the fourth quarter of 2018 and the addition of Silversea Cruises to our fleet in the second half of 2018. Additionally, to a lesser extent, the increase is also attributable to new shipboard additions associated with our ship upgrade projects and additions related to our shoreside projects.

Other Income (Expense)

Interest expense, net of interest capitalized, increased \$74.8 million, or 22.4%, to \$408.5 million in 2019 from \$333.7 million in 2018. The increase was primarily due to a higher average debt level in 2019 compared to 2018 attributable to the financing of our newbuilds and our acquisition of Silversea Cruises in the second half of 2018 and to lesser extent, higher interest rates in 2019 compared to 2018.

Equity investment income increased \$20.2 million, or 9.6%, to \$231.0 million in 2019 from \$210.8 million in 2018 primarily due to an increase in income from various equity investments, partially offset by equity investment losses from Grand Bahama as a result of a drydock write-off in 2019.

Other expense was \$24.5 million in 2019 compared to *Other income* of \$11.1 million in 2018. The increase in expense of \$35.6 million was mainly due to higher taxes resulting from a full year of Silversea Cruises activity reported in 2019 and higher U.S. taxable income in 2019; and an increase in the fair value of contingent consideration related to the Silversea Cruises acquisition. In addition, a gain of \$21.8 million was reported in 2018 related to the recognition of the remaining balance of a deferred gain from the sale of *Celebrity Galaxy* to TUI Cruises in March 2009. In April 2018, TUI Cruises sold this ship to an affiliate of TUI AG, resulting in the recognition of the remaining balance of the deferred gain. Other income in 2018 also includes a gain of \$13.7 million related to the sale of our remaining equity interest in a travel agency business that we sold in 2015. The gains in 2018 were partially offset by an impairment charge of \$23.3 million to write down our investment balance, debt facility and other receivables due from Skysea Holding to their net realizable value in 2018. For further information on the deferred gain recognized and impairment charge, refer to Note 8. *Other Assets* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data*.

Gross and Net Yields

Gross and Net Yields increased 7.0% and 6.7% in 2019, respectively, compared to 2018 primarily due to the increase in passenger ticket and onboard and other revenues discussed above. Gross and Net Yields on a Constant Currency basis increased 8.2% and 8.0%, respectively, in 2019 compared to 2018.

Gross and Net Cruise Costs

Gross and Net Cruise Costs increased 16.5% and 16.1%, respectively, in 2019 compared to 2018 and Gross and Net Cruise Costs per APCD increased 8.0% and 7.7%, respectively, in 2019, compared to 2018, primarily due to the increase in cruise operating expenses discussed above. Gross and Net Cruise Costs on a Constant Currency basis increased 17.2% and 16.7% respectively, in 2019 compared to 2018.

Net Cruise Costs Excluding Fuel

Net Cruise Costs Excluding Fuel per APCD increased 10.8% in 2019 compared to 2018 and on a Constant Currency basis increased 11.4% in 2019 compared to 2018.

Other Comprehensive (Loss) Income

Other comprehensive loss in 2019 was \$170.0 million compared to *Other comprehensive loss* of \$293.5 million in 2018. The decrease in loss of \$123.5 million was primarily due to the *Loss on cash flow derivative hedges* in 2019 of \$151.3 million compared to the *Loss on cash flow derivative hedges* of \$286.9 million in 2018. The decrease of \$135.5 million in *Loss on cash flow derivative hedges* in 2019 was primarily due to an increase in the fair value of our fuel swap instruments held in 2019 compared to 2018.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

In this section, references to 2018 refer to the year ended December 31, 2018 and references to 2017 refer to the year ended December 31, 2017.

Revenues

Total revenues for 2018 increased \$716.0 million, or 8.2%, to \$9.5 billion from \$8.8 billion in 2017.

Passenger ticket revenues comprised 71.5% of our 2018 total revenues. *Passenger ticket revenues* increased by \$479.5 million, or 7.6% from 2017. The increase was primarily due to:

- a 4.0% increase in capacity, which increased Passenger ticket revenues by \$255.5 million, primarily due to the addition of *Symphony of the Seas* in the second quarter of 2018, *Azamara Pursuit* in the third quarter of 2018 and, to a lesser extent, *Celebrity Edge* in the fourth quarter of 2018 and the *Silversea Cruises fleet*, partially offset by the sale of *Legend of the Seas* in 2017 and additional dry dock days in 2018 compared to 2017. Additionally, 2017 includes the impact of canceled sailings from hurricane-related disruptions which did not recur in 2018;
- an increase of \$216.3 million in ticket prices primarily driven by higher pricing on Asia/Pacific and Europe sailings and the increase to our ticket price on a per passenger basis due to the addition of *Symphony of the Seas*, *Azamara Pursuit*, *Celebrity Edge* and the *Silversea Cruises fleet*, partially offset by a decrease in pricing on Caribbean sailings; and
- the favorable effect of changes in foreign currency exchange rates related to our revenue transactions denominated in currencies other than the United States dollar of approximately \$7.8 million.

The remaining 28.5% of 2018 total revenues was comprised of *Onboard and other revenues*, which increased \$236.5 million, or 9.6%. The increase in *Onboard and other revenues* was primarily due to:

- a \$112.5 million increase in onboard revenue attributable to higher spending on a per passenger basis primarily due to our revenue enhancing initiatives, including beverage package sales and promotions, gaming initiatives, and new strategies and promotions on our shore excursion, specialty restaurant and Internet services;
- a \$97.4 million increase attributable to the 4.0% increase in capacity noted above; and
- a \$23.2 million increase in other revenue primarily due to cancellation fees mostly associated with non-refundable deposit promotions and the addition of *Silversea Cruises*.

Onboard and other revenues included concession revenues of \$339.0 million in 2018 and \$326.5 million in 2017.

Cruise Operating Expenses

Total cruise operating expenses for 2018 decreased \$365.6 million, or 7.5%, to \$5.3 billion in 2018 from \$4.9 billion in 2017. The decrease was primarily due to:

- the 4.0% increase in capacity noted above, which increased cruise operating expenses by \$198.6 million;

- a \$30.9 million gain recognized in 2017 resulting from the sale of *Legend of the Seas*, which did not recur in 2018;
- a \$37.3 million increase in payroll and related expenses primarily driven by Silversea Cruises' higher crew to passenger ratio, an increase in employee bonuses and changes in our gratuity structure;
- a \$23.5 million increase in air expense primarily related to the addition of Silversea Cruises and itinerary changes;
- a \$19.7 million increase in vessel maintenance primarily due to the timing of scheduled drydocks; and
- an unfavorable effect of changes in foreign currency, exchange rates related to our cruise operating expenses denominated in currencies other than the United States dollar of \$8.1 million.

Marketing, Selling and Administrative Expenses

Marketing, selling and administrative expenses for 2018 increased \$117.1 million, or 9.9%, to \$1.3 billion from \$1.2 billion in 2017. The increase was primarily due to transaction costs incurred by us related to the Silversea Cruises acquisition, marketing, selling and administrative expenses due to the addition of Silversea Cruises, the impairment and other costs related to the exit of our tour operations business, which occurred in 2018, and an increase in payroll and benefits expense primarily driven by an increase in headcount, partially offset by lower stock prices year over year related to our performance share awards, as well as higher spending on advertisement.

Depreciation and Amortization Expenses

Depreciation and amortization expenses for 2018 increased \$82.5 million, or 8.7%, to \$1.0 billion. The increase was primarily due to the addition of *Symphony of the Seas*, *Azamara Pursuit* and Silversea Cruises to our fleet and, to a lesser extent, the addition of *Celebrity Edge*, new shipboard additions associated with our ship upgrade projects and additions related to our shoreside projects. The increase was partially offset by the sale of *Legend of the Seas* in 2017.

Other Income (Expense)

Interest expense, net of interest capitalized, increased \$33.7 million, or 11.2%, to \$333.7 million in 2018 from \$300.0 million in 2017. The increase was mostly due to a higher average debt level in 2018 compared to 2017, attributable to the financing of *Symphony of the Seas*, *Celebrity Edge* and our acquisition of Silversea Cruises in 2018, and higher interest rates in 2018 compared to 2017, partially offset by an increase in capitalized interest due to our ships on order.

Equity investment income increased \$54.5 million, or 34.9%, to \$210.8 million in 2018 from \$156.2 million in 2017 primarily due to an increase in income from TUI Cruises.

Other income was \$11.1 million in 2018 compared to *Other expense* of \$5.3 million in 2017. The change of \$16.4 million was mainly due to a gain of \$21.8 million in 2018 related to the recognition of the remaining balance of a deferred gain from the sale of *Celebrity Galaxy* to TUI Cruises in March 2009. In April 2018, TUI Cruises sold this ship to an affiliate of TUI AG, resulting in the recognition of the remaining balance of the deferred gain. In addition, *Other income* in 2018 includes a gain of \$13.7 million related to the sale of our remaining equity interest in a travel agency business that we sold in 2015. The increase in *Other income* was partially offset by an impairment charge of \$23.3 million to write down our investment balance, debt facility and other receivables due from Skysea Holding to their net realizable value in 2018. For further information on the deferred gain recognized and impairment charge, refer to Note 8. Other Assets to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data*.

Gross and Net Yields

Gross and Net Yields increased 4.0% and 4.5% in 2018, respectively, compared to 2017 primarily due to the increase in passenger ticket and onboard and other revenues, which are further discussed above. Gross and Net Yields on a Constant Currency basis increased 3.8% and 4.4%, respectively, in 2018 compared to 2017.

Gross and Net Cruise Costs

Gross and Net Cruise Costs increased 7.4% and 8.0%, respectively, in 2018 compared to 2017 and Gross and Net Cruise Costs per APCD increased 3.2% and 3.8%, respectively, in 2018 compared to 2017, primarily due to the increase in cruise operating expenses discussed above. Gross and Net Cruise Costs on a Constant Currency basis increased 7.2% and 7.7%, respectively, in 2018 compared to 2017.

Net Cruise Costs Excluding Fuel

Net Cruise Costs Excluding Fuel per APCD increased 4.4% in 2018 compared to 2017 and on a Constant Currency basis increased 4.1% in 2018 compared to 2017.

Other Comprehensive (Loss) Income

Other comprehensive loss in 2018 was \$293.5 million compared to *Other comprehensive income* of \$582.2 million in 2017. The change of \$875.7 million was primarily due to the *Loss on cash flow derivative hedges* in 2018 of \$286.9 million compared to the *Gain on cash flow derivative hedges* of \$570.5 million in 2017. The change of \$857.4 million in 2018 was primarily due to a decrease in foreign currency forward contract values in 2018 compared to an increase in 2017, a decrease in fuel swap instrument values in 2018 compared to an increase in 2017 and fuel swap losses recognized in income in 2017 compared to fuel swap gains recognized in income in 2018.

Future Application of Accounting Standards

Refer to Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information on *Recent Accounting Pronouncements*.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash flow generated from operations provides us with a significant source of liquidity. *Net cash provided by operating activities* increased \$237.2 million to \$3.7 billion in 2019 compared to \$3.5 billion in 2018. The increase in cash provided by operating activities was primarily attributable to an increase in proceeds from customer deposits and an increase in cash receipts from onboard spending. The increase was partially offset by a decrease in dividends received from unconsolidated affiliates of \$92.9 million.

Net cash provided by operating activities increased \$604.6 million to \$3.5 billion in 2018 compared to \$2.9 billion in 2017. The increase in cash provided by operating activities was primarily attributable to an increase in proceeds from customer deposits, an increase in cash receipts from onboard spending and a decrease in fuel costs in 2018 compared to 2017. Additionally, dividends received from unconsolidated affiliates increased by \$133.4 million.

Net cash used in investing activities decreased \$1.4 billion to \$3.1 billion in 2019 compared to \$4.5 billion in 2018. The decrease was primarily attributable to the \$916.1 million of cash paid for the acquisition of Silversea Cruises, net of cash acquired, in 2018, which did not recur in 2019 and a decrease in capital expenditures of \$635.4 million due mostly to the delivery of two more ships in 2018 compared to 2019, partially offset by higher fleet modernization costs in 2019 compared to 2018.

Net cash used in investing activities increased \$4.3 billion to \$4.5 billion in 2018 compared to \$213.6 million in 2017. The increase was primarily attributable to an increase in capital expenditures of \$3.1 billion primarily due to the delivery of *Symphony of the Seas* and *Celebrity Edge* and to a lesser extent the purchase of *Azamara Pursuit* in 2018 compared to no ship deliveries or purchases in 2017 and \$916.1 million of cash paid for the acquisition of Silversea Cruises, net of cash acquired, in 2018 as well as \$230.0 million of proceeds received from the sale of property and equipment in 2017, which did not recur in 2018.

Net cash used in financing activities was \$670.4 million in 2019 compared to *Net cash provided in financing activities* of \$1.2 billion in 2018. The change was primarily attributable to a decrease in debt proceeds of \$5.1 billion in 2019 compared to 2018 primarily due to a decrease in borrowings on our revolving credit facilities and less unsecured term loan borrowings resulting from less ship deliveries in 2019 and the financing of the acquisition of Silversea Cruises in 2018. This decrease in proceeds was partially offset by a decrease in repayments of debt of \$2.9 billion and a decrease in stock repurchases of \$475.5 million in 2019 compared to 2018.

Net cash provided by financing activities was \$1.2 billion in 2018 compared to *Net cash used in financing activities* of \$2.7 billion in 2017. The change was primarily attributable to an increase in proceeds from the issuance of commercial paper notes of \$4.7 billion in 2018 compared to none issued in 2017 and an increase in debt proceeds of \$2.7 billion in 2018 compared to 2017. The increase in debt proceeds in 2018 was primarily due to the \$1.2 billion unsecured term loan borrowed to finance *Symphony of the Seas*, and the \$729.0 million unsecured term loan borrowed to finance *Celebrity Edge*, the \$700.0 million unsecured term loan borrowed to finance the acquisition of Silversea Cruises, an increase in borrowings on our revolving credit facilities and the \$130.0 million credit agreement.

Future Capital Commitments

Our future capital commitments consist primarily of new ship orders. As of December 31, 2019, we have two Oasis-class ships, one Quantum-class ship, and three ships of a new generation, known as our Icon-class, on order for our Royal Caribbean International brand with an aggregate capacity of approximately 32,400 berths. As of December 31, 2019, we have three Edge-class ships with an aggregate capacity of approximately 9,400 berths. Additionally as of December 31, 2019, we have five ships on order for our Silversea Cruises brand with an aggregate capacity of approximately 2,400 berths. Refer to Item 1. *Business-Operations* for further information on our ships on order. For each of these orders, we have committed financing arrangements in place covering 80% of the cost of the ship, almost all of which include sovereign financing guarantees.

As of December 31, 2019, the aggregate cost of our ships on order, not including any ships on order by our Partner Brands and the Silversea Cruises ships that remain contingent upon final documentation and financing, was approximately \$14.8 billion, of which we had deposited \$881.5 million as of such date. Approximately 65.9% of the aggregate cost was exposed to fluctuations in the Euro exchange rate at December 31, 2019. (Refer to Note 18. *Fair Value Measurements and Derivative Instruments* and Note 19. *Commitments and Contingencies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data*).

As of December 31, 2019, anticipated overall capital expenditures, based on our existing ships on order, are approximately \$4.7 billion for 2020, \$3.5 billion for 2021, \$3.6 billion for 2022 and \$2.9 billion for 2023.

Contractual Obligations

As of December 31, 2019, our contractual obligations were as follows (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Activities:					
Operating lease obligations ⁽¹⁾	\$ 938,354	\$ 126,234	\$ 217,941	\$ 177,057	\$ 417,122
Interest on long-term debt ⁽²⁾	1,918,714	348,821	588,296	383,167	598,430
Other ⁽³⁾	455,404	202,879	194,936	23,356	34,233
Investing Activities:					
Ship purchase obligations ⁽⁴⁾	11,418,681	2,195,931	4,958,432	3,060,998	1,203,320
Financing Activities:					
Commercial paper ⁽⁵⁾	1,434,180	1,434,180	—	—	—
Debt obligations ⁽⁶⁾	9,370,438	1,153,024	3,270,006	1,476,538	3,470,870
Capital lease obligations ⁽⁷⁾	230,258	33,562	53,203	10,541	132,952
Other ⁽⁸⁾	15,008	4,841	7,406	2,761	—
Total	\$ 25,781,037	\$ 5,499,472	\$ 9,290,220	\$ 5,134,418	\$ 5,856,927

(1) We are obligated under noncancelable operating leases primarily for offices, warehouses and motor vehicles. Amounts represent contractual obligations with initial terms in excess of one year.

(2) Debt obligations mature at various dates through fiscal year 2037 and bear interest at fixed and variable rates. Interest on variable-rate debt is calculated based on forecasted debt balances, including the impact of interest rate swap agreements, using the applicable rate at December 31, 2019. Debt denominated in other currencies is calculated based on the applicable exchange rate at December 31, 2019.

(3) Amounts primarily represent future commitments with remaining terms in excess of one year to pay for our usage of certain port facilities, marine consumables, services and maintenance contracts.

(4) Amounts do not include potential obligations which remain subject to cancellation at our sole discretion or any agreements entered for ships on order that remain contingent upon completion of conditions precedent. Additionally, amounts do not include activity related to Silversea Cruises, including ships placed on order, if any, during the three-month reporting lag period. Refer to the Capital Expenditure section.

(5) Refer to Note 9. *Debt* to our consolidated financial statements under Item 8. *Financial Statements and Supplemental Data* to our consolidated financial statements for further information.

- (6) Debt denominated in other currencies is calculated based on the applicable exchange rate at December 31, 2019. In addition, debt obligations presented above are net of debt issuance costs of \$206.6 million as of December 31, 2019.
- (7) Amounts represent capital lease obligations with initial terms in excess of one year.
- (8) Amounts represent fees payable to sovereign guarantors in connection with certain of our export credit debt facilities and facility fees on our revolving credit facilities.

Please refer to *Funding Needs and Sources* below for discussion on the planned funding of the above contractual obligations.

As a normal part of our business, depending on market conditions, pricing and our overall growth strategy, we continuously consider opportunities to enter into contracts for the building of additional ships. We may also consider the sale of ships or the purchase of existing ships. We continuously consider potential acquisitions and strategic alliances. If any of these were to occur, they would be financed through the incurrence of additional indebtedness, the issuance of additional shares of equity securities or through cash flows from operations.

Off-Balance Sheet Arrangements

We and TUI AG have each guaranteed the repayment by TUI Cruises of 50% of a bank loan. As of December 31, 2019, the outstanding principal amount of the loan was €26.4 million, or approximately \$29.7 million, based on the exchange rate at December 31, 2019. The loan amortizes quarterly and is currently secured by a first mortgage on *Mein Schiff Herz*, previously known as *Mein Schiff 2*. Based on current facts and circumstances, we do not believe potential obligations under our guarantee of this bank loan are probable.

TUI Cruises has entered into various ship construction and credit agreements that include certain restrictions on each of our and TUI AG's ability to reduce our current ownership interest in TUI Cruises below 37.55% through May 2031.

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

As of December 31, 2019, other than the items described above, we are not party to any other off-balance sheet arrangements, including guarantee contracts, retained or contingent interest, certain derivative instruments and variable interest entities, that either have, or are reasonably likely to have, a current or future material effect on our financial position.

Funding Needs and Sources

We have significant contractual obligations of which our debt service obligations and the capital expenditures associated with our ship purchases represent our largest funding needs. As of December 31, 2019, we had approximately \$5.5 billion in contractual obligations due through December 31, 2020 of which approximately \$2.6 billion relates to debt maturities including our commercial paper notes, \$348.8 million relates to interest on debt and \$2.2 billion relates to progress payments on our ship orders and the final installments payable due upon the deliveries of *Celebrity Apex*, *Silver Origin*, *Silver Moon* and *Odyssey of the Seas* in 2020. We have historically relied on a combination of cash flows provided by operations, drawdowns under our available credit facilities and our commercial paper program, the incurrence of additional debt and/or the refinancing of our existing debt and the issuance of additional shares of equity securities to fund these obligations.

As of December 31, 2019, we had a working capital deficit of \$6.8 billion, which included \$1.2 billion of current portion of debt, including finance leases, and \$1.4 billion of commercial paper. As of December 31, 2018, we had a working capital deficit of \$5.9 billion, which included \$1.6 billion of current portion of debt, including finance leases and \$0.8 billion of commercial paper. Similar to others in our industry, we operate with a substantial working capital deficit. This deficit is mainly attributable to the fact that, under our business model, a vast majority of our passenger ticket receipts are collected in advance of the applicable sailing date. These advance passenger

receipts remain a current liability until the sailing date. The cash generated from these advance receipts is used interchangeably with cash on hand from other sources, such as our revolving credit facilities, commercial paper and other cash from operations. The cash received as advanced receipts can be used to fund operating expenses for the applicable future sailing or otherwise, pay down our revolving credit facilities and commercial paper, invest in long term investments or any other use of cash. In addition, we have a relatively low-level of accounts receivable and rapid turnover results in a limited investment in inventories. We generate substantial cash flows from operations, and our business model, along with our unsecured revolving credit facilities, has historically allowed us to maintain this working capital deficit and still meet our operating, investing and financing needs. We expect that we will continue to have working capital deficits in the future.

As of December 31, 2019, we had liquidity of \$1.5 billion, consisting of \$243.7 million in cash and cash equivalents and \$1.3 billion available under our unsecured credit facilities, net of our outstanding commercial paper notes.

We anticipate that our cash flows from operations and our current financing arrangements, as described above, will be adequate to meet our capital expenditures and debt repayments over the next twelve-month period.

As of December 31, 2019, we have approximately \$600.0 million that remains available for future common stock repurchase transactions under a 24-month common stock repurchase program for up to \$1.0 billion authorized by our board of directors in May 2018. Repurchases under the program may be made at management's discretion from time to time on the open market or through privately negotiated transactions and are expected to be funded from available cash or borrowings. Refer to Note 12. *Shareholders' Equity* to our consolidated financial statements under Item 8. *Financial Statements and Supplemental Data* for further information.

If any person acquires ownership of more than 50% of our common stock or, subject to certain exceptions, during any 24-month period, a majority of our board of directors is no longer comprised of individuals who were members of our board of directors on the first day of such period, we may be obligated to prepay indebtedness outstanding under our credit facilities, which we may be unable to replace on similar terms. Our public debt securities also contain change of control provisions that would be triggered by a third-party acquisition of greater than 50% of our common stock coupled with a ratings downgrade. If this were to occur, it would have an adverse impact on our liquidity and operations.

Debt Covenants

Certain of our financing agreements contain covenants that require us, among other things, to maintain minimum net worth of at least \$9.9 billion, a fixed charge coverage ratio of at least 1.25x and limit our net debt-to-capital ratio to no more than 62.5%. The fixed charge coverage ratio is calculated by dividing net cash from operations for the past four quarters by the sum of dividend payments plus scheduled principal debt payments in excess of any new financings for the past four quarters. Our minimum net worth and maximum net debt-to-capital calculations exclude the impact of *Accumulated other comprehensive loss* on *Total shareholders' equity*. We were well in excess of all debt covenant requirements as of December 31, 2019. The specific covenants and related definitions can be found in the applicable debt agreements, the majority of which have been previously filed with the Securities and Exchange Commission.

Dividends

In December 2019, we declared a cash dividend on our common stock of \$0.78 per share which was paid in the first quarter of 2020. We declared a cash dividend on our common stock of \$0.78 per share during the third quarter of 2019 which was paid in the fourth quarter of 2019. During the first and second quarters of 2019, we declared a cash dividend on our common stock of \$0.70 per share which was paid in the second and third quarters of 2019, respectively. During the first quarter of 2019, we also paid a cash dividend on our common stock of \$0.70 per share which was declared during the fourth quarter of 2018.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Financial Instruments and Other

General

We are exposed to market risk attributable to changes in interest rates, foreign currency exchange rates and fuel prices. We try to mitigate these risks through a combination of our normal operating and financing activities and through the use of derivative financial instruments pursuant to our hedging practices and policies. The financial impact of these hedging instruments is primarily offset by corresponding changes in the underlying exposures being hedged. We achieve this by closely matching the amount, term and conditions of the derivative instrument with the underlying risk being hedged. Although certain of our derivative financial instruments do not qualify or are not accounted for under hedge accounting, our objective is not to hold or issue derivative financial instruments for trading or other speculative purposes. (Refer to Note 18. *Fair Value Measurements and Derivative Instruments* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data*.)

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates to our long-term debt obligations including future interest payments. At December 31, 2019, approximately 62.1% of our long-term debt was effectively fixed as compared to 59.1% as of December 31, 2018. We use interest rate swap agreements to modify our exposure to interest rate movements and to manage our interest expense.

Market risk associated with our long-term fixed rate debt is the potential increase in fair value resulting from a decrease in interest rates. We use interest rate swap agreements that effectively convert a portion of our fixed-rate debt to a floating-rate basis to manage this risk. At December 31, 2019 and 2018, we maintained interest rate swap agreements on the following fixed-rate debt instruments:

Debt Instrument	Swap Notional as of December 31, 2019 (In thousands)	Maturity	Debt Fixed Rate	Swap Floating Rate: LIBOR plus	All-in Swap Floating Rate as of December 31, 2019
<i>Oasis of the Seas</i> term loan	\$ 70,000	October 2021	5.41%	3.87%	5.8%
Unsecured senior notes	650,000	November 2022	5.25%	3.63%	5.54%
	<u>\$ 720,000</u>				

These interest rate swap agreements are accounted for as fair value hedges.

The estimated fair value of our long-term fixed-rate debt at December 31, 2019 was \$5.6 billion, using quoted market prices, where available, or using the present value of expected future cash flows which incorporates risk profile. The fair value of our fixed to floating interest rate swap agreements was estimated to be a liability of \$1.6 million as of December 31, 2019, based on the present value of expected future cash flows. A hypothetical one percentage point decrease in interest rates at December 31, 2019 would increase the fair value of our hedged and unhedged long-term fixed-rate debt by approximately \$266.2 million and would increase the fair value of our fixed to floating interest rate swap agreements by approximately \$16.5 million.

Market risk associated with our long-term floating-rate debt is the potential increase in interest expense from an increase in interest rates. We use interest rate swap agreements that effectively convert a portion of our floating-rate debt to a fixed-rate basis to manage this risk. A hypothetical one percentage point increase in interest rates would increase our forecasted 2020 interest expense by approximately \$37.4 million, assuming no change in foreign currency exchange rates.

At December 31, 2019 and 2018, we maintained interest rate swap agreements on the following floating-rate debt instruments:

Debt Instrument	Swap Notional as of December 31, 2019 (In thousands)	Maturity	Debt Floating Rate	All-in Swap Fixed Rate
<i>Celebrity Reflection</i> term loan	\$ 272,708	October 2024	LIBOR plus 0.40%	2.85%
<i>Quantum of the Seas</i> term loan	428,750	October 2026	LIBOR plus 1.30%	3.74%
<i>Anthem of the Seas</i> term loan	453,125	April 2027	LIBOR plus 1.30%	3.86%
<i>Ovation of the Seas</i> term loan	587,917	April 2028	LIBOR plus 1.00%	3.16%
<i>Harmony of the Seas</i> term loan ⁽¹⁾	551,325	May 2028	EURIBOR plus 1.15%	2.26%
<i>Odyssey of the Seas</i> term loan ⁽²⁾	460,000	October 2032	LIBOR plus 0.95%	3.20%
	<u>\$ 2,753,825</u>			

- (1) Interest rate swap agreements hedging the Euro-denominated term loan for *Harmony of the Seas* include EURIBOR zero-floors matching the hedged debt EURIBOR zero-floor. Amount presented is based on the exchange rate as of December 31, 2019.
- (2) Interest rate swap agreements hedging the term loan for *Odyssey of the Seas* include LIBOR zero-floors matching the hedged debt LIBOR zero-floor. The anticipated unsecured term loan for the financing of *Odyssey of the Seas* is expected to be drawn in October 2020.

These interest rate swap agreements are accounted for as cash flow hedges.

The fair value of our floating to fixed interest rate swap agreements was estimated to be a liability of \$65.4 million as of December 31, 2019 based on the present value of expected future cash flows. These interest rate swap agreements are accounted for as cash flow hedges.

Foreign Currency Exchange Rate Risk

Our primary exposure to foreign currency exchange rate risk relates to our ship construction contracts denominated in Euros, our foreign currency denominated debt and our international business operations. On a regular basis, we enter into foreign currency forward contracts and, from time to time, we utilize cross-currency swap agreements and collar options to manage portions of the exposure to movements in foreign currency exchange rates.

The estimated fair value, as of December 31, 2019, of our Euro-denominated forward contracts associated with our ship construction contracts was a liability of \$139.2 million, based on the present value of expected future cash flows. As of December 31, 2019, the aggregate cost of our ships on order, not including ships on order by our Partner Brands and the Silversea Cruises ships that remain contingent upon final documentation and financing, was approximately \$14.8 billion, of which we had deposited \$881.5 million as of such date. Approximately 65.9% and 53.5% of the aggregate cost of the ships under construction was exposed to fluctuations in the Euro exchange rate at December 31, 2019 and 2018, respectively. A hypothetical 10% strengthening of the Euro as of December 31, 2019, assuming no changes in comparative interest rates, would result in a \$972.2 million increase in the United States dollar cost of the foreign currency denominated ship construction contracts exposed to fluctuations in the Euro exchange rate. Our foreign currency forward contract agreements are accounted for as cash flow or net investment hedges depending on the designation of the related hedge.

Our international business operations subject us to foreign currency exchange risk. We transact business in many different foreign currencies and maintain investments in foreign operations which may expose us to financial market risk resulting from fluctuations in foreign currency exchange rates. Movements in foreign currency exchange rates may affect the value of our earnings in foreign currencies and cash flows. We manage most of this exposure on a consolidated basis, which allows us to take advantage of any natural offsets. Therefore, weakness in one particular currency might be offset by strengths in other currencies over time. The extent to which one currency is effective as a natural offset of another currency fluctuates over time. In addition, some foreign currency exposures have little to no mitigating natural offsets available.

We consider our investments in our foreign operations to be denominated in relatively stable currencies and of a long-term nature. As of December 31, 2019, we maintained foreign currency forward contracts and designated them as hedges of a portion of our net investment in TUI Cruises of €173.0 million, or approximately \$194.2 million based on the exchange rate at December 31, 2019. These forward currency contracts mature in October 2021.

We also address the exposure of our investments in foreign operations by denominating a portion of our debt in our subsidiaries' and investments' functional currencies and designating it as a hedge of these subsidiaries and investments. We had designated debt as a hedge of our net investments primarily in TUI Cruises of approximately €319.0 million, or approximately \$358.1 million, through December 31, 2019. As of December 31, 2018, we had designated debt as a hedge of our net investments primarily in TUI Cruises of approximately €280.0 million, or approximately \$320.2 million.

We have included net gains of approximately \$96.8 million and \$86.1 million of foreign-currency transaction remeasurement and changes in the fair value of derivatives in the foreign currency translation adjustment component of *Accumulated other comprehensive loss* at December 31, 2019 and 2018, respectively.

On a regular basis, we enter into foreign currency forward contracts and, from time to time, we utilize cross-currency swap agreements and collar options to minimize the volatility resulting from the remeasurement of net monetary assets and liabilities denominated in a currency other than our functional currency or the functional currencies of our foreign subsidiaries. During 2019, we maintained an average of approximately \$689.7 million of these foreign currency forward contracts. These instruments are not designated as hedging instruments. For the years ended December 31, 2019, 2018 and 2017 changes in the fair value of the foreign currency forward contracts resulted in gains (losses) of approximately \$1.4 million, \$(62.4) million and \$62.0 million, respectively, which offset gains (losses) arising from the remeasurement of monetary assets and liabilities denominated in foreign currencies in those same years of \$0.4 million, \$57.6 million and \$(75.6) million, respectively. These changes were recognized in earnings within *Other income (expense)* in our consolidated statements of comprehensive income (loss).

Fuel Price Risk

Our exposure to market risk for changes in fuel prices relates primarily to the consumption of fuel on our ships. Fuel cost (net of the financial impact of fuel swap agreements), as a percentage of our total revenues, was approximately 6.4% in 2019, 7.5% in 2018 and 7.8% in 2017. We use fuel swap agreements to mitigate the financial impact of fluctuations in fuel prices.

As of December 31, 2019, we had fuel swap agreements to pay fixed prices for fuel with an aggregate notional amount of approximately \$810.0 million, maturing through 2023. The fuel swap agreements represented 54% of our projected 2020 fuel requirements, 30% of our projected 2021 fuel requirements, 19% of our projected 2022 fuel requirements and 5% of our projected 2023 fuel requirements. These fuel swap agreements are generally accounted for as cash flow hedges. The estimated fair value of these contracts at December 31, 2019 was estimated to be a liability of \$23.8 million. We estimate that a hypothetical 10% increase in our weighted-average fuel price from that experienced during the year ended December 31, 2019 would increase our forecasted 2020 fuel cost by approximately \$36.8 million, net of the impact of fuel swap agreements.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and Quarterly Selected Financial Data are included beginning on page F-1 of this report.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chairman and Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based upon such evaluation, our Chairman and Chief Executive Officer and Chief Financial Officer concluded that those controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chairman and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's (the "SEC") rules and forms.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our management, with the participation of our Chairman and Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, as stated in its report, which is included herein on page F-2.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their goals under all potential future conditions.

Item 9B. Other Information

None.

PART III

Items 10, 11, 12, 13 and 14. Directors, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Certain Relationships and Related Transactions; and Director Independence and Principal Accountant Fees and Services.

Except for information concerning executive officers (called for by Item 401(b) of Regulation S-K), which is included in Part I of this Annual Report on Form 10-K, the information required by Items 10, 11, 12, 13 and 14 is incorporated herein by reference to certain sections of the Royal Caribbean Cruises Ltd. Definitive Proxy Statement relating to our 2020 Annual Meeting of Shareholders (the "Proxy Statement") to be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year. Please refer to the following sections in the Proxy Statement for more information: "*Corporate Governance*"; "*Proposal 1—Election of Directors*"; "*Certain Relationships and Related Person Transactions*"; "*Section 16(a) Beneficial Ownership Reporting Compliance*"; "*Executive Compensation*"; "*Security Ownership of Certain Beneficial Owners and Management*"; and "*Proposal 3—Ratification of Principal Independent Registered Public Accounting Firm.*" Copies of the Proxy Statement will become available when filed through our Investor Relations website at www.rclcorporate.com (please see "Financial Reports" under "Financial Information"); by contacting our Investor Relations department at 1050 Caribbean Way, Miami, Florida 33132—telephone (305) 982-2625; or by visiting the SEC's website at www.sec.gov.

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, including our executive officers, and our directors. A copy of the Code of Business Conduct and Ethics is posted in the corporate governance section of our website at www.rclcorporate.com and is available in print, without charge, to shareholders upon written request to our Corporate Secretary at Royal Caribbean Cruises, Ltd., 1050 Caribbean Way, Miami, Florida 33132. Any amendments to the code or any waivers from any provisions of the code granted to executive officers or directors will be promptly disclosed to investors by posting on our website at www.rclcorporate.com. None of the websites referenced in this Annual Report on Form 10-K or the information contained therein is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

Our Consolidated Financial Statements have been prepared in accordance with Item 8. *Financial Statements and Supplementary Data* and are included beginning on page F-1 of this report.

(1) Financial Statement Schedules

None.

(1) Exhibits

Exhibits 10.36 through 10.57 represent management compensatory plans or arrangements.

Exhibit Number	Exhibit Description	Incorporated By Reference		
		Form	Exhibit	Filing Date/ Period End Date
3.1	Restated Articles of Incorporation of the Company, as amended (composite)	S-3	3.1	3/23/2009
3.2	Amended and Restated By-Laws of the Company, as amended	8-K	3.1	12/6/2018
4.1	Indenture dated as of July 15, 1994, by and between the Company, as issuer, and The Bank of New York Trust Company, N.A., successor to NationsBank of Georgia, National Association, as Trustee	20-F	2.4	12/31/1994
4.2	Sixth Supplemental Indenture dated as of October 14, 1997, to the Indenture, dated as of July 15, 1994, by and between the Company, as issuer, and The Bank of New York Trust Company, N.A., as Trustee	20-F	2.11	12/31/1997
4.3	Eighth Supplemental Indenture dated as of March 16, 1998, to the Indenture, dated as of July 15, 1994, by and between the Company, as issuer, and The Bank of New York Trust Company, N.A., as Trustee	20-F	2.13	12/31/1997
4.4	Form of Indenture, dated as of July 31, 2006, by and between the Company, as issuer, and The Bank of New York Trust Company, N.A., as Trustee	S-3	4.1	7/31/2006
4.5	Second Supplemental Indenture dated as of November 7, 2012 between the Company, as issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee	8-K	4.1	11/7/2012
4.6	Third Supplemental Indenture, dated as of November 28, 2017 between the Company, as issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee	8-K	4.1	11/28/2017
4.7	Indenture dated as of January 30, 2017 among Silversea Cruise Finance Ltd., as issuer, Citibank, N.A., London Branch, as Trustee, as Principal Paying Agent and as Security Agent, and Citigroup Global Markets Deutschland AG, as Registrar	10-K	4.7	12/31/2018
4.8	Supplemental Indenture dated as of February 1, 2017 by and among Silversea Cruise Finance Ltd., as issuer, the other parties listed as New Guarantors, and Citibank, N.A., London Branch, as Trustee	10-K	4.8	12/31/2018
4.9	Second Supplemental Indenture dated as of February 1, 2019 by and between Silversea Cruise Finance Ltd., as issuer, and Citibank, N.A., London Branch, as Trustee	10-K	4.9	12/31/2018
4.10	Description of the Company's Securities*			
10.1	Amended and Restated Registration Rights Agreement dated as of July 30, 1997, by and among the Company, A. Wilhelmsen AS., Cruise Associates, Monument Capital Corporation, Archinav Holdings, Ltd. and Overseas Cruiseship, Inc.	20-F	2.20	12/31/1997
10.2	Amendment to the Credit Agreement, dated as of December 4, 2017, by and among the Company, the various financial institutions as are or shall become parties thereto and The Bank of Nova Scotia, as administrative agent for the lender parties	8-K	10.1	12/7/2017

Exhibit Number	Exhibit Description	Incorporated By Reference		
		Form	Exhibit	Filing Date/ Period End Date
10.3	Amendment to the Credit Agreement, dated as of April 5, 2019, among Royal Caribbean Cruises Ltd., the various financial institutions as are or shall become parties thereto and The Bank of Nova Scotia, as administrative agent for the lender parties	8-K	10.1	4/10/2019
10.4	Amendment No. 1 to the Amended and Restated Credit Agreement, dated as of May 24, 2019, among the Company, the various financial institutions party thereto and Nordea Bank ABP, as administrative agent	10-Q	10.3	7/25/2019
10.5	Amendment to the Credit Agreement, dated as of October 12, 2017, by and among the Company, the various financial institutions as are or shall become parties thereto and Nordea Bank AB (PUBL), New York branch, as administrative agent for the lender parties	8-K	10.3	10/17/2017
10.6	Amendment No. 4 to Hull No. S-697 Credit Agreement, dated as of February 2, 2016, by and between the Company, the Lenders from time to time party thereto, the Mandated Lead Arrangers and KfW IPEX-Bank GmbH, as Hermes Agent and Facility Agent	10-K	10.7	12/31/2015
10.7	Amendment No. 5 to Hull No. S-697 Credit Agreement, dated as of July 3, 2018, by and between the Company, the Lenders from time to time party thereto, the Mandated Lead Arrangers and KfW IPEX-Bank GmbH, as Hermes Agent and Facility Agent	10-Q	10.4	6/30/2018
10.8	Amendment No. 4 to Hull No. S-698 Credit Agreement, dated as of February 3, 2016, by and between the Company, the Lenders from time to time party thereto, the Mandated Lead Arrangers and KfW IPEX-Bank GmbH, as Hermes Agent and Facility Agent	10-K	10.8	12/31/2015
10.9	Amendment No. 5 to Hull No. S-698 Credit Agreement, dated as of July 3, 2018, by and between the Company, the Lenders from time to time party thereto, the Mandated Lead Arrangers and KfW IPEX-Bank GmbH, as Hermes Agent and Facility Agent	10-Q	10.5	6/30/2018
10.10	Amendment No. 1 to Hull No. S-699 Credit Agreement, dated as of March 31, 2016, by and between the Company, the Lenders from time to time party thereto, the Mandated Lead Arrangers and KfW IPEX-Bank GmbH, as Hermes Agent and Facility Agent	10-Q	10.1	3/31/2016
10.11	Amendment No. 2 to Hull No. S-699 Credit Agreement, dated as of July 3, 2018, by and between the Company, the Lenders from time to time party thereto, the Mandated Lead Arrangers and KfW IPEX-Bank GmbH, as Hermes Agent and Facility Agent	10-Q	10.6	6/30/2018
10.12	Amendment and Restatement Agreement, dated as of January 15, 2016, in respect of a Facility Agreement dated, as of July 9, 2013, by and between the Company, the Lenders from time to time party thereto, Société Générale, as Facility Agent and Mandated Lead Arranger, BNP Paribas, as Documentation Bank and Mandated Lead Arranger, and HSBC France, as Mandated Lead Arranger	10-K	10.10	12/31/2015
10.13	Amendment and Restatement Agreement, dated as of August 15, 2019, in respect of a Facility Agreement dated, as of July 9, 2013, by and between the Company, the Lenders from time to time party thereto, Société Générale, as Facility Agent and Mandated Lead Arranger, BNP Paribas, as Documentation Bank and Mandated Lead Arranger, and HSBC France, as Mandated Lead Arranger	10-Q	10.1	10/30/2019
10.14	Hull No. B34 Credit Agreement, dated as of January 30, 2015, as novated, amended and restated on the Actual Delivery Date pursuant to a novation agreement dated January 30, 2015 (as amended), between Royal Caribbean Cruises Ltd., Citibank N.A., London Branch, Citibank Europe plc, UK Branch, and the banks and financial institutions as lender parties thereto	10-Q	10.1	3/31/2018
10.15	Hull No. S-700 Credit Agreement, dated as of November 13, 2015, by and among the Company, the Lenders from time to time party thereto and KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent and Initial Mandated Lead Arranger	8-K	10.1	11/19/2015

Exhibit Number	Exhibit Description	Incorporated By Reference		
		Form	Exhibit	Filing Date/ Period End Date
10.16	Amendment No. 1 to Hull No. S-700 Credit Agreement, dated as of November 13, 2015, by and among the Company, the Lenders from time to time party thereto and KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent and Initial Mandated Lead Arranger	10-Q	10.7	6/30/2018
10.17	Amendment No. 2 to Hull No. S-700 Credit Agreement, dated as of July 3, 2018, by and among the Company, the Lenders from time to time party thereto and KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent and Initial Mandated Lead Arranger	10-Q	10.8	6/30/2018
10.18	Hull No. S-713 Credit Agreement, dated as of November 13, 2015, by and among the Company, the Lenders from time to time party thereto and KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent and Initial Mandated Lead Arranger	8-K	10.2	11/19/2015
10.19	Amendment No. 1 to Hull No. S-713 Credit Agreement, dated as of September 7, 2016, by and among the Company, the Lenders from time to time party thereto and KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent and Initial Mandated Lead Arranger	10-Q	10.9	6/30/2018
10.20	Amendment No. 2 to Hull No. S-713 Credit Agreement, dated as of July 3, 2018, by and among the Company, the Lenders from time to time party thereto and KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent and Initial Mandated Lead Arranger	10-Q	10.10	6/30/2018
10.21	Hull No. J34 Credit Agreement, dated as of June 22, 2016, as novated, amended and restated on the Actual Delivery Date pursuant to a novation agreement dated June 22, 2016 (as amended), between Royal Caribbean Cruises Ltd., Citibank N.A., London Branch, Citibank Europe plc, UK Branch, and the banks and financial institutions as lender parties thereto	10-K	10.18	12/31/2018
10.22	Novation Agreement, dated as of June 22, 2016, by and between Azairmia Finance Ltd., Royal Caribbean Cruises Ltd., Citibank Europe Plc, UK Branch, Citicorp Trustee Company Limited, Citibank N.A., London Branch, HSBC France, Sumitomo Mitsui Banking Corporation Europe Limited, Paris Branch and the banks and financial institutions as lender parties thereto	8-K	10.2	6/28/2016
10.23	First Supplemental Agreement, dated as of October 5, 2018, relating to Hull No. K34 and the Novation Agreement, dated as of June 22, 2016, by and between Azairmia Finance Ltd., Royal Caribbean Cruises Ltd., Citibank Europe Plc, UK Branch, Citicorp Trustee Company Limited, Citibank N.A., London Branch, HSBC France, Sumitomo Mitsui Banking Corporation Europe Limited, Paris Branch, and the banks and financial institutions as lender parties thereto	10-K	10.20	12/31/2018
10.24	Novation Agreement, dated as of July 24, 2017, between Hibisyeu Finance Ltd., Royal Caribbean Cruises Ltd., Citibank Europe Plc, UK Branch, Citicorp Trustee Company Limited, Citibank N.A., London Branch, HSBC France, Sumitomo Mitsui Banking Corporation Europe Limited, Paris Branch and the banks and financial institutions as lender parties thereto	8-K	10.1	7/28/2017
10.25	Novation Agreement, dated as of July 24, 2017, between Hoediscus Finance Ltd., Royal Caribbean Cruises Ltd., Citibank Europe Plc, UK Branch, Citicorp Trustee Company Limited, Citibank N.A., London Branch, HSBC France, Sumitomo Mitsui Banking Corporation Europe Limited, Paris Branch and the banks and financial institutions as lender parties thereto	8-K	10.2	7/28/2017
10.26	Novation Agreement, dated as of July 24, 2017, between Houatorris Finance Ltd., Royal Caribbean Cruises Ltd., Citibank Europe Plc, UK Branch, Citicorp Trustee Company Limited, Citibank N.A., London Branch, HSBC France, Sumitomo Mitsui Banking Corporation Europe Limited, Paris Branch and the banks and financial institutions as lender parties thereto	8-K	10.3	7/28/2017

Exhibit Number	Exhibit Description	Incorporated By Reference		
		Form	Exhibit	Filing Date/ Period End Date
10.27	Novation Agreement, dated as of December 13, 2019, between Palmeraie Finance Limited, Royal Caribbean Cruises Ltd., Citibank Europe Plc, UK Branch, Citicorp Trustee Company Limited, Citibank N.A., London Branch HSBC France, Banco Santander S.A., Banco Bilbao Vizcaya Argentaria S.A., Paris Branch, BNP Paribas SA, Sumitomo Mitsui Banking Corporation Europe Limited, Paris Branch, Société Générale, Unicredit Bank AG and the banks and financial institutions as lender parties thereto	8-K	10.1	12/18/2019
10.28	Icon 1 Hull No. S-1400 Credit Agreement, dated as of October 11, 2017, between Royal Caribbean Cruises Ltd., as the Borrower, the Lenders from time to time party thereto, KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent, Documentation Agent and Initial Mandated Lead Arranger and BNP Paribas Fortis SA/NV as Finnvera Agent	8-K	10.1	10/17/2017
10.29	Amendment No. 1 to Icon 1 Hull No. S-1400 Credit Agreement, dated as of July 3, 2018, between Royal Caribbean Cruises Ltd., as the Borrower, the Lenders from time to time party thereto, KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent, Documentation Agent and Initial Mandated Lead Arranger and BNP Paribas Fortis SA/NV as Finnvera Agent	10-Q	10.11	6/30/2018
10.30	Icon 2 Hull No. S-1401 Credit Agreement, dated as of October 11, 2017, between Royal Caribbean Cruises Ltd., as the Borrower, the Lenders from time to time party thereto, KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent, Documentation Agent and Initial Mandated Lead Arranger and BNP Paribas Fortis SA/NV as Finnvera Agent	8-K	10.2	10/17/2017
10.31	Amendment No. 1 to Icon 2 Hull No. S-1401 Credit Agreement, dated as of July 3, 2018, between Royal Caribbean Cruises Ltd., as the Borrower, the Lenders from time to time party thereto, KfW IPEX-Bank GmbH, as Hermes Agent, Facility Agent, Documentation Agent and Initial Mandated Lead Arranger and BNP Paribas Fortis SA/NV as Finnvera Agent	10-Q	10.12	6/30/2018
10.32	Icon 3 Hull No. 1402 Credit Agreement, dated as of December 18, 2019, between Royal Caribbean Cruises Ltd., as the Borrower, KfW IPEX-Bank GmbH, as Facility Agent CIRR Agent, Documentation Agent, Hermes Agent, Initial Mandated Lead Arranger and Sole Bookrunner, and the Lenders and Residual Risk Guarantors from time to time party thereto	8-K	10.1	12/20/2019
10.33	Loan Agreement, dated as of June 29, 2018, among Royal Caribbean Cruises Ltd., as the Borrower, the Lenders from time to time party thereto, and JP Morgan Chase Bank, N.A. as Administrative Agent and Bank of America, N.A., Citigroup Global Markets Limited, Goldman Sachs Bank USA and Morgan Stanley Senior Funding, Inc. as Co-Syndication Agents	8-K	10.1	7/5/2018
10.34	Loan Agreement, dated as of April 5, 2019, among Royal Caribbean Cruises Ltd., as the Borrower, the Lenders from time to time party thereto, Bank of America, N.A. as Administrative Agent and Banco Bilbao Vizcaya Argentaria, S.A. New York Branch, Sumitomo Mitsui Banking Corporation, The Bank of Nova Scotia, Wells Fargo Bank, National Association and DNB Markets Inc. as Co-Syndication Agents	8-K	10.2	4/10/2019
10.35	Commercial Paper Dealer Agreement, dated June 14, 2018, between Royal Caribbean Cruises Ltd., as issuer, and the dealer party thereto	8-K	10.1	6/18/2018
10.36	Royal Caribbean Cruises Ltd. 2008 Equity Incentive Plan (as amended)	10-K	10.17	12/31/2016
10.37	Form of 2008 Equity Incentive Plan Stock Option Award Agreement— Incentive Options	10-Q	10.3	9/30/2008
10.38	Form of 2008 Equity Incentive Plan Stock Option Award Agreement— Nonqualified Options	10-Q	10.4	9/30/2008
10.39	Form of 2008 Equity Incentive Plan Restricted Stock Unit Agreement— Executive Officer Grants	10-K	10.23	12/31/2013
10.40	Form of 2008 Equity Incentive Plan Restricted Stock Unit Agreement— Executive Officer Grants (Non-Vesting Into Retirement)	10-Q	10.7	9/30/2017
10.41	Form of 2008 Equity Incentive Plan Restricted Stock Unit Agreement— Director Grants	10-K	10.31	12/31/2010
10.42	Form of 2008 Equity Incentive Plan Performance Shares Agreement	10-K	10.27	12/31/2014

Exhibit Number	Exhibit Description	Incorporated By Reference		
		Form	Exhibit	Filing Date/ Period End Date
10.43	Form of 2008 Equity Incentive Plan Performance-Based Restricted Shares Agreement	10-K	10.26	12/31/2015
10.44	Employment Agreement, dated as of December 31, 2012, by and between the Company and Richard D. Fain	10-K	10.22	12/31/2012
10.45	Employment Agreement, dated as of May 20, 2013, by and between the Company and Jason T. Liberty	10-Q	10.2	6/30/2013
10.46	Employment Agreement, dated as of July 16, 2015, by and between the Company and Michael W. Bayley	10-Q	10.3	6/30/2015
10.47	Form of First Amendment to Employment Agreement, dated as of February 6, 2015 (entered into between the Company and each of Messrs. Fain and Liberty)	10-K	10.33	12/31/2014
10.48	Employment Agreement dated as of August 3, 2015, by and between Celebrity Cruises Inc. and Lisa Lutoff-Perlo	10-K	10.31	12/31/2016
10.49	Employment Agreement, dated as of December 31, 2012, by and between the Company and Harri U. Kulovaara	10-K	10.26	2/25/2013
10.50	Form of First Amendment to Employment Agreement, dated as of February 6, 2015 (entered into between the Company and each of Messrs. Fain, Kulovaara and Liberty)	10-K	10.33	12/31/2014
10.51	Royal Caribbean Cruises Ltd. Executive Short-Term Bonus Plan	10-Q	10.4	6/30/2015
10.52	Royal Caribbean Cruises Ltd. Supplemental Executive Retirement Plan	8-K	10.3	12/8/2005
10.53	Amendment to Royal Caribbean Cruises Ltd. Supplemental Executive Retirement Plan	10-K	10.31	12/31/2006
10.54	Amendment to Royal Caribbean Cruises Ltd. Supplemental Executive Retirement Plan	10-K	10.31	12/31/2007
10.55	Amendment to Royal Caribbean Cruises Ltd. Supplemental Executive Retirement Plan	10-Q	10.1	9/30/2008
10.56	Amendment to Royal Caribbean Cruises Ltd. Supplemental Executive Retirement Plan	10-K	10.38	12/31/2008
10.57	Cruise Policy for Members of the Board of Directors of the Company	10-K	10.35	12/31/2013
21.1	List of Subsidiaries*			
23.1	Consent of PricewaterhouseCoopers LLP, an independent registered public accounting firm*			
23.2	Consent of Drinker Biddle & Reath LLP*			
24.1	Power of Attorney*			
31.1	Certification of Richard D. Fain required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934*			
31.2	Certification of Jason T. Liberty required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934*			
32.1	Certification of Richard D. Fain and Jason T. Liberty pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code**			

* Filed herewith

** Furnished herewith

Interactive Data File

101 The following financial statements from Royal Caribbean Cruises Ltd.'s Annual Report on Form 10-K for the year ended December 31, 2019 formatted in iXBRL (Inline eXtensible Business Reporting Language) are as follows:

(i) the Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2019, 2018 and 2017;

(ii) the Consolidated Balance Sheets at December 31, 2019 and 2018;

(iii) the Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017;

(iv) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019, 2018 and 2017; and

(v) the Notes to the Consolidated Financial Statements, tagged in summary and detail.

104 Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROYAL CARIBBEAN CRUISES LTD.
(Registrant)

By: /s/ JASON T. LIBERTY

Jason T. Liberty
Executive Vice President, Chief Financial Officer
(Principal Financial Officer and duly authorized signatory)

February 25, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 25, 2020.

/s/ RICHARD D. FAIN

Richard D. Fain
Director, Chairman and Chief Executive Officer
(Principal Executive Officer)

/s/ JASON T. LIBERTY

Jason T. Liberty
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

/s/ HENRY L. PUJOL

Henry L. Pujol
Senior Vice President, Chief Accounting Officer
(Principal Accounting Officer)

*

John F. Brock
Director

*

Stephen R. Howe Jr.
Director

*

William L. Kimsey
Director

*

Maritza G. Montiel
Director

*

Ann S. Moore
Director

*

Eyal M. Ofer
Director

*

Thomas J. Pritzker
Director

*

William K. Reilly
Director

*

Vagn O. Sørensen
Director

*

Donald Thompson
Director

*

Arne Alexander Wilhelmsen
Director

*By: /s/ JASON T. LIBERTY
 Jason T. Liberty, *as Attorney-in-Fact*

ROYAL CARIBBEAN CRUISES LTD.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Royal Caribbean Cruises Ltd.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Royal Caribbean Cruises Ltd. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income (loss), of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standard Codification (“ASC”) 842, Leases (“ASC 842”), which was adopted using the modified retrospective approach.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Ship Accounting

As described in Notes 2 and 7 to the consolidated financial statements, the Company had vessels with a net book value of approximately \$22.7 billion recorded in its financial statements as of December 31, 2019, with capitalized ship improvement costs of approximately \$538 million for the year then ended. Ship improvement costs that add value are capitalized, the useful life of the improvement is estimated, and the replaced asset is disposed of on a net cost basis. Any such improvements are depreciated over the shorter of the improvement's estimated useful lives or that of the associated ship. Accounting estimates related to ship accounting and determinations of ship improvements costs to be capitalized require considerable judgment and are inherently uncertain. Vessels are stated at cost less accumulated depreciation and amortization and depreciation is calculated using the straight-line method over the estimated useful life of the vessels. Management considers the costs and estimates of the useful lives of the ships' component assets, which are categorized into major component systems, such as the hull, superstructure, main electric, engines and cabins, to determine the estimated weighted-average useful life of a vessel. An assessment of cost allocation methodology is performed at the component level, in order to support the estimated weighted-average useful life and residual values, as well as determine the net cost basis of assets being replaced. Management reviews estimated useful lives and residual values periodically for ongoing reasonableness, and where a trigger for change is identified, a review of the estimate is completed. In the fourth quarter of 2019, the Company invested approximately \$170 million of upgrades to its Oasis of the Seas ship under their ship upgrade program. Based on the expected impact of these enhancements, as well as planned future investments and upgrades in the balance of the Oasis class of ships, management now estimates that certain ship components and the overall life of the Oasis class of ships will be extended longer than those previously estimated. In determining the change in estimated useful life and residual value, management utilized quantitative and qualitative analysis, including historical and projected usage patterns, industry benchmarks, planned maintenance programs and projected operational and financial performance of the class.

The principal considerations for our determination that performing procedures relating to ship accounting is a critical audit matter are the significant judgments by management when determining (i) whether ship improvement costs add value to the Company's ships and are capitalizable; (ii) the related useful life assigned to these ship improvement costs; (iii) the estimated net cost basis of the associated assets being replaced; and (iv) whether changes to estimated weighted-average useful lives and residual values are necessary. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence relating to capitalized ship improvement costs; the estimated useful lives of ship improvement costs; the estimated net cost basis of assets replaced; and management's assessment of the weight-average useful lives and residual values for the Oasis-class ships. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of management's controls relating to ship improvement costs, including the assessment of the capitalization of ship improvement costs, the estimated useful lives and net cost basis of the assets being replaced and management's reassessment of the estimated useful lives and residual values for the Oasis class ships during 2019. These procedures also included, among others, for a sample of ship improvement costs, (i) evaluating whether the costs capitalized add value to a ship; (ii) evaluating the reasonableness of the assigned estimated useful lives; and (iii) evaluating the reasonableness of the estimated net cost basis of the assets being replaced. Further, for management's reassessment of estimated useful life and residual value of the Oasis class of ships, our procedures included (i) evaluating the reasonableness of the 35 year useful life and 10% residual value assigned to the Oasis class ships, considering management's historical experience with similarly built ships, as well as consideration of anticipated technology and market changes (ii) evaluating the reasonableness of the changes in the estimated useful lives and residual values at the component asset level, (iii) evaluating the feasibility of management's intended use of the Oasis class of ships, considering 1) historical and projected use patterns 2) consistency of planned refurbishments and maintenance with current program 3) consistency of projected forecasts with past performance and 4) consistency with industry external data. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of the estimated useful lives of the assets being replaced and the estimated useful life and residual value of the Oasis class of ships.

/s/ PricewaterhouseCoopers LLP

Miami, FL

February 25, 2020

We have served as the Company's auditor since at least 1989, which includes periods before the Company became subject to SEC reporting requirements. We have not been able to determine the specific year we began serving as auditor of the Company.

ROYAL CARIBBEAN CRUISES LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2019	2018	2017
	(in thousands, except per share data)		
Passenger ticket revenues	\$ 7,857,057	\$ 6,792,716	\$ 6,313,170
Onboard and other revenues	3,093,604	2,701,133	2,464,675
Total revenues	<u>10,950,661</u>	<u>9,493,849</u>	<u>8,777,845</u>
Cruise operating expenses:			
Commissions, transportation and other	1,656,297	1,433,739	1,363,170
Onboard and other	639,782	537,355	495,552
Payroll and related	1,079,121	924,985	852,990
Food	583,905	520,909	492,857
Fuel	697,962	710,617	681,118
Other operating	1,405,698	1,134,602	1,010,892
Total cruise operating expenses	<u>6,062,765</u>	<u>5,262,207</u>	<u>4,896,579</u>
Marketing, selling and administrative expenses	1,559,253	1,303,144	1,186,016
Depreciation and amortization expenses	1,245,942	1,033,697	951,194
Operating Income	<u>2,082,701</u>	<u>1,894,801</u>	<u>1,744,056</u>
Other income (expense):			
Interest income	26,945	32,800	30,101
Interest expense, net of interest capitalized	(408,513)	(333,672)	(299,982)
Equity investment income	230,980	210,756	156,247
Other (expense) income	(24,513)	11,107	(5,289)
	<u>(175,101)</u>	<u>(79,009)</u>	<u>(118,923)</u>
Net Income	<u>1,907,600</u>	<u>1,815,792</u>	<u>1,625,133</u>
Less: Net Income attributable to noncontrolling interest	28,713	4,750	—
Net Income attributable to Royal Caribbean Cruises Ltd.	<u>\$ 1,878,887</u>	<u>\$ 1,811,042</u>	<u>\$ 1,625,133</u>
Earnings per Share:			
Basic	<u>\$ 8.97</u>	<u>\$ 8.60</u>	<u>\$ 7.57</u>
Diluted	<u>\$ 8.95</u>	<u>\$ 8.56</u>	<u>\$ 7.53</u>
Comprehensive Income (Loss)			
Net Income	\$ 1,907,600	\$ 1,815,792	\$ 1,625,133
Other comprehensive (loss) income:			
Foreign currency translation adjustments	869	(14,251)	17,307
Change in defined benefit plans	(19,535)	7,643	(5,583)
(Loss) gain on cash flow derivative hedges	(151,313)	(286,861)	570,495
Total other comprehensive (loss) income	<u>(169,979)</u>	<u>(293,469)</u>	<u>582,219</u>
Comprehensive Income	<u>\$ 1,737,621</u>	<u>\$ 1,522,323</u>	<u>\$ 2,207,352</u>
Less: Comprehensive Income attributable to noncontrolling interest	28,713	4,750	—
Comprehensive Income attributable to Royal Caribbean Cruises Ltd.	<u>\$ 1,708,908</u>	<u>\$ 1,517,573</u>	<u>\$ 2,207,352</u>

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

ROYAL CARIBBEAN CRUISES LTD.
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2019	2018
	(in thousands, except share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 243,738	\$ 287,852
Trade and other receivables, net	305,821	324,507
Inventories	162,107	153,573
Prepaid expenses and other assets	429,211	456,547
Derivative financial instruments	21,751	19,565
Total current assets	1,162,628	1,242,044
Property and equipment, net	25,466,808	23,466,163
Operating lease right-of-use assets	687,555	—
Goodwill	1,385,644	1,378,353
Other assets	1,617,649	1,611,710
Total assets	\$ 30,320,284	\$ 27,698,270
Liabilities, redeemable noncontrolling interest and shareholders' equity		
Current liabilities		
Current portion of long-term debt	\$ 1,186,586	\$ 1,646,841
Commercial paper	1,434,180	775,488
Current portion of operating lease liabilities	96,976	—
Accounts payable	563,706	488,212
Accrued interest	70,090	74,550
Accrued expenses and other liabilities	1,078,345	899,761
Derivative financial instruments	94,875	78,476
Customer deposits	3,428,138	3,148,837
Total current liabilities	7,952,896	7,112,165
Long-term debt	8,414,110	8,355,370
Long-term operating lease liabilities	601,641	—
Other long-term liabilities	617,810	583,254
Total liabilities	17,586,457	16,050,789
Commitments and contingencies (Note 19)		
Redeemable noncontrolling interest	569,981	542,020
Shareholders' equity		
Preferred stock (\$0.01 par value; 20,000,000 shares authorized; none outstanding)	—	—
Common stock (\$0.01 par value; 500,000,000 shares authorized; 236,547,842 and 235,847,683 shares issued, December 31, 2019 and December 31, 2018, respectively)	2,365	2,358
Paid-in capital	3,493,959	3,420,900
Retained earnings	11,523,326	10,263,282
Accumulated other comprehensive loss	(797,713)	(627,734)
Treasury stock (27,746,848 and 26,830,765 common shares at cost, December 31, 2019 and December 31, 2018, respectively)	(2,058,091)	(1,953,345)
Total shareholders' equity	12,163,846	11,105,461
Total liabilities, redeemable noncontrolling interest and shareholders' equity	\$ 30,320,284	\$ 27,698,270

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

ROYAL CARIBBEAN CRUISES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Operating Activities			
Net Income	\$ 1,907,600	\$ 1,815,792	\$ 1,625,133
Adjustments:			
Depreciation and amortization	1,245,942	1,033,697	951,194
Impairment losses	—	33,651	—
Net deferred income tax expense (benefit)	7,745	(2,679)	1,730
(Gain) loss on derivative instruments not designated as hedges	(1,431)	61,148	(61,704)
Share-based compensation expense	75,930	46,061	69,459
Equity investment income	(230,980)	(210,756)	(156,247)
Amortization of debt issuance costs	31,991	41,978	45,943
Amortization of commercial paper notes discount	31,263	10,652	—
Loss on extinguishment of debt	6,326	—	—
Change in fair value of contingent consideration	18,400	—	—
Gain on sale of property and equipment	—	—	(30,902)
Gain on sale of unconsolidated affiliate	—	(13,680)	—
Recognition of deferred gain	—	(21,794)	—
Changes in operating assets and liabilities:			
Increase in trade and other receivables, net	(9,898)	(9,573)	(32,043)
(Increase) decrease in inventories	(8,533)	(23,849)	2,424
Decrease (increase) in prepaid expenses and other assets	15,669	(71,770)	20,859
Increase in accounts payable	75,281	91,737	36,780
(Decrease) increase in accrued interest	(4,460)	18,773	1,303
Increase in accrued expenses and other liabilities	96,490	42,937	34,215
Increase in customer deposits	280,139	385,990	274,705
Dividends received from unconsolidated affiliates	150,177	243,101	109,677
Other, net	28,715	7,723	(17,960)
Net cash provided by operating activities	<u>3,716,366</u>	<u>3,479,139</u>	<u>2,874,566</u>
Investing Activities			
Purchases of property and equipment	(3,024,663)	(3,660,028)	(564,138)
Cash received on settlement of derivative financial instruments	7,621	76,529	63,224
Cash paid on settlement of derivative financial instruments	(68,836)	(98,074)	—
Investments in and loans to unconsolidated affiliates	(25,569)	(27,172)	(10,396)
Cash received on loans to unconsolidated affiliates	32,870	124,238	62,303
Proceeds from the sale of property and equipment	—	—	230,000
Proceeds from the sale of unconsolidated affiliate	—	13,215	—
Acquisition of Silversea Cruises, net of cash acquired	—	(916,135)	—
Other, net	(12,829)	(1,731)	5,415
Net cash used in investing activities	<u>(3,091,406)</u>	<u>(4,489,158)</u>	<u>(213,592)</u>
Financing Activities			
Debt proceeds	3,525,564	8,590,740	5,866,966

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

ROYAL CARIBBEAN CRUISES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

	Year Ended December 31,		
	2019	2018	2017
Debt issuance costs	(50,348)	(81,959)	(51,590)
Repayments of debt	(4,060,244)	(6,963,511)	(7,835,087)
Proceeds from issuance of commercial paper notes	26,240,540	4,730,286	—
Repayments of commercial paper notes	(25,613,111)	(3,965,450)	—
Purchase of treasury stock	(99,582)	(575,039)	(224,998)
Dividends paid	(602,674)	(527,494)	(437,455)
Proceeds from exercise of common stock options	1,742	4,264	2,525
Other, net	(12,258)	(13,764)	3,843
Net cash (used in) provided by financing activities	<u>(670,371)</u>	<u>1,198,073</u>	<u>(2,675,796)</u>
Effect of exchange rate changes on cash	1,297	(20,314)	2,331
Net (decrease) increase in cash and cash equivalents	(44,114)	167,740	(12,491)
Cash and cash equivalents at beginning of year	287,852	120,112	132,603
Cash and cash equivalents at end of year	<u>\$ 243,738</u>	<u>\$ 287,852</u>	<u>\$ 120,112</u>
Supplemental Disclosures			
Cash paid during the year for:			
Interest, net of amount capitalized	<u>\$ 246,312</u>	<u>\$ 252,466</u>	<u>\$ 249,615</u>
Non-Cash Investing Activities			
Contingent consideration for the acquisition of Silversea Cruises	<u>—</u>	<u>44,000</u>	<u>—</u>
Purchases of property and equipment included in accounts payable and accrued expenses and other liabilities	<u>86,155</u>	<u>—</u>	<u>139,644</u>
Notes receivable issued upon sale of property and equipment	<u>—</u>	<u>—</u>	<u>20,409</u>

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

ROYAL CARIBBEAN CRUISES LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
(in thousands, except per share data)						
Balances at January 1, 2017	\$ 2,346	\$ 3,328,517	\$ 7,860,341	\$ (916,484)	\$(1,153,308)	\$ 9,121,412
Activity related to employee stock plans	6	61,600	—	—	—	61,606
Common stock dividends, \$2.16 per share	—	—	(463,069)	—	—	(463,069)
Changes related to cash flow derivative hedges	—	—	—	570,495	—	570,495
Change in defined benefit plans	—	—	—	(5,583)	—	(5,583)
Foreign currency translation adjustments	—	—	—	17,307	—	17,307
Purchase of treasury stock	—	—	—	—	(224,998)	(224,998)
Net Income attributable to Royal Caribbean Cruises Ltd.	—	—	1,625,133	—	—	1,625,133
Balances at December 31, 2017	2,352	3,390,117	9,022,405	(334,265)	(1,378,306)	10,702,303
Cumulative effect of accounting changes	—	—	(23,476)	—	—	(23,476)
Activity related to employee stock plans	6	30,783	—	—	—	30,789
Common stock dividends, \$2.60 per share	—	—	(546,689)	—	—	(546,689)
Changes related to cash flow derivative hedges	—	—	—	(286,861)	—	(286,861)
Change in defined benefit plans	—	—	—	7,643	—	7,643
Foreign currency translation adjustments	—	—	—	(14,251)	—	(14,251)
Purchases of treasury stock	—	—	—	—	(575,039)	(575,039)
Net Income attributable to Royal Caribbean Cruises Ltd.	—	—	1,811,042	—	—	1,811,042
Balances at December 31, 2018	2,358	3,420,900	10,263,282	(627,734)	(1,953,345)	11,105,461
Activity related to employee stock plans	7	73,059	—	—	(5,164)	67,902
Common stock dividends, \$2.96 per share	—	—	(618,843)	—	—	(618,843)
Changes related to cash flow derivative hedges	—	—	—	(151,313)	—	(151,313)
Change in defined benefit plans	—	—	—	(19,535)	—	(19,535)
Foreign currency translation adjustments	—	—	—	869	—	869
Purchases of treasury stock	—	—	—	—	(99,582)	(99,582)
Net Income attributable to Royal Caribbean Cruises Ltd.	—	—	1,878,887	—	—	1,878,887
Balances at December 31, 2019	\$ 2,365	\$ 3,493,959	\$11,523,326	\$ (797,713)	\$(2,058,091)	\$ 12,163,846

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

ROYAL CARIBBEAN CRUISES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. General

Description of Business

We are a global cruise company. We own and operate four global cruise brands: Royal Caribbean International, Celebrity Cruises, Azamara and Silversea Cruises (collectively, our "Global Brands"). We also own a 50% joint venture interest in the German brand TUI Cruises and a 49% interest in the Spanish brand Pullmantur (collectively, our "Partner Brands"). We account for our investments in our Partner Brands under the equity method of accounting. Together, our Global Brands and our Partner Brands operate a combined 61 ships as of December 31, 2019. Our ships operate on a selection of worldwide itineraries that call on more than 1,000 destinations on all seven continents.

On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruise Holding Ltd. ("Silversea Cruises"), an ultra-luxury and expedition cruise line with nine ships, from Silversea Cruises Group Ltd. ("SCG") for \$1.02 billion in cash and contingent consideration. Refer to Note 3. *Business Combination* for further information on the Silversea Cruises acquisition.

Basis for Preparation of Consolidated Financial Statements

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Estimates are required for the preparation of financial statements in accordance with these principles. Actual results could differ from these estimates. Refer to Note 2. *Summary of Significant Accounting Policies* for a discussion of our significant accounting policies.

All significant intercompany accounts and transactions are eliminated in consolidation. We consolidate entities over which we have control, usually evidenced by a direct ownership interest of greater than 50%, and variable interest entities where we are determined to be the primary beneficiary. Refer to Note 8. *Other Assets* for further information regarding our variable interest entities. We consolidate the operating results of Silversea Cruises on a three-month reporting lag to allow for more timely preparation of our consolidated financial statements. No material events or other transactions involving Silversea Cruises have occurred from September 30, 2019 through December 31, 2019 that would require further disclosure or adjustment to our consolidated financial statements as of and for the year ended December 31, 2019. For affiliates we do not control but over which we have significant influence on financial and operating policies, usually evidenced by a direct ownership interest from 20% to 50%, the investment is accounted for using the equity method.

Note 2. Summary of Significant Accounting Policies

Revenues and Expenses

Deposits received on sales of passenger cruises are initially recorded as customer deposit liabilities on our balance sheet. Customer deposits are subsequently recognized as passenger ticket revenues, together with revenues from onboard and other goods and services and all associated cruise operating expenses of a voyage. For further information on revenue recognition, refer to Note. 4 *Revenues*.

Cash and Cash Equivalents

Cash and cash equivalents include cash and marketable securities with original maturities of less than 90 days.

Inventories

Inventories consist of provisions, supplies and fuel carried at the lower of cost (weighted-average) or net realizable value.

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

ROYAL CARIBBEAN CRUISES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. We capitalize interest as part of the cost of acquiring certain assets. Improvement costs that we believe add value to our ships are capitalized as additions to the ship, the useful lives of the improvements are estimated and depreciated over the shorter of the improvements' estimated useful lives or that of the associated ship, and the replaced assets are disposed of on a net cost basis. The estimated cost and accumulated depreciation of replaced or refurbished ship components are written off and any resulting losses are recognized in *Cruise operating expenses*. Liquidated damages received from shipyards as a result of the late delivery of a new ship are recorded as reductions to the cost basis of the ship.

Depreciation of property and equipment is computed using the straight-line method over the estimated useful life of the asset. The useful lives of our ships are generally 30-35 years, net of a 10%-15% projected residual value. The 30-35-year useful life and 10%-15% residual value are based on the weighted-average of all major components of a ship. Our useful life and residual value estimates take into consideration the impact of anticipated technological changes, long-term cruise and vacation market conditions and historical useful lives of similarly-built ships. In addition, we take into consideration our estimates of the weighted-average useful lives of the ships' major component systems, such as hull, superstructure, main electric, engines and cabins. We employ a cost allocation methodology at the component level, in order to support the estimated weighted-average useful lives and residual values, as well as to determine the net cost basis of assets being replaced. Given the very large and complex nature of our ships, our accounting estimates related to ships and determinations of ship improvement costs to be capitalized require considerable judgment and are inherently uncertain. Depreciation for assets under capital leases is computed using the shorter of the lease term or related asset life.

Depreciation of property and equipment is computed utilizing the following useful lives:

	Years
Ships	generally, 30-35
Ship improvements	3-25
Buildings and improvements	10-40
Computer hardware and software	3-10
Transportation equipment and other	3-30
Leasehold improvements	Shorter of remaining lease term or useful life 3-30

We periodically review estimated useful lives and residual values for ongoing reasonableness, considering long term views on our intended use of each class of ships and the planned level of improvements to maintain and enhance vessels within those classes. In the event a factor is identified that may trigger a change in the estimated useful lives and residual values of our ships, a review of the estimate is completed. In the fourth quarter of 2019, we completed a modernization of the *Oasis of the Seas* under our ship upgrade program. We spent \$538.0 million under this ship upgrade program for the year ended December 31, 2019, with the *Oasis of the Seas* representing approximately \$170.0 million. As a result of this capital investment and future planned investments in our Oasis-class ships, we performed a review of the estimated useful lives and residual values of Oasis-class ships, concluding in a change to the estimate. Effective fourth quarter of 2019, we revised the estimated useful lives of our Oasis-class ships from 30 years with a 15% residual value to 35 years with a 10% residual value. The change in the estimated useful lives and residual values was accounted for prospectively as a change in accounting estimate. The 35-year useful life with a 10% residual value is based on revised estimates of the weighted-average useful life of all major ship components for the Oasis-class ships. The change in estimate is consistent with our recent investments in and future plans to continue to invest in the upgrade of these ships, resulting in the use of certain ship components longer than originally estimated. In determining the change in estimated useful life and residual value, we utilized quantitative and qualitative analysis, including historical and projected usage patterns, industry benchmarks, planned maintenance programs and projected operational and financial performance of the class. The change allows us to better match depreciation expense with the periods these assets are expected to be in use. For the year ended

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December 31, 2019, this change increased operating income and net income by approximately \$4.6 million and increased earnings per share by \$0.02 per share on a basic and diluted basis.

We review long-lived assets for impairment whenever events or changes in circumstances indicate, based on estimated undiscounted future cash flows, that the carrying amount of these assets may not be fully recoverable. For purposes of recognition and measurement of an impairment loss, long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The lowest level for which we maintain identifiable cash flows that are independent of the cash flows of other assets and liabilities is at the ship level for our ships. If estimated future cash flows are less than the carrying value of an asset, an impairment charge is recognized to the extent its carrying value exceeds fair value.

We use the deferral method to account for drydocking costs. Under the deferral method, drydocking costs incurred are deferred and charged to expense on a straight-line basis over the period to the next scheduled drydock, which we estimate to be a period of thirty to sixty months based on the vessel's age as required by Class. Deferred drydock costs consist of the costs to drydock the vessel and other costs incurred in connection with the drydock which are necessary to maintain the vessel's Class certification. Class certification is necessary in order for our cruise ships to be flagged in a specific country, obtain liability insurance and legally operate as passenger cruise ships. The activities associated with those drydocking costs cannot be performed while the vessel is in service and, as such, are done during a drydock as a planned major maintenance activity. The significant deferred drydock costs consist of hauling and wharfage services provided by the drydock facility, hull inspection and related activities (e.g., scraping, pressure cleaning, bottom painting), maintenance to steering propulsion, thruster equipment and ballast tanks, port services such as tugs, pilotage and line handling, and freight associated with these items. We perform a detailed analysis of the various activities performed for each drydock and only defer those costs that are directly related to planned major maintenance activities necessary to maintain Class. The costs deferred are not otherwise routinely periodically performed to maintain a vessel's designed and intended operating capability. Repairs and maintenance activities are charged to expense as incurred.

Goodwill

Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets acquired. We review goodwill for impairment at the reporting unit level annually or, when events or circumstances dictate, more frequently. The impairment review for goodwill consists of a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying amount, and if necessary, a two-step goodwill impairment test. Factors to consider when performing the qualitative assessment include general economic conditions, limitations on accessing capital, changes in forecasted operating results, changes in fuel prices and fluctuations in foreign exchange rates. If the qualitative assessment demonstrates that it is more-likely-than-not that the estimated fair value of the reporting unit exceeds its carrying value, it is not necessary to perform the two-step goodwill impairment test. We may elect to bypass the qualitative assessment and proceed directly to step one, for any reporting unit, in any period. On a periodic basis, we elect to bypass the qualitative assessment and proceed to step one to corroborate the results of recent years' qualitative assessments. We can resume the qualitative assessment for any reporting unit in any subsequent period. When performing the two-step goodwill impairment test, the fair value of the reporting unit is determined and compared to the carrying value of the net assets allocated to the reporting unit. If the fair value of the reporting unit exceeds its carrying value, no further analysis or write-down of goodwill is required. If the fair value of the reporting unit is less than the carrying value of its net assets, the implied fair value of the reporting unit is allocated to all its underlying assets and liabilities, including both recognized and unrecognized tangible and intangible assets, based on their fair value. If necessary, goodwill is then written down to its implied fair value.

Intangible Assets

In connection with our acquisitions, we have acquired certain intangible assets to which value has been assigned based on our estimates. Intangible assets that are deemed to have an indefinite life are not amortized, but are subject to an annual impairment test, or when events or circumstances dictate, more frequently. The impairment review for indefinite-life intangible assets can be performed using a qualitative or quantitative impairment assessment. The quantitative assessment consists of a comparison of the fair value of the indefinite-life intangible

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asset with its carrying amount. If the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. If the fair value exceeds its carrying amount, the indefinite-life intangible asset is not considered impaired.

Other intangible assets assigned finite useful lives are amortized on a straight-line basis over their estimated useful lives.

Contingencies — Litigation

On an ongoing basis, we assess the potential liabilities related to any lawsuits or claims brought against us. While it is typically very difficult to determine the timing and ultimate outcome of such actions, we use our best judgment to determine if it is probable that we will incur an expense related to the settlement or final adjudication of such matters and whether a reasonable estimation of such probable loss, if any, can be made. In assessing probable losses, we take into consideration estimates of the amount of insurance recoveries, if any, which are recorded as assets when recoverability is probable. We accrue a liability when we believe a loss is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertainties related to the eventual outcome of litigation and potential insurance recoveries, it is possible that certain matters may be resolved for amounts materially different from any provisions or disclosures that we have previously made.

Advertising Costs

Advertising costs are expensed as incurred except those costs which result in tangible assets, such as brochures, which are treated as prepaid expenses and charged to expense as consumed. Advertising costs consist of media advertising as well as brochure, production and direct mail costs.

Media advertising was \$309.4 million, \$255.7 million and \$233.5 million, and brochure, production and direct mail costs were \$156.0 million, \$133.4 million and \$126.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Derivative Instruments

We enter into various forward, swap and option contracts to manage our interest rate exposure and to limit our exposure to fluctuations in foreign currency exchange rates and fuel prices. These instruments are recorded on the balance sheet at their fair value and the vast majority are designated as hedges. We also use non-derivative financial instruments designated as hedges of our net investment in our foreign operations and investments. Although certain of our derivative financial instruments do not qualify or are not accounted for under hedge accounting, our objective is not to hold or issue derivative financial instruments for trading or other speculative purposes.

At inception of the hedge relationship, a derivative instrument that hedges the exposure to changes in the fair value of a firm commitment or a recognized asset or liability is designated as a fair value hedge. A derivative instrument that hedges a forecasted transaction or the variability of cash flows related to a recognized asset or liability is designated as a cash flow hedge.

Changes in the fair value of derivatives that are designated as fair value hedges are offset against changes in the fair value of the underlying hedged assets, liabilities or firm commitments. Gains and losses on derivatives that are designated as cash flow hedges are recorded as a component of *Accumulated other comprehensive loss* until the underlying hedged transactions are recognized in earnings. The foreign currency transaction gain or loss of our non-derivative financial instruments and the changes in the fair value of derivatives designated as hedges of our net investment in foreign operations and investments are recognized as a component of *Accumulated other comprehensive loss* along with the associated foreign currency translation adjustment of the foreign operation or investment. In certain hedges of our net investment in foreign operations and investments, we exclude forward points from the assessment of hedge effectiveness and we amortize the related amounts directly into earnings.

On an ongoing basis, we assess whether derivatives used in hedging transactions are "highly effective" in offsetting changes in the fair value or cash flow of hedged items. For our net investment hedges, we use the dollar offset method to measure effectiveness. For all other hedging programs, we use the long-haul method to assess hedge effectiveness using regression analysis for each hedge relationship. The methodology for assessing hedge

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effectiveness is applied on a consistent basis for each one of our hedging programs (i.e., interest rate, foreign currency ship construction, foreign currency net investment and fuel). For our regression analyses, we use an observation period of up to three years, utilizing market data relevant to the hedge horizon of each hedge relationship. High effectiveness is achieved when a statistically valid relationship reflects a high degree of offset and correlation between the changes in the fair values of the derivative instrument and the hedged item. If it is determined that a derivative is not highly effective as a hedge or hedge accounting is discontinued, any change in fair value of the derivative since the last date at which it was determined to be effective is recognized in earnings.

Cash flows from derivative instruments that are designated as fair value or cash flow hedges are classified in the same category as the cash flows from the underlying hedged items. In the event that hedge accounting is discontinued, cash flows subsequent to the date of discontinuance are classified within investing activities. Cash flows from derivative instruments not designated as hedging instruments are classified as investing activities.

We consider the classification of the underlying hedged item's cash flows in determining the classification for the designated derivative instrument's cash flows. We classify derivative instrument cash flows from hedges of benchmark interest rate or hedges of fuel expense as operating activities due to the nature of the hedged item. Likewise, we classify derivative instrument cash flows from hedges of foreign currency risk on our newbuild ship payments as investing activities.

Foreign Currency Translations and Transactions

We translate assets and liabilities of our foreign subsidiaries whose functional currency is the local currency, at exchange rates in effect at the balance sheet date. We translate revenues and expenses at weighted-average exchange rates for the period. Equity is translated at historical rates and the resulting foreign currency translation adjustments are included as a component of *Accumulated other comprehensive loss*, which is reflected as a separate component of *Shareholders' equity*. Exchange gains or losses arising from the remeasurement of monetary assets and liabilities denominated in a currency other than the functional currency of the entity involved are immediately included in our earnings, except for certain liabilities that have been designated to act as a hedge of a net investment in a foreign operation or investment. Exchange gains (losses) were \$0.4 million, \$57.6 million and \$(75.6) million for the years ended December 31, 2019, 2018 and 2017, respectively, and were recorded within *Other income (expense)*. The majority of our transactions are settled in United States dollars. Gains or losses resulting from transactions denominated in other currencies are recognized in income at each balance sheet date.

Concentrations of Credit Risk

We monitor our credit risk associated with financial and other institutions with which we conduct significant business and, to minimize these risks, we select counterparties with credit risks acceptable to us and we seek to limit our exposure to an individual counterparty. Credit risk, including but not limited to counterparty nonperformance under derivative instruments, our credit facilities and new ship progress payment guarantees, is not considered significant, as we primarily conduct business with large, well-established financial institutions, insurance companies and export credit agencies many of which we have long-term relationships with and which have credit risks acceptable to us or where the credit risk is spread out among a large number of counterparties. As of December 31, 2019, we had no counterparty credit risk exposure under our derivative instruments compared to credit risk exposures of \$5.6 million on December 31, 2018, which were limited to the cost of replacing the contracts in the event of non-performance by the counterparties to the contracts, the majority of which are currently our lending banks. We do not anticipate nonperformance by any of our significant counterparties. In addition, we have established guidelines we follow regarding credit ratings and instrument maturities to maintain safety and liquidity. We do not normally require collateral or other security to support credit relationships; however, in certain circumstances this option is available to us.

Earnings Per Share

Basic earnings per share is computed by dividing *Net Income attributable to Royal Caribbean Cruises Ltd.* by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share incorporates the incremental shares issuable upon the assumed exercise of stock options and conversion of potentially dilutive securities.

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Stock-Based Employee Compensation

We measure and recognize compensation expense at the estimated fair value of employee stock awards. Compensation expense for awards and the related tax effects are recognized as they vest. We use the estimated amount of expected forfeitures to calculate compensation costs for all outstanding awards.

Segment Reporting

We control and operate four global cruise brands: Royal Caribbean International, Celebrity Cruises, Azamara and Silversea Cruises. We also own a 50% joint venture interest in the German brand TUI Cruises, a 49% interest in the Spanish brand Pullmantur. We believe our brands possess the versatility to enter multiple cruise market segments within the cruise vacation industry. Although each of these brands has its own marketing style as well as ships and crews of various sizes, the nature of the products sold and services delivered by these brands share a common base (i.e., the sale and provision of cruise vacations). Our brands also have similar itineraries as well as similar cost and revenue components. In addition, our brands source passengers from similar markets around the world and operate in similar economic environments with a significant degree of commercial overlap. As a result, our brands have been aggregated as a single reportable segment based on the similarity of their economic characteristics, types of consumers, regulatory environment, maintenance requirements, supporting systems and processes as well as products and services provided. Our Chairman and Chief Executive Officer has been identified as the chief operating decision-maker and all significant operating decisions including the allocation of resources are based upon the analyses of the Company as one segment. Refer to Note 4. *Revenues* for passenger ticket revenue information by geographic area.

Adoption of Accounting Pronouncements

Leases

On January 1, 2019, we adopted the guidance codified in Accounting Standard Codification ("ASC") 842, Leases ("ASC 842") using the modified retrospective approach and elected the optional transition method, which allows entities to initially apply the standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Upon adoption, we applied the guidance to all existing leases.

For leases with a term greater than 12 months, the new guidance requires the lease rights and obligations arising from the leasing arrangements, including operating leases, to be recognized as assets and liabilities on the balance sheet. Upon adoption of the new guidance, the most significant impact was the recognition of right-of-use assets and lease liabilities relating to operating leases in the amounts of \$801.8 million and \$820.5 million, respectively, reported within *Operating lease right-of-use assets* and *Long-term operating lease liabilities*, respectively, with the current portion of the liability reported within *Current portion of operating lease liabilities*, in our consolidated balance sheet as of January 1, 2019. Accounting for finance leases remained substantially unchanged and continues to be reported within *Property and equipment, net* and *Long-term debt*, with the current portion of the debt reported within *Current portion of debt*, in our consolidated balance sheets. There was no cumulative effect of applying the new standard and accordingly there was no adjustment to our retained earnings upon adoption. The comparative information presented has not been recast and continues to be reported under the accounting standards in effect for those periods. For further information on leases, refer to Note 10. Leases.

This guidance did not have a material impact to our consolidated statements of comprehensive income (loss), consolidated statements of cash flows and our debt-covenants calculations under our current agreements.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326); Measurement of Credit Losses on Financial Instruments. This ASU, along with subsequent ASUs issued to clarify certain of its provisions, introduces new guidance which makes substantive changes to the accounting model for financial assets subject to credit losses that are measured at amortized cost, as well as certain off-balance sheet credit exposures. The primary updates include the introduction of a new current expected credit loss ("CECL") model that is based on expected rather than

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incurred losses. This ASU and the related amendments will be effective for our annual reporting period beginning January 1, 2020. We are currently evaluating the impact that the adoption of this guidance will have to our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating the second step of the goodwill impairment test. Under the new standard, goodwill impairment should be recognized based on the amount by which the carrying amount of a reporting unit exceeds its fair value, but should not exceed the total amount of goodwill allocated to the reporting unit. This ASU will be effective for our annual reporting period beginning January 1, 2020. This guidance is not expected to have a material impact to our consolidated financial statements, but may require us to modify our annual or interim goodwill impairment tests.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Topic 350-40), which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance to determine which implementation costs to capitalize as assets or expense as incurred. This ASU will be effective for our annual reporting period beginning January 1, 2020 and we expect to elect the prospective adoption method. The guidance may impact the accounting treatment of our future implementation costs related to cloud computing arrangements.

In January 2020, the FASB issued ASU No. 2020-01, Investments – Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivative and Hedging (Topic 815), which clarifies the interaction of rules for equity securities, the equity method of accounting, and forward contracts and purchase options on certain types of securities. The guidance clarifies how to account for the transition into and out of the equity method of accounting when considering observable transactions under the measurement alternative. The ASU is effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within those annual periods, with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Reclassifications

For the year ended December 31, 2019, we separately presented Amortization of commercial paper notes discount in our consolidated statements of cash flows. As a result, the prior year amortization amount was reclassified within Operating Activities to conform to the current year presentation.

Note 3. Business Combination

On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruise Holding Ltd. ("Silversea Cruises"), an ultra-luxury and expedition cruise line, from Heritage Cruise Holding Ltd. ("HCH"), previously known as Silversea Cruises Group Ltd. Silversea Cruises enhances our presence in the ultra-luxury and expedition markets and provides us with an opportunity to drive long-term capacity growth in these markets.

The purchase price consisted of \$1.02 billion in cash, net of assumed liabilities, and contingent consideration that can range from zero up to a maximum of approximately 472,000 shares of our common stock, and is payable upon achievement of certain 2019-2020 performance metrics by Silversea Cruises. The fair value of the contingent consideration at the acquisition date was \$44.0 million. Changes to the fair value of the contingent consideration are recorded in our results of operations, if any, in the period of the change. Refer to Note 18. *Fair Value Measurements and Derivative Instruments* for further information on the valuation of the contingent consideration.

To finance a portion of the purchase price, we drew in full on a \$700 million unsecured credit agreement and the remainder of the transaction consideration was financed through the use of our revolving credit facilities. Refer to Note 9. *Debt* for further information on the credit agreement.

We have accounted for this transaction under the provisions of ASC 805, *Business Combinations*. The purchase price for the Silversea Cruises acquisition was allocated based on estimates of the fair value of assets acquired and liabilities assumed at the acquisition date, with the excess allocated to goodwill. Goodwill is not deductible for tax purposes and consisted primarily of the opportunity to expand our cruise operations in strategic growth areas.

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For reporting purposes, we included Silversea Cruises' results of operations on a three-month reporting lag from October 1, 2018 through September 30, 2019 in our consolidated results of operations for the year ended December 31, 2019 and from the July 31, 2018 date of acquisition through September 30, 2018 in our consolidated results of operations for the year ended December 31, 2018. We have included Silversea Cruises' balance sheets as of September 30, 2019 and 2018 in our consolidated balance sheets as of December 31, 2019 and 2018, respectively. Refer to Note 1. *General* for further information on this three-month reporting lag.

There were no material measurement period adjustments recorded for the year ended December 31, 2019.

The following table summarizes the purchase price allocation based on estimated fair values of the assets acquired and liabilities assumed related to the Silversea Cruises acquisition as of July 31, 2018. Our purchase price allocation was final during 2019.

<i>(in thousands)</i>	Estimated Fair Value as of Acquisition Date (as Previously Reported)	Measurement Period Adjustments (1)	Estimated Fair Value as of Acquisition Date (as Adjusted)
Assets			
Cash and cash equivalents	\$ 103,865	\$ —	\$ 103,865
Trade and other receivables, net	7,163	—	7,163
Inventories	18,331	—	18,331
Prepaid expenses and other assets(2)	120,496	—	120,496
Derivative financial instruments	2,886	—	2,886
Property and equipment, net(3)	1,114,270	—	1,114,270
Goodwill	1,090,010	(5,224)	1,084,786
Other assets(4)	498,457	—	498,457
Total assets acquired	2,955,478	(5,224)	2,950,254
Liabilities			
Current portion of long-term debt(5)	26,851	—	26,851
Accounts payable	36,960	—	36,960
Accrued interest	1,773	—	1,773
Accrued expenses and other liabilities	82,531	(5,224)	77,307
Customer deposits	453,798	—	453,798
Long-term debt(5)	727,935	—	727,935
Other long-term liabilities	23,860	—	23,860
Total liabilities assumed	1,353,708	(5,224)	1,348,484
Redeemable noncontrolling interest(6)	537,770	—	537,770
Total purchase price	\$ 1,064,000	\$ —	\$ 1,064,000

- (1) As a result of additional information obtained about facts and circumstances that existed as of the acquisition date, we recorded measurement period adjustments during 2019, which resulted in a net decrease to *Goodwill* of \$5.2 million.
- (2) Amount includes \$32.0 million of cash held as collateral with credit card processors as of July 31, 2018.
- (3) *Property and equipment, net* includes two ships under capital lease agreements amounting to \$156.0 million as of July 31, 2018. The respective capital lease liabilities are reported within *Long-term debt*. Refer to Note 9. *Debt* for further information on the capital lease financing arrangements.
- (4) Amount includes \$494.6 million of intangible assets. Refer to Note 6. *Intangible Assets* for further information on the intangible assets acquired.
- (5) Refer to Note 9. *Debt* for further information on long-term debt assumed.

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- (6) Refer to Note 11. *Redeemable Noncontrolling Interest* for further information on the redeemable noncontrolling interest recorded.

As of December 31, 2018, intangible assets, net include intangible assets acquired in the Silversea Cruises acquisition, which were recorded at fair value at acquisition date as follows:

	Fair Value at Acquisition Date (in thousands)	Weighted Average Amortization Period (Years)
Silversea Cruises trade name	\$ 349,500	Indefinite-life
Customer relationships	97,400	15
Galapagos operating license	36,100	16
Other finite-life intangible assets	11,560	2
Total intangible assets	<u>\$ 494,560</u>	

Similar to our other ship-operating and vessel-owning subsidiaries, Silversea Cruises is currently exempt from U.S. corporate tax on U.S. source income from the international operation of ships pursuant to Section 883 of the Internal Revenue Code. Additionally, the deferred tax liability recognized in connection with the acquisition of Silversea Cruises was not material to our consolidated financial statements and there were no net operating losses recognized as of December 31, 2018.

For the year ended December 31, 2018, Total revenues and Net Income in our consolidated statements of comprehensive income (loss) include \$130.1 million and \$3.3 million, respectively, of revenues and net income from Silversea Cruises since the date of acquisition through September 30, 2018. For the year ended December 31, 2018, our results of operations also include transaction-related costs of \$31.8 million, which were included primarily within Marketing, selling and administrative expenses in our consolidated statements of comprehensive income (loss).

Pro-forma financial results relating to the Silversea Cruises acquisition are not presented, as this acquisition was not material to our consolidated results of operations.

Note 4. Revenues

Revenue Recognition

Revenues are measured based on consideration specified in our contracts with customers and are recognized as the related performance obligations are satisfied.

The majority of our revenues are derived from passenger cruise contracts which are reported within *Passenger ticket revenues* in our consolidated statements of comprehensive income (loss). Our performance obligation under these contracts is to provide a cruise vacation in exchange for the ticket price. We satisfy this performance obligation and recognize revenue over the duration of each cruise, which generally range from two to 25 nights.

Passenger ticket revenues include charges to our guests for port costs that vary with passenger head counts. These type of port costs, along with port costs that do not vary by passenger head counts, are included in our operating expenses. The amounts of port costs charged to our guests and included within *Passenger ticket revenues* on a gross basis were \$666.8 million, \$611.4 million and \$569.5 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Our total revenues also include onboard and other revenues, which consist primarily of revenues from the sale of goods and services onboard our ships that are not included in passenger ticket prices. We receive payment before or concurrently with the transfer of these goods and services to passengers during a cruise and recognize revenue at the time of transfer over the duration of the related cruise.

As a practical expedient, we have omitted disclosures on our remaining performance obligations as the duration of our contracts with customers is less than a year.

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Disaggregated Revenues

The following table disaggregates our total revenues by geographic regions where we provide cruise itineraries (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Revenues by itinerary			
North America(1)	\$ 6,392,354	\$ 5,399,951	\$ 5,062,305
Asia/Pacific(2)	1,529,898	1,463,083	1,588,802
Europe(3)	1,942,057	1,914,549	1,509,586
Other regions	567,904	348,145	285,954
Total revenues by itinerary	10,432,213	9,125,728	8,446,647
Other revenues(4)	518,448	368,121	331,198
Total revenues	\$ 10,950,661	\$ 9,493,849	\$ 8,777,845

(1)Includes the United States, Canada, Mexico and the Caribbean.

(2)Includes Southeast Asia (e.g., Singapore, Thailand and the Philippines), East Asia (e.g., China and Japan), South Asia (e.g., India and Pakistan) and Oceania (e.g., Australia and Fiji Islands) regions.

(3)Includes European countries (e.g., the Nordics, Germany, France, Italy, Spain and the United Kingdom).

(4)Includes revenues primarily related to cancellation fees, vacation protection insurance and pre- and post-cruise tours and fees for operating certain port facilities. Amounts also include revenues related to our bareboat charter, procurement and management related services we perform on behalf of our unconsolidated affiliates. Refer to Note 8. *Other Assets* for more information on our unconsolidated affiliates.

Passenger ticket revenues are attributed to geographic areas based on where the reservation originates. For the years ended December 31, 2019, 2018 and 2017, our guests were sourced from the following areas:

	Year Ended December 31,		
	2019	2018	2017
Passenger ticket revenues:			
United States	65 %	61 %	59 %
United Kingdom	9 %	10 %	9 %
All other countries (1)	26 %	29 %	32 %

(1)No other individual country's revenue exceeded 10% for the years ended December 31, 2019, 2018 and 2017.

Customer Deposits and Contract Liabilities

Our payment terms generally require an upfront deposit to confirm a reservation, with the balance due prior to the cruise. Deposits received on sales of passenger cruises are initially recorded as *Customer deposits* in our consolidated balance sheets and subsequently recognized as passenger ticket revenues during the duration of the cruise. ASC 606, Revenues from Contracts with Customers, defines a “contract liability” as an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration from the customer. We consider customer deposits to be a contract liability once the customer no longer retains the unilateral right, resulting from the passage of time, to cancel such customer's reservation and receive a full refund. Customer deposits as of December 31, 2019, 2018 and 2017 included contract liabilities of \$1.7 billion, \$1.9 billion and \$1.4 billion, respectively. Substantially all of our contract liabilities as of the years ended December 31, 2018 and 2017 were recognized and reported within *Total revenues* in our consolidated statements of comprehensive income (loss) for the years ended December 31, 2019 and 2018, respectively.

Contract Receivables and Contract Assets

Although we generally require full payment from our customers prior to their cruise, we grant credit terms to a relatively small portion of our revenue sourced in select markets outside of the United States. As a result, we have

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outstanding receivables from passenger cruise contracts in those markets. We also have receivables from credit card merchants for cruise ticket purchases and goods and services sold to guests during cruises that are collected before, during or shortly after the cruise voyage. In addition, we have receivables due from concessionaires onboard our vessels. These receivables are included within *Trade and other receivables, net* in our consolidated balance sheets.

We have contract assets that are conditional rights to consideration for satisfying the construction services performance obligations under a service concession arrangement. As of December 31, 2019, 2018, and 2017, our contract assets were \$55.5 million, \$57.8 million and \$60.1 million, respectively, and were included within *Other assets* in our consolidated balance sheets. Given the short duration of our cruises and our collection terms, we do not have any other significant contract assets.

Assets Recognized from the Costs to Obtain a Contract with a Customer

Prepaid travel agent commissions are an incremental cost of obtaining contracts with customers that we recognize as an asset and include within *Prepaid expenses and other assets* in our consolidated balance sheets. Prepaid travel agent commissions were \$163.2 million and \$153.5 million as of December 31, 2019 and 2018, respectively. Substantially all of our prepaid travel agent commissions at December 31, 2018 and December 31, 2017 were expensed and reported within *Commissions, transportation and other* in our consolidated statements of comprehensive income (loss) for the years ended December 31, 2019 and 2018, respectively.

Note 5. Goodwill

The carrying amount of goodwill attributable to our Royal Caribbean International, Celebrity Cruises and Silversea Cruises reporting units and the changes in such balances during the years ended December 31, 2019 and 2018 were as follows (in thousands):

	Royal Caribbean International	Celebrity Cruises	Silversea Cruises	Total
Balance at December 31, 2017	\$ 286,880	\$ 1,632	\$ —	\$ 288,512
Goodwill attributable to the acquisition of Silversea Cruises (1)			1,090,010	1,090,010
Foreign currency translation adjustment	(169)	—	—	(169)
Balance at December 31, 2018	286,711	1,632	1,090,010	1,378,353
Silversea Goodwill adjustment	—	—	(5,224)	(5,224)
Goodwill attributable to the purchase of photo operations onboard our ships (2)	12,518	—	—	12,518
Foreign currency translation adjustment	(3)	—	—	(3)
Balance at December 31, 2019	<u>\$ 299,226</u>	<u>\$ 1,632</u>	<u>\$ 1,084,786</u>	<u>\$ 1,385,644</u>

(1) In 2018, we purchased Silversea Cruises. Refer to Note 3. *Business Combination* for further information.

(2) In 2019, we purchased the photo operations onboard our ships from our previous concessionaire. The acquisition was accounted for as a business purchase combination using the purchase method of accounting which requires the use of fair value measurements. The business combination, including purchase transaction and assets acquired, was immaterial to our consolidated financial statements.

During the fourth quarter of 2019, we performed a qualitative assessment of whether it was more-likely-than-not that our Royal Caribbean International reporting unit's fair value was less than its carrying amount before applying the two-step goodwill impairment test. The qualitative analysis included assessing the impact of certain factors such as general economic conditions, limitations on accessing capital, changes in forecasted operating results, changes in fuel prices and fluctuations in foreign exchange rates. Based on our qualitative assessment, we concluded that it was more-likely-than-not that the estimated fair value of the Royal Caribbean International reporting unit exceeded its carrying value and thus, we did not proceed to the two-step goodwill impairment test. No indicators of impairment exist primarily because the reporting unit's fair value has consistently exceeded its carrying value by a significant margin and forecasts of operating results generated by the reporting unit appear sufficient to

ROYAL CARIBBEAN CRUISES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

support its carrying value. As a result of our assessment, we did not record an impairment of goodwill for the year ended December 31, 2019.

During the fourth quarter of 2019, we also performed a qualitative assessment of whether it was more-likely-than-not that our Silversea Cruises reporting unit's fair value was less than its carrying amount before applying the two-step goodwill impairment test. The qualitative analysis included assessing the impact of certain factors such as general economic conditions, limitations on accessing capital, changes in forecasted operating results, changes in fuel prices and fluctuations in foreign exchange rates. Based on our qualitative assessment, we concluded that it was more-likely-than-not that the estimated fair value of the Silversea Cruises reporting unit exceeded its carrying value and thus, we did not proceed to the two-step goodwill impairment test. No indicators of impairment exist primarily because forecasted operating results of the reporting unit appear sufficient to support its carrying value. As a result of our assessment, we did not record an impairment of goodwill for the year ended December 31, 2019.

For the years ended December 31, 2018 and 2017, we did not record an impairment of goodwill for our reporting units.

Note 6. Intangible Assets

Intangible assets consist of finite and indefinite life assets and are reported within *Other assets* in our consolidated balance sheets.

The following is a summary of our intangible assets as of December 31, 2019 (in thousands, except weighted average amortization period):

	As of December 31, 2019			
	Remaining Weighted Average Amortization Period (Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Finite-life intangible assets:				
Customer relationships	13.8	\$ 97,400	\$ 7,576	\$ 89,824
Galapagos operating license	24.7	47,669	6,010	41,659
Other finite-life intangible assets	0.8	11,560	6,743	4,817
Total finite-life intangible assets		156,629	20,329	136,300
Indefinite-life intangible assets		352,275	—	352,275
Total intangible assets, net		\$ 508,904	\$ 20,329	\$ 488,575

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of our intangible assets as of December 31, 2018 (in thousands, except weighted average amortization period):

	As of December 31, 2018			
	Remaining Weighted Average Amortization Period (Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Finite-life intangible assets:				
Customer relationships	14.8	\$ 97,400	\$ 1,082	\$ 96,318
Galapagos operating license	25.8	47,669	4,206	43,463
Other finite-life intangible assets	1.8	11,560	963	10,597
Total finite-life intangible assets		156,629	6,251	150,378
Indefinite-life intangible assets		351,725	—	351,725
Total intangible assets, net		\$ 508,354	\$ 6,251	\$ 502,103

The estimated future amortization for finite-life intangible assets for each of the next five years is as follows (in thousands):

Year	
2020	\$ 12,995
2021	\$ 8,179
2022	\$ 8,179
2023	\$ 8,179
2024	\$ 8,179

Note 7. Property and Equipment

Property and equipment consists of the following (in thousands):

	As of December 31,	
	2019	2018
Ships	\$ 28,348,088	\$ 27,209,553
Ship improvements	3,920,800	2,965,634
Ships under construction	1,110,962	817,800
Land, buildings and improvements, including leasehold improvements and port facilities	472,067	321,136
Computer hardware and software, transportation equipment and other	1,698,007	1,120,988
Total property and equipment	35,549,924	32,435,111
Less—accumulated depreciation and amortization ⁽¹⁾	(10,083,116)	(8,968,948)
	\$ 25,466,808	\$ 23,466,163

(1) Amount includes accumulated depreciation and amortization for assets in service.

Ships under construction include progress payments for the construction of new ships as well as planning, design, capitalized interest and other associated costs. We capitalized interest costs of \$56.5 million, \$49.6 million and \$24.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

During 2019, we took delivery of *Spectrum of the Seas* and *Celebrity Flora*. During 2018, we completed our purchase of *Azamara Pursuit* and took delivery of *Symphony of the Seas* and *Celebrity Edge*. Refer to Note 9. *Debt* for further information.

ROYAL CARIBBEAN CRUISES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Upon our acquisition of Silversea Cruises, we added nine ships to our fleet, two of which are under capital lease agreements and one under an operating lease. As of December 31, 2019, Silversea Cruises operates eight ships as the operating lease for *Silver Discover* was terminated during 2019. Refer to Note 3. *Business Combination* for further information on the Silversea Cruises acquisition and Note 9. *Debt* for further information on the capital leases.

During 2017, we sold our three aircraft and 6% of our ownership stake in Wamos Air, S.A. (formerly known as Pullmantur Air, S.A.) to Wamos Air, S.A. In connection with the sale transaction, we extended two loans to Wamos Air, S.A. totaling €17.3 million. During the year ended December 31, 2019, we received principal and interest payments of €5.4 million resulting in full repayment of one of the loans. As of December 31, 2019, a receivable of €9.9 million, or approximately \$11.1 million, based on the exchange rate at December 31, 2019, was outstanding related to the principal amount of the remaining loan. The remaining loan accrues interest at 5.25% per annum, amortizes through maturity of July 2021, and is secured by first priority security interests over the aircraft engines and shares sold in connection with the transaction. The sale resulted in an immaterial gain that was recognized in earnings during the year ended December 31, 2017. Post-sale, we retained a 13% interest in Wamos Air, S.A.

During 2017, we sold *Legend of the Seas* to an affiliate of TUI AG, our joint venture partner in TUI Cruises. The sale resulted in a gain of \$30.9 million and was reported within *Other operating* within *Cruise operating expenses* in our consolidated statements of comprehensive income (loss) for the year ended December 31, 2017.

In January of 2020, *Zenith* was sold to a third party for approximately its net book value. *Zenith* was previously bareboat chartered to Pullmantur Holdings S.L.

Note 8. Other Assets

A Variable Interest Entity ("VIE") is an entity in which the equity investors have not provided enough equity to finance the entity's activities or the equity investors (1) cannot directly or indirectly make decisions about the entity's activities through their voting rights or similar rights; (2) do not have the obligation to absorb the expected losses of the entity; (3) do not have the right to receive the expected residual returns of the entity; or (4) have voting rights that are not proportionate to their economic interests and the entity's activities involve or are conducted on behalf of an investor with a disproportionately small voting interest.

We have determined that TUI Cruises GmbH, our 50%-owned joint venture, which operates the brand TUI Cruises, is a VIE. As of December 31, 2019, the net book value of our investment in TUI Cruises was \$598.1 million, primarily consisting of \$443.1 million in equity and a loan of €133.2 million, or approximately \$149.5 million, based on the exchange rate at December 31, 2019. As of December 31, 2018, the net book value of our investment in TUI Cruises was \$578.1 million, primarily consisting of \$403.0 million in equity and a loan of €150.6 million, or approximately \$172.2 million, based on the exchange rate at December 31, 2018. The loan, which was made in connection with the sale of *Splendour of the Seas* in April 2016, accrues interest at a rate of 6.25% per annum and is payable over 10 years. This loan is 50% guaranteed by TUI AG, our joint venture partner in TUI Cruises, and is secured by a first priority mortgage on the ship. Refer to Note 7. *Property and Equipment* for further information. The majority of these amounts were included within *Other assets* in our consolidated balance sheets.

In addition, we and TUI AG have each guaranteed the repayment by TUI Cruises of 50% of a bank loan. As of December 31, 2019, the outstanding principal amount of the loan was €26.4 million, or approximately \$29.7 million, based on the exchange rate at December 31, 2019. The loan amortizes quarterly and is currently secured by a first mortgage on *Mein Schiff Herz*. Based on current facts and circumstances, we do not believe potential obligations under our guarantee of this bank loan are probable. In addition to our guarantee of the bank loan, TUI Cruises has various ship construction and financing agreements which include certain restrictions on each of our and TUI AG's ability to reduce our current ownership interest in TUI Cruises below 37.55% through May 2031.

Our investment amount, outstanding term loan and the potential obligations under the bank loan guarantee are substantially our maximum exposure to loss in connection with our investment in TUI Cruises. We have determined that we are not the primary beneficiary of TUI Cruises. We believe that the power to direct the activities that most

ROYAL CARIBBEAN CRUISES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

significantly impact TUI Cruises' economic performance are shared between ourselves and TUI AG. All the significant operating and financial decisions of TUI Cruises require the consent of both parties, which we believe creates shared power over TUI Cruises. Accordingly, we do not consolidate this entity and account for this investment under the equity method of accounting.

In March 2009, we sold *Celebrity Galaxy* to TUI Cruises for €224.4 million, or \$290.9 million, to serve as the original *Mein Schiff 1*. Due to the related party nature of this transaction, the gain on the sale of the ship of \$35.9 million was deferred and being recognized over the remaining life of the ship which was estimated to be 23 years. In April 2018, TUI Cruises sold the original *Mein Schiff 1* and as a result we accelerated the recognition of the remaining balance of the deferred gain, which was \$21.8 million. This amount is included within *Other income (expense)* in our consolidated statements of comprehensive income (loss) for the year ended December 31, 2018.

On February 7, 2020, TUI Cruises entered into an agreement to acquire Hapag-Lloyd Cruises, a luxury and expedition brand for German-speaking guests, from TUI AG. Hapag-Lloyd Cruises operates two luxury liners and three smaller expedition ships. The transaction is subject to regulatory approval and customary closing conditions.

We have determined that Pullmantur Holdings S.L. ("Pullmantur Holdings"), which operates the Pullmantur brand and in which we have a 49% noncontrolling interest and Springwater Capital LLC has a 51% interest, is a VIE for which we are not the primary beneficiary, as we do not have the power to direct the activities that most significantly impact the entity's economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. As of December 31, 2019 and December 31, 2018, our maximum exposure to loss in Pullmantur Holdings was \$49.7 million and \$58.5 million, respectively, consisting of loans and other receivables. These amounts were included within *Trade and other receivables, net* and *Other assets* in our consolidated balance sheets.

We have provided a non-revolving working capital facility to a Pullmantur Holdings subsidiary in the amount of up to €15.0 million or approximately \$16.8 million based on the exchange rate at December 31, 2019. Proceeds of the facility, which were available to be drawn through December 31, 2018 accrue interest at an interest rate of 6.5% per annum, are payable through 2022. An affiliate of Springwater Capital LLC, has guaranteed repayment of 51% of the outstanding amounts under the facility. As of December 31, 2019, €11.0 million, or approximately \$12.3 million, based on the exchange rate at December 31, 2019, was outstanding under this facility. As of December 31, 2018, €14.0 million, or approximately \$16.0 million, based on the exchange rate at December 31, 2018, was outstanding under this facility.

We have determined that Grand Bahama Shipyard Ltd. ("Grand Bahama"), a ship repair and maintenance facility in which we have a 40% noncontrolling interest, is a VIE. This facility serves cruise and cargo ships, oil and gas tankers and offshore units. We utilize this facility, among other ship repair facilities, for our regularly scheduled drydocks, ship upgrades and certain emergency repairs as may be required. During the years ended December 31, 2019 and 2018, we made payments of \$45.7 million and \$44.7 million, respectively, to Grand Bahama for ship repair and maintenance services. We have determined that we are not the primary beneficiary of this facility, as we do not have the power to direct the activities that most significantly impact the facility's economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. As of December 31, 2019, the net book value of our investment in Grand Bahama was \$47.9 million, consisting of \$27.0 million in equity and loans of \$20.9 million. As of December 31, 2018, the net book value of our investment in Grand Bahama was approximately \$56.1 million, consisting of \$41.4 million in equity and loans of \$14.6 million. These amounts represent our maximum exposure to loss related to our investment in Grand Bahama. Our loans to Grand Bahama mature between December 2020 and March 2026 and bear interest at LIBOR plus 2.0% to 3.75%, capped at 5.75% for the majority of the outstanding loan balance. Interest payable on the loans is due on a semi-annual basis. During the years ended December 31, 2019 and 2018, we received principal and interest payments of \$8.6 million and \$16.4 million, respectively. The loan balances are included within *Trade and other receivables, net* and *Other assets* in our consolidated balance sheets. The loans are currently accruing interest under the effective yield method.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We monitor credit risk associated with the loan through our participation on Grand Bahama's board of directors along with our review of Grand Bahama's financial statements and projected cash flows. Based on this review, we believe the risk of loss associated with the outstanding loan is not probable as of December 31, 2019.

In April 2019, Grand Bahama experienced an incident involving one of its drydocks where *Oasis of the Seas* was undergoing maintenance. The damage from the incident resulted in a write-off of the related drydock by Grand Bahama. Our equity investment income for the year ended December 31, 2019 reflects our equity share of the write-off and other incidental expenses. Grand Bahama's management is working with its insurance underwriter to determine coverage under their existing policies.

In March 2018, we and Ctrip.com International Ltd. ("Ctrip") announced the decision to end the Skysea Holding International Ltd. ("Skysea Holding") venture in which we have a 36% ownership interest. As a result, we reviewed the recoverability of our investment in Skysea Holding and determined that our investment, debt facility and other receivables due from the brand were impaired and recognized an impairment charge of \$23.3 million which was included within *Other (expense) income* in our consolidated statement of comprehensive income (loss) for the year ended December 31, 2018. The charge reflected a full impairment of our investment in SkySea Holding and other receivables due to us and reduced the debt facility and related accrued interest due to us to Skysea Holdings to its net realizable value.

In December 2018, the *Golden Era*, the ship operated by SkySea Cruises, and a wholly-owned subsidiary of Skysea Holdings, was sold to an affiliate of TUI AG. Proceeds from the sale were distributed to Ctrip and us, which eliminated our net receivable balance due from Skysea Holding, resulting in no further impairment charges. As of December 31, 2019, we do not have any exposures to loss related to our investment in Skysea Holding.

The following tables set forth information regarding our investments accounted for under the equity method of accounting, including the entities discussed above, (in thousands):

	Year ended December 31,		
	2019	2018	2017
Share of equity income from investments	\$ 230,980	\$ 210,756	\$ 156,247
Dividends received ⁽¹⁾	\$ 150,177	\$ 243,101	\$ 109,677

(1) For the year ended December 31, 2019, TUI Cruises paid us dividends totaling €170.0 million, or approximately \$190.3 million, based on the exchange rates at the time of the transactions. The amounts included in the table above are net of tax withholdings.

	As of December 31,	
	2019	2018
Total notes receivable due from equity investments	\$ 184,558	\$ 201,979
Less-current portion ⁽¹⁾	25,933	19,075
Long-term portion ⁽²⁾	\$ 158,625	\$ 182,904

(1) Included within *Trade and other receivables, net* in our consolidated balance sheets.

(2) Included within *Other assets* in our consolidated balance sheets.

We also provide ship management services to TUI Cruises GmbH, Pullmantur Holdings and Skysea Holding (which ceased cruising operations in September 2018). Additionally, we bareboat charter to Pullmantur Holdings the vessels currently operated by its brands, which were retained by us following the sale of our 51% interest in Pullmantur Holdings. We recorded the following as it relates to these services in our operating results within our consolidated statements of comprehensive income (loss) (in thousands):

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year ended December 31,		
	2019	2018	2017
Revenues	\$ 47,242	\$ 54,705	\$ 53,532
Expenses	\$ 4,304	\$ 11,531	\$ 15,176

Summarized financial information for our affiliates accounted for under the equity method of accounting was as follows (in thousands):

	As of December 31,	
	2019	2018
Current assets	\$ 435,152	\$ 471,428
Non-current assets	4,019,394	3,826,018
Total assets	\$ 4,454,546	\$ 4,297,446
Current liabilities	\$ 1,094,552	\$ 1,064,741
Non-current liabilities	2,267,936	2,217,909
Total liabilities	\$ 3,362,488	\$ 3,282,650
Equity attributable to:		
Noncontrolling interest	\$ 1,784	\$ 1,672

	Year ended December 31,		
	2019	2018	2017
Total revenues	\$ 2,354,744	\$ 2,255,352	\$ 1,994,014
Total expenses	(1,875,952)	(1,779,160)	(1,684,276)
Net income	\$ 478,792	\$ 476,192	\$ 309,738

ROYAL CARIBBEAN CRUISES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Debt

Debt consists of the following (in thousands):

	Interest Rate ⁽¹⁾	Maturities Through	As of December 31,	
			2019	2018
Fixed rate debt:				
Senior notes	2.65% to 7.50%	2020 - 2028	\$ 1,746,280	\$ 1,724,194
Secured senior notes	7.25%	2025	662,398	670,437
Unsecured term loans	2.53% to 5.41%	2021 - 2030	2,806,774	2,148,351
Total fixed rate debt			5,215,452	4,542,982
Variable rate debt:				
Unsecured revolving credit facilities ⁽²⁾	2.79%	2022 - 2024	165,000	795,000
Commercial paper	2.19%	2019	1,434,180	775,488
USD unsecured term loan	2.31% to 5.64%	2019 - 2028	3,519,853	4,005,848
Euro unsecured term loan	1.15% to 1.58%	2021 - 2028	676,740	734,176
Total variable rate debt			5,795,773	6,310,512
Finance lease liabilities			230,258	130,944
Total debt ⁽³⁾			11,241,483	10,984,438
Less: unamortized debt issuance costs			(206,607)	(206,739)
Total debt, net of unamortized debt issuance costs			11,034,876	10,777,699
Less—current portion including commercial paper			(2,620,766)	(2,422,329)
Long-term portion			\$ 8,414,110	\$ 8,355,370

- (1) Interest rates based on outstanding loan balance as of December 31, 2019 and, for variable rate debt, include either LIBOR or EURIBOR plus the applicable margin.
- (2) Includes \$1.7 billion facility due in 2024 and \$1.2 billion facility due in 2022, each of which accrue interest at LIBOR plus 1.00%, currently 2.91%, and are subject to a facility fee of 0.125%.
- (3) At December 31, 2019 and 2018, the weighted average interest rate for total debt was 3.99% and 4.14%, respectively.

In April 2019, we amended our \$1.4 billion unsecured revolving credit facility due in 2020 to extend the termination date through April 2024, increase the facility size to \$1.7 billion and reduce pricing. The interest rate and facility fee vary with our senior debt rating and are currently set at LIBOR plus 1.0% per annum and 0.125% per annum, respectively. These amendments did not result in the extinguishment of debt. In addition, in May 2019, we amended our \$1.15 billion unsecured revolving credit facility due in 2022 to reduce pricing to match pricing on our \$1.7 billion unsecured revolving credit facility due in 2024.

In April 2019, we entered into and drew in full on an unsecured three-year term loan agreement in the amount of \$1.0 billion. The loan accrues interest at a floating rate of LIBOR plus an applicable margin, which varies with our senior debt rating, and is currently 1.075% per annum. Proceeds of this loan were used to repay the \$700 million 364-day loan due July 2019 related to the acquisition of Silversea Cruises and the remaining balance of the unsecured term loan originally incurred in 2010 to purchase Allure of the Seas. The repayment of these loans resulted in a total loss on the extinguishment of debt of \$6.3 million, which was recognized within *Other (expense) income* within our consolidated statements of comprehensive income (loss) for the twelve months ended December 31, 2019.

In April 2019, we took delivery of *Spectrum of the Seas*. To finance the purchase, we borrowed \$908.0 million under a previously committed unsecured term loan which is 95% guaranteed by Euler Hermes Aktiengesellschaft, the official export credit agency of Germany. The loan amortizes semi-annually over 12 years and bears interest at a fixed rate of 3.45% per annum.

ROYAL CARIBBEAN CRUISES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2019, we took delivery of *Celebrity Flora*. The purchase was financed through an unsecured term loan facility entered into in November 2017 in an amount up to €80.0 million, or approximately \$89.8 million based on the exchange rate at December 31, 2019. As of December 31, 2019, we had fully drawn on this facility. The loan is due and payable at maturity in November 2024. Interest on the loan accrues at a floating rate based on EURIBOR plus the applicable margin. The applicable margin varies with our debt rating and was 1.195% as of December 31, 2019.

In June 2018, we established a commercial paper program pursuant to which we may issue short-term unsecured notes from time to time in an aggregate amount of up to \$1.2 billion, which was increased to \$2.9 billion in August 2019. The commercial paper issued is backstopped by our revolving credit facilities. As of December 31, 2019, we had \$1.4 billion of commercial paper notes outstanding with a weighted average interest rate of 2.19% and a weighted average maturity of approximately 21 days. As of December 31, 2018 we had \$777.0 million of commercial paper notes outstanding with a weighted average interest rate of 3.19% and a weighted average maturity of approximately 23 days.

Except for *Celebrity Flora*, all of our unsecured ship financing term loans are guaranteed by the export credit agency in the respective country in which the ship is constructed. In consideration for these guarantees, depending on the financing arrangement, we pay to the applicable export credit agency (1) a fee of 0.77% per annum based on the outstanding loan balance semi-annually over the term of the loan (subject to adjustment based upon our credit ratings) or (2) an upfront fee of 2.35% to 2.37% of the maximum loan amount. We amortize the fees that are paid upfront over the life of the loan and those that are paid semi-annually over each respective payment period. Prior to the loan being drawn, we present these fees within *Other assets* in our consolidated balance sheets. Once the loan is drawn, such fees are classified as a discount to the related loan, or contra-liability account, within *Current portion of long-term debt* or *Long-term debt*. In our consolidated statements of cash flows, we classify these fees within *Amortization of debt issuance costs*.

Under certain of our agreements, the contractual interest rate, facility fee and/or export credit agency fee vary with our debt rating.

The unsecured senior notes and senior debentures are not redeemable prior to maturity, except that certain series may be redeemed upon the payment of a make-whole premium.

Finance Leases

Silversea Cruises operates two ships, the *Silver Whisper* and *Silver Explorer*, under finance leases. The finance lease for the *Silver Whisper* will expire in 2022, subject to an option to purchase the ship, and the finance lease for the *Silver Explorer* will expire in 2021, subject to an option to extend the lease for up to an additional six years. The total aggregate amount of the finance lease liabilities recorded for these ships at the acquisition date was \$82.8 million. The lease payments on the *Silver Whisper* are subject to adjustments based on the LIBOR rate. Refer to Note 3. *Business Combination* for further information regarding the assets acquired and liabilities assumed in the Silversea Cruises acquisition.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Following is a schedule of annual maturities on our total debt net of debt issuance costs, and including capital leases and commercial paper, as of December 31, 2019 for each of the next five years (in thousands):

<u>Year</u>	
2020	\$ 2,620,766
2021	843,906
2022	2,479,303
2023	763,382
2024	723,697
Thereafter	3,603,822
	<u>\$ 11,034,876</u>

Note 10. Leases

Our operating leases primarily relate to preferred berthing arrangements, real estate and shipboard equipment and are included within Operating lease right-of-use assets, and Long-term operating lease liabilities with the current portion of the liability included within Current portion of operating lease liabilities in our consolidated balance sheet as of December 31, 2019. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term. Refer to Note 2. Summary of Significant Accounting Policies, for further information on the adoption of ASC 842.

Finance leases are included within Property and equipment, net and Long-term debt, with the current portion of the debt reported within Current portion of debt, in our consolidated balance sheets.

Our finance leases include two ships, Silver Whisper and Silver Explorer, operated by Silversea Cruises. The finance lease for Silver Whisper will expire in 2022, subject to an option to purchase the ship, and the finance lease for Silver Explorer will expire in 2021, subject to an option to extend the lease for up to an additional 6 years.

In June 2019, the Company entered into a new master lease agreement (“Master Lease”) with Miami-Dade County relating to the buildings and surrounding land located at its Miami headquarters, which are classified as finance leases in accordance with ASC 842. Prior to entering into the Master Lease, the buildings were classified as operating lease assets. The finance lease for the buildings and land will expire in 2072, which includes an initial 43 years lease term and two five-year options to extend the lease. We consider the possibility of exercising the two five-year options reasonably certain.

For some of our real estate leases and berthing agreements, we do have the option to extend our current lease term. For those lease agreements with renewal options, the renewal periods for real estate leases range from one to 10 years and the renewal periods for berthing agreements range from one year to 20 years. Generally, we do not include renewal options as a component of our present value calculation for berthing agreements. However, for certain real estate leases, we include them. Additionally, we do have a residual value guarantee associated with our lease of a terminal at PortMiami in Miami, Florida that approximates a percentage of cost of the asset as of the inception of the lease. We consider the possibility of incurring costs associated with the residual value guarantee to be remote.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate in determining the present value of lease payments. We estimate our incremental borrowing rates based on LIBOR and U.S. Treasury note rates corresponding to lease terms increased by the Company’s credit risk spread and reduced by the estimated impact of collateral. We used the incremental borrowing rate as of the adoption date for operating leases that commenced prior to that date. In addition, we have lease agreements with lease and non-lease components, which are generally accounted for separately. However, for berthing agreements, we account for the lease and non-lease components as a single lease component.

Additionally, we bareboat charter to Pullmantur Holdings the vessels currently operated by its brands, which were retained by us following the sale of our 51% interest in Pullmantur Holdings in 2016. We account for the

bareboat charters of these vessels as operating leases for which we are the lessor. The remaining payments and term of these leases are immaterial to our consolidated financial statements.

Supplemental balance sheet information for leases was as follows (in thousands):

	As of December 31, 2019
Lease assets:	
Finance lease right-of-use assets, net:	
Property and equipment, gross	\$ 376,159
Accumulated depreciation	(57,955)
Property and equipment, net	318,204
Operating lease right-of-use assets	687,555
Total lease assets	\$ 1,005,759
Lease liabilities:	
Finance lease liabilities:	
Current portion of debt	\$ 33,561
Long-term debt	196,697
Total finance lease liabilities	230,258
Operating lease liabilities:	
Current portion of operating lease liabilities	96,976
Long-term operating lease liabilities	601,641
Total operating lease liabilities	698,617
Total lease liabilities	\$ 928,875

The components of lease expense were as follows (in thousands):

	Consolidated Statement of Comprehensive Income (Loss) Classification	Twelve Months Ended December 31, 2019
Lease costs:		
Operating lease costs	Commission, transportation and other	\$ 76,226
Operating lease costs	Other operating expenses	27,868
Operating lease costs	Marketing, selling and administrative expenses	18,837
Finance lease costs:		
Amortization of right-of-use-assets	Depreciation and amortization expenses	22,044
Interest on lease liabilities	Interest expense, net of interest capitalized	8,355
Total lease costs		\$ 153,330

In addition, certain of our berth agreements include variable lease costs based on the number of passengers berthed. During the twelve months ended December 31, 2019, we had \$103.3 million of variable lease costs recorded within *Commission, transportation and other* in our consolidated statement of comprehensive income (loss).

Weighted average of the remaining lease terms and weighted average discount rates are as follows:

	As of December 31, 2019
Weighted average of the remaining lease term	
Operating leases	10.3
Finance leases	30.22
Weighted average discount rate	
Operating leases	4.65 %
Finance leases	4.47 %

Supplemental cash flow information related to leases is as follows (in thousands):

	Twelve Months Ended December 31, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	125,307
Operating cash flows from finance leases	\$	8,355
Financing cash flows from finance leases	\$	32,090

As of December 31, 2019, maturities related to lease liabilities were as follows (in thousands):

Years	Operating Leases		Finance Leases	
2020	\$	126,235	\$	43,793
2021		113,033		46,726
2022		104,907		23,801
2023		101,547		12,539
2024		75,510		12,528
Thereafter		417,122		405,756
Total lease payments		<u>938,354</u>		<u>545,143</u>
Less: Interest		(239,737)		(314,885)
Present value of lease liabilities	\$	<u>698,617</u>	\$	<u>230,258</u>

Operating lease payments do not include any costs related to options to extend lease terms as none are reasonably certain of being exercised.

Under ASC 840, Leases, future minimum lease payments under noncancelable operating leases, primarily for offices, warehouses and motor vehicles, as of December 31, 2018 were as follows (in thousands):

Years		
2019	\$	67,682
2020		64,237
2021		56,142
2022		52,759
2023		52,522
Thereafter		383,974
	\$	<u>677,316</u>

Total expense for operating leases, under ASC 840, primarily for offices, warehouses and motor vehicles amounted to \$32.2 million and \$29.3 million for the years ended December 31, 2018 and 2017, respectively.

In July 2016, we executed an agreement with Miami Dade County (“MDC”), which was simultaneously assigned to Sumitomo Banking Corporation (“SMBC”), to lease land from MDC and construct a new cruise terminal of approximately 170,000 square feet at PortMiami in Miami, Florida, which was completed during the fourth quarter of 2018 and serves as a homeport. During the construction period, SMBC funded the costs of the terminal’s construction and land lease. Once the terminal was substantially completed, we commenced operating and leasing the terminal from SMBC for a five-year term. We determined that the lease arrangement between SMBC and us should be accounted for as an operating lease.

Note 11. Redeemable Noncontrolling Interest

In connection with the acquisition of Silversea Cruises, we recorded a redeemable noncontrolling interest of \$537.8 million due to the put options held by HCH. The put options may require us to purchase HCH's remaining interest, or 33.3% of Silversea Cruises, upon the occurrence or nonoccurrence of certain future events that are not solely within our control. As of December 31, 2019, HCH's interest is presented as *Redeemable noncontrolling interest* and is classified outside of shareholders' equity in our consolidated balance sheets. Additionally, the noncontrolling interest's share in the net earnings (loss) and contractual accretion requirements associated with the put options are included in *Net Income attributable to noncontrolling interests* in our consolidated statements of comprehensive income (loss).

The following table presents changes in the redeemable noncontrolling interest as of December 31, 2019 (in thousands):

Balance as of January 1, 2018	\$	—
Additions (Silversea Cruises acquisition)		537,770
Net income attributable to noncontrolling interest, including the contractual accretion of the put options		4,750
Other		(500)
Balance at December 31, 2018	\$	542,020
Net income attributable to noncontrolling interest, including the contractual accretion of the put options		28,713
Distribution to noncontrolling interest		(752)
Balance at December 31, 2019	\$	<u>569,981</u>

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Note 12. Shareholders' Equity

Dividends Declared

During the fourth and third quarters of 2019, we declared a cash dividend on our common stock of \$0.78 per share which was paid in the first quarter of 2020 and fourth quarter of 2019, respectively. During the first and second quarters of 2019, we declared a cash dividend on our common stock of \$0.70 per share which was paid in the second and third quarters of 2019, respectively.

During the fourth and third quarters of 2018, we declared a cash dividend on our common stock of \$0.70 per share which was paid in the first quarter of 2019 and fourth quarter of 2018, respectively. During the first and second quarters of 2018, we declared a cash dividend on our common stock of \$0.60 per share which was paid in the second and third quarters of 2018, respectively. During the first quarter of 2018, we also paid a cash dividend on our common stock of \$0.60 per share which was declared during the fourth quarter of 2017.

During the fourth and third quarters of 2017, we declared a cash dividend on our common stock of \$0.60 per share which was paid in the first quarter of 2018 and fourth quarter of 2017, respectively. During the first and second quarters of 2017, we declared a cash dividend on our common stock of \$0.48 per share which was paid in the second and third quarters of 2017, respectively. During the first quarter of 2017, we also paid a cash dividend on our common stock of \$0.48 per share which was declared during the fourth quarter of 2016.

Common Stock Repurchase Program

In May 2018, our board of directors authorized a 24-month common stock repurchase program for up to \$1.0 billion. The timing and number of shares to be repurchased will depend on a variety of factors, including price and market conditions. Repurchases under the program may be made at management's discretion from time to time on the open market or through privately negotiated transactions. During the year ended December 31, 2019, we repurchased 0.9 million shares of our common stock under this program, for a total of \$99.6 million, in open market transactions that were recorded within *Treasury stock* in our consolidated balance sheets. As of December 31, 2019, we have \$600.0 million that remains available for future stock repurchase transactions under our Board authorized program.

Note 13. Stock-Based Employee Compensation

We currently have awards outstanding under one stock-based compensation plan, our 2008 Equity Plan, which provides for awards to our officers, directors and key employees. The plan consists of a 2008 Equity Plan, as amended, provides for the issuance of up to 14,000,000 shares of our common stock pursuant to grants of (i) incentive and non-qualified stock options, (ii) stock appreciation rights, (iii) stock awards (including time-based and/or performance-based stock awards) and (iv) restricted stock units (including time-based and performance-based restricted stock units). During any calendar year, no one individual (other than non-employee members of our board of directors) may be granted awards of more than 500,000 shares and no non-employee member of our board of directors may be granted awards with a value in excess of \$500,000 at the grant date. Options and restricted stock units outstanding as of December 31, 2019 generally vest in equal installments over four years from the date of grant. In addition, performance shares and performance share units generally vest in three years. With certain limited exceptions, awards are forfeited if the recipient ceases to be an employee before the shares vest.

Prior to 2012, our officers received a combination of stock options and restricted stock units. Beginning in 2012, our officers instead receive their long-term incentive awards through a combination of performance share units and restricted stock units. Each performance share unit award is expressed as a target number of performance share units based upon the fair market value of our common stock on the date the award is issued. The actual number of shares underlying each award (not to exceed 200% of the target number of performance share units) will be determined based upon the Company's achievement of a specified performance target range. In 2019, we issued a target number of 187,924 performance share units, which will vest approximately three years following the award issue date. The performance payout of these grants will be based on return on our invested capital ("ROIC") and

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

earnings per share (“EPS”) for the year ended December 31, 2021, as may be adjusted by the Talent and Compensation Committee of our board of directors in early 2022 for events that are outside of management’s control.

Beginning in 2016, our senior officers meeting certain minimum age and service criteria receive their long-term incentive awards through a combination of restricted stock awards and restricted stock units. The restricted stock awards are subject to both performance and time-based vesting criteria while the restricted stock units are subject only to time-based vesting criteria. Each restricted stock award is issued in an amount equal to 200% of the target number of shares underlying the award based upon the fair market value of our common stock on the date the award is issued. Dividends accrue (but do not get paid) on the restricted stock awards during the vesting period, with the accrued amounts to be paid out following vesting only on the number of shares underlying the award which actually vest based on satisfaction of the performance criteria. The actual number of shares that vest (not to exceed 200% of the shares) will be determined based upon the Company’s achievement of a specified performance target range. In 2019, we issued 194,486 restricted stock awards, representing 200% of the target number of shares underlying the award, all of which are considered issued and outstanding from the date of issuance, however; grantees will only retain those shares earned as the result of the Company achieving the performance goals during the measurement period. The performance payout of the 2019 awards will be based on ROIC and EPS for the year ended December 31, 2021, as may be adjusted by the Talent and Compensation Committee of our board of directors in early 2022 for events that are outside of management’s control.

On January 24, 2018, the Company issued a one-time bonus award for all non-officer employees. These awards vest, in equal installments, over the 3 years following the award issue date. For shoreside eligible employees, awards were issued as equity-settled restricted stock units.

We also provide an Employee Stock Purchase Plan (“ESPP”) to facilitate the purchase by employees of up to 1,300,000 shares of common stock in the aggregate. Offerings to employees are made on a quarterly basis. Subject to certain limitations, the purchase price for each share of common stock is equal to 85% of the average of the market prices of the common stock as reported on the New York Stock Exchange on the first business day of the purchase period and the last business day of each month of the purchase period. During the years ended December 31, 2019, 2018 and 2017, 91,586, 74,100 and 51,989 shares of our common stock were purchased under the ESPP at a weighted-average price of \$98.20, \$97.50 and \$93.15, respectively.

Total compensation expense recognized for employee stock-based compensation for the years ended December 31, 2019, 2018 and 2017 was as follows (in thousands):

Classification of expense	Employee Stock-Based Compensation		
	2019	2018	2017
Marketing, selling and administrative expenses	\$ 75,930	\$ 46,061	\$ 69,459
Total compensation expense	\$ 75,930	\$ 46,061	\$ 69,459

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. The estimated fair value of stock options, less estimated forfeitures, is amortized over the vesting period using the graded-vesting method. We did not issue any stock options during the years ended December 31, 2019, 2018 and 2017.

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Stock option activity and information about stock options outstanding are summarized in the following table:

<u>Stock Option Activity</u>	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u> (years)	<u>Aggregate Intrinsic Value⁽¹⁾</u> (in thousands)
Outstanding at January 1, 2019	153,093	\$ 29.06	1.23	\$ 10,399
Granted	—	—		
Exercised	(87,262)	\$ 19.96		
Canceled	(844)	\$ 33.73		
Outstanding at December 31, 2019	64,987	\$ 41.22	0.87	\$ 5,990
Vested at December 31, 2019	64,987	\$ 41.22	0.87	\$ 5,990
Options Exercisable at December 31, 2019	64,987	\$ 41.22	0.87	\$ 5,990

(1) The intrinsic value represents the amount by which the fair value of stock exceeds the option exercise price.

The total intrinsic value of stock options exercised during the years ended December 31, 2019, 2018 and 2017 was \$8.1 million, \$11.1 million and \$4.5 million, respectively. As of December 31, 2019, there was no unrecognized compensation cost, net of estimated forfeitures, related to stock options granted under our stock incentive plan.

Restricted stock units are converted into shares of common stock upon vesting or, if applicable, are settled on a one-for-one basis. The cost of these awards is determined using the fair value of our common stock on the date of the grant, and compensation expense is recognized over the vesting period. Restricted stock activity is summarized in the following table:

<u>Restricted Stock Units Activity</u>	<u>Number of Awards</u>	<u>Weighted- Average Grant Date Fair Value</u>
Non-vested share units as of January 1, 2019	\$ 800,585	\$ 103.32
Granted	293,707	112.13
Vested	(267,134)	96.96
Canceled	(25,323)	109.32
Non-vested share units as of December 31, 2019	\$ 801,835	\$ 88.97

The weighted-average estimated fair value of restricted stock units granted during the years ended December 31, 2018 and 2017 was \$122.12 and \$99.03, respectively. The total fair value of shares released on the vesting of restricted stock units during the years ended December 31, 2019, 2018 and 2017 was \$30.8 million, \$33.9 million and \$38.7 million, respectively. As of December 31, 2019, we had \$37.1 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock unit grants, which will be recognized over the weighted-average period of 1.39 years.

Performance share units are converted into shares of common stock upon vesting on a one-for-one basis. We estimate the fair value of each performance share when the grant is authorized and the related service period has commenced. We remeasure the fair value of our performance shares in each subsequent reporting period until the grant date has occurred, which is the date when the performance conditions are satisfied. We recognize compensation cost over the vesting period based on the probability of the service and performance conditions being achieved adjusted for each subsequent fair value measurement until the grant date. If the specified service and performance conditions are not met, compensation expense will not be recognized and any previously recognized compensation expense will be reversed. Performance share units activity is summarized in the following table:

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Performance Share Units Activity	Number of Awards	Weighted-Average Grant Date Fair Value
Non-vested share units as of January 1, 2019	302,561	88.57
Granted	187,924	87.39
Vested	(198,537)	62.49
Canceled	(5,931)	95.12
Non-vested share units as of December 31, 2019	<u>286,017</u>	<u>105.76</u>

The weighted-average estimated fair value of performance share units granted during the years ended December 31, 2018 and 2017 was \$97.98 and \$84.16, respectively. The total fair value of shares released on the vesting of performance share units during the years ended December 31, 2019, 2018 and 2017 was \$23.0 million, \$27.3 million and \$10.0 million, respectively. As of December 31, 2019, we had \$10.0 million of total unrecognized compensation expense, net of estimated forfeitures, related to performance share unit grants, which will be recognized over the weighted-average period of 1.06 year.

The shares underlying our restricted stock awards to age and service eligible senior officers are issued as of the grant date in an amount equal to 200% of the target number of shares. Following the vesting date, the restrictions will lift with respect to the number of shares for which the performance criteria was met and any excess shares will be canceled. Dividends will accrue on the issued restricted shares during the vesting period, but will not be paid to the recipient until the awards vest and the final number of shares underlying the award is determined, at which point, the dividends will be paid in cash only on the earned shares. We estimate the fair value of each restricted stock award when the grant is authorized and the related service period has commenced. We remeasure the fair value of these restricted stock awards in each subsequent reporting period until the grant date has occurred, which is the date when the performance conditions are satisfied. We recognize compensation cost over the vesting period based on the probability of the service and performance conditions being achieved adjusted for each subsequent fair value measurement until the grant date. If the specified service and performance conditions are not met, compensation expense will not be recognized, any previously recognized compensation expense will be reversed, and any unearned shares will be returned to the Company. Restricted stock awards activity is summarized in the following table:

Restricted Stock Awards Activity	Number of Awards	Weighted-Average Grant Date Fair Value
Non-vested share units as of January 1, 2019	390,198	96.03
Granted	194,486	118.08
Vested	(120,329)	66.93
Canceled	(11,899)	66.93
Non-vested share units as of December 31, 2019	<u>452,456</u>	<u>114.01</u>

The weighted-average estimated fair value of restricted stock awards granted during the years ended December 31, 2018 and 2017 was \$129.23 and \$95.04, respectively. As of December 31, 2019, we had \$3.2 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock award grants, which will be recognized over the weighted-average period of 1.24 years.

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Note 14. Earnings Per Share

A reconciliation between basic and diluted earnings per share is as follows (in thousands, except per share data):

	Year Ended December 31,		
	2019	2018	2017
Net Income attributable to Royal Caribbean Cruises Ltd. for basic and diluted earnings per share	\$ 1,878,887	\$ 1,811,042	\$ 1,625,133
Weighted-average common shares outstanding	209,405	210,570	214,617
Dilutive effect of stock-based awards	525	984	1,077
Diluted weighted-average shares outstanding	209,930	211,554	215,694
Basic earnings per share	\$ 8.97	\$ 8.60	\$ 7.57
Diluted earnings per share	\$ 8.95	\$ 8.56	\$ 7.53

There were no antidilutive shares for the years ended December 31, 2019, 2018 and 2017.

Note 15. Retirement Plan

We maintain a defined contribution plan covering shoreside employees. Effective January 1, 2016, we commenced annual, non-elective contributions to the plan on behalf of all eligible participants equal to 3% of participants' eligible earnings. Remaining annual contributions to the plan are discretionary and are based on fixed percentages of participants' salaries and years of service, not to exceed certain maximums. Contribution expenses were \$21.2 million, \$18.9 million and \$17.4 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Note 16. Income Taxes

We are subject to corporate income taxes in countries where we have operations or subsidiaries. We and the majority of our ship-operating and vessel-owning subsidiaries are currently exempt from U.S. corporate income tax on U.S. source income from the international operation of ships pursuant to Section 883 of the Internal Revenue Code. Regulations under Section 883 have limited the activities that are considered the international operation of a ship or incidental thereto. Accordingly, our provision for U.S. federal and state income taxes includes taxes on certain activities not considered incidental to the international operation of our ships.

Additionally, one of our ship-operating subsidiaries is subject to tax under the tonnage tax regime of the United Kingdom. Under this regime, income from qualifying activities is subject to corporate income tax, but the tax is computed by reference to the tonnage of the ship or ships registered under the relevant provisions of the tax regimes (the "relevant shipping profits"), which replaces the regular taxable income base. Income from activities not considered qualifying activities, which we do not consider significant, remains subject to United-Kingdom corporate income tax.

Income tax expense for items not qualifying under Section 883, tonnage tax and income taxes for the remainder of our subsidiaries was approximately \$32.6 million, \$20.9 million and \$18.3 million for the years ended December 31, 2019, 2018 and 2017, respectively, and was recorded within *Other income (expense)*. In addition, all interest expense and penalties related to income tax liabilities are classified as income tax expense within *Other income (expense)*.

For a majority of our subsidiaries, we do not expect to incur income taxes on future distributions of undistributed earnings. Accordingly, no deferred income taxes have been provided for the distribution of these earnings. Where we do expect to incur income taxes on future distributions of undistributed earnings, we have provided for deferred taxes, which we do not consider significant to our operations.

As of December 31, 2019, the Company had deferred tax assets, for foreign net operating losses ("NOLs") of \$25.1 million. We have provided a full valuation allowance for these NOLs. \$17.6 million of the NOLs are subject to expire between 2020 and 2025.

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Our deferred tax assets and deferred tax liabilities and corresponding valuation allowances related to our operations were not material as of December 31, 2019 and 2018.

We regularly review deferred tax assets for recoverability based on our history of earnings, expectations of future earnings, and tax planning strategies. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income to support the amount of deferred taxes. A valuation allowance is recorded in those circumstances in which we conclude it is not more-likely-than-not we will recover the deferred tax assets prior to their expiration.

Note 17. Changes in Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive loss by component for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Changes related to cash flow derivative hedges	Changes in defined benefit plans	Foreign currency translation adjustments	Accumulated other comprehensive (loss) income
Accumulated comprehensive loss at January 1, 2017	\$ (820,850)	\$ (28,083)	\$ (67,551)	\$ (916,484)
Other comprehensive income (loss) before reclassifications	381,865	(6,755)	17,307	392,417
Amounts reclassified from accumulated other comprehensive loss	188,630	1,172	—	189,802
Net current-period other comprehensive income (loss)	570,495	(5,583)	17,307	582,219
Accumulated comprehensive loss at January 1, 2018	(250,355)	(33,666)	(50,244)	(334,265)
Other comprehensive income (loss) before reclassifications	(297,994)	6,156	(14,251)	(306,089)
Amounts reclassified from accumulated other comprehensive loss	11,133	1,487	—	12,620
Net current-period other comprehensive (loss) income	(286,861)	7,643	(14,251)	(293,469)
Accumulated comprehensive loss at January 1, 2019	(537,216)	(26,023)	(64,495)	(627,734)
Other comprehensive (loss) income before reclassifications	(146,108)	(20,314)	869	(165,553)
Amounts reclassified from accumulated other comprehensive loss	(5,205)	779	—	(4,426)
Net current-period other comprehensive (loss) income	(151,313)	(19,535)	869	(169,979)
Accumulated comprehensive loss at December 31, 2019	<u>\$ (688,529)</u>	<u>\$ (45,558)</u>	<u>\$ (63,626)</u>	<u>\$ (797,713)</u>

ROYAL CARIBBEAN CRUISES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2019, 2018 and 2017 (in thousands):

Details about Accumulated Other Comprehensive Loss Components	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income			Affected Line Item in Statements of Comprehensive Income (Loss)
	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017	
Gain (loss) on cash flow derivative hedges:				
Interest rate swaps	(4,289)	(10,931)	(31,603)	Interest expense, net of interest capitalized
Foreign currency forward contracts	(14,063)	(12,843)	(10,840)	Depreciation and amortization expenses
Foreign currency forward contracts	(5,080)	12,855	(9,472)	Other income (expense)
Foreign currency forward contracts	—	—	—	Other indirect operating expenses
Foreign currency collar options	—	—	(2,408)	Depreciation and amortization expenses
Fuel swaps	(1,292)	(1,580)	7,382	Other income (expense)
Fuel swaps	29,929	1,366	(141,689)	Fuel
	5,205	(11,133)	(188,630)	
Amortization of defined benefit plans:				
Actuarial loss	(779)	(1,487)	(1,172)	Payroll and related
	(779)	(1,487)	(1,172)	
Total reclassifications for the period	\$ 4,426	\$ (12,620)	\$ (189,802)	

Note 18. Fair Value Measurements and Derivative Instruments

Fair Value Measurements

The estimated fair value of our financial instruments that are not measured at fair value, categorized based upon the fair value hierarchy, are as follows (in thousands):

Description	Fair Value Measurements at December 31, 2019					Fair Value Measurements at December 31, 2018				
	Total Carrying Amount	Total Fair Value	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total Carrying Amount	Total Fair Value	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾
Assets:										
Cash and cash equivalents(4)	\$ 243,738	\$ 243,738	\$ 243,738	—	—	\$ 287,852	\$ 287,852	\$ 287,852	—	—
Total Assets	<u>\$ 243,738</u>	<u>\$ 243,738</u>	<u>\$ 243,738</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 287,852</u>	<u>\$ 287,852</u>	<u>\$ 287,852</u>	<u>\$ —</u>	<u>\$ —</u>
Liabilities:										
Long-term debt (including current portion of long-term debt)(5)	\$9,370,438	\$10,059,055	—	\$10,059,055	—	\$9,871,267	\$10,244,214	—	\$10,244,214	—
Total Liabilities	<u>\$9,370,438</u>	<u>\$10,059,055</u>	<u>\$ —</u>	<u>\$10,059,055</u>	<u>\$ —</u>	<u>\$9,871,267</u>	<u>\$10,244,214</u>	<u>\$ —</u>	<u>\$10,244,214</u>	<u>\$ —</u>

(1) Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Valuation of these items does not entail a significant amount of judgment.

(2) Inputs other than quoted prices included within Level 1 that are observable for the liability, either directly or indirectly. For unsecured revolving credit facilities and unsecured term loans, fair value is determined utilizing the income valuation approach. This valuation model takes into account the contract terms of our debt such as the debt maturity and the interest rate on the debt. The valuation model also takes into account the creditworthiness of the Company.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (3) Inputs that are unobservable. The Company did not use any Level 3 inputs as of December 31, 2019 and 2018.
- (4) Consists of cash and marketable securities with original maturities of less than 90 days.
- (5) Consists of unsecured revolving credit facilities, senior notes, senior debentures and term loans. These amounts do not include our capital lease obligations or commercial paper.

Fair Value Measurements on a Nonrecurring Basis

During 2018, we announced that Skysea Holding would cease cruising operations by the end of 2018. As a result, we did not deem our investment balance to be recoverable and estimated the fair value of our investment to be zero. For further information on our Skysea Holding investment and impairment, refer to Note 8. *Other Assets*.

Other Financial Instruments

The carrying amounts of accounts receivable, accounts payable, accrued interest, accrued expenses and commercial paper approximate fair value as of December 31, 2019 and 2018.

Assets and liabilities that are recorded at fair value have been categorized based upon the fair value hierarchy. The following table presents information about the Company's financial instruments recorded at fair value on a recurring basis (in thousands):

Description	Fair Value Measurements at December 31, 2019				Fair Value Measurements at December 31, 2018			
	Total Fair Value	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total Fair Value	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾
Assets:								
Derivative financial instruments ⁽⁴⁾	\$ 39,994	\$ —	\$ 39,994	\$ —	\$ 65,297	\$ —	\$ 65,297	\$ —
Total Assets	\$ 39,994	\$ —	\$ 39,994	\$ —	\$ 65,297	\$ —	\$ 65,297	\$ —
Liabilities:								
Derivative financial instruments ⁽⁵⁾	\$ 257,728	\$ —	\$ 257,728	\$ —	\$ 201,812	\$ —	\$ 201,812	\$ —
Contingent consideration ⁽⁶⁾	62,400	—	—	62,400	44,000	—	—	44,000
Total Liabilities	\$ 320,128	\$ —	\$ 257,728	\$ 62,400	\$ 245,812	\$ —	\$ 201,812	\$ 44,000

- (1) Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Valuation of these items does not entail a significant amount of judgment.
- (2) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For foreign currency forward contracts, interest rate swaps and fuel swaps, fair value is derived using valuation models that utilize the income valuation approach. These valuation models take into account the contract terms, such as maturity as well as other inputs, such as foreign exchange rates and curves, fuel types, fuel curves and interest rate yield curves. Derivative instrument fair values take into account the creditworthiness of the counterparty and the Company.
- (3) Inputs that are unobservable.
- (4) Consists of foreign currency forward contracts, interest rate swaps and fuel swaps. Refer to the "Fair Value of Derivative Instruments" table for breakdown by instrument type.
- (5) Consists of foreign currency forward contracts, interest rate swaps and fuel swaps. Refer to the "Fair Value of Derivative Instruments" table for breakdown by instrument type.
- (6) The contingent consideration related to the Silversea Cruises acquisition is estimated by applying a Monte-Carlo simulation method using our closing stock price along with significant inputs not observable in the market, including the probability of achieving the milestones and estimated future operating results. The Monte-Carlo simulation is a generally accepted statistical technique used to generate a defined number of valuation paths in order to develop a reasonable estimate of fair value. Refer to Note 3. *Business Combination* for further information on the Silversea Cruises acquisition. For the twelve months ended December 31, 2019, we recorded a contingent consideration expense of \$18.4 million within *Other (expense) income* in our consolidated statements of comprehensive income (loss).

The reported fair values are based on a variety of factors and assumptions. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of December 31, 2019 or

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2018, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement.

We have master International Swaps and Derivatives Association (“ISDA”) agreements in place with our derivative instrument counterparties. These ISDA agreements generally provide for final close out netting with our counterparties for all positions in the case of default or termination of the ISDA agreement. We have determined that our ISDA agreements provide us with rights of setoff on the fair value of derivative instruments in a gain position and those in a loss position with the same counterparty. We have elected not to offset such derivative instrument fair values in our consolidated balance sheets.

See *Credit Related Contingent Features* for further discussion on contingent collateral requirements for our derivative instruments.

The following table presents information about the Company’s offsetting of financial assets under master netting agreements with derivative counterparties (in thousands):

Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements							
As of December 31, 2019				As of December 31, 2018			
Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received	Net Amount of Derivative Assets	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Received	Net Amount of Derivative Assets
Derivatives subject to master netting agreements	\$ 39,994	\$ (39,994)	\$ —	\$ 65,297	\$ (60,303)	\$ —	\$ 4,994
Total	\$ 39,994	\$ (39,994)	\$ —	\$ 65,297	\$ (60,303)	\$ —	\$ 4,994

The following table presents information about the Company’s offsetting of financial liabilities under master netting agreements with derivative counterparties (in thousands):

Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements							
As of December 31, 2019				As of December 31, 2018			
Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	\$ 39,994	\$ —	\$ (217,734)	\$ (201,812)	\$ 60,303	\$ —	\$ (141,509)
Total	\$ 39,994	\$ —	\$ (217,734)	\$ (201,812)	\$ 60,303	\$ —	\$ (141,509)

Derivative Instruments

We are exposed to market risk attributable to changes in interest rates, foreign currency exchange rates and fuel prices. We try to mitigate these risks through a combination of our normal operating and financing activities and through the use of derivative financial instruments pursuant to our hedging practices and policies. The financial impact of these hedging instruments is primarily offset by corresponding changes in the underlying exposures being hedged. We achieve this by closely matching the notional amount, term and conditions of the derivative instrument with the underlying risk being hedged. Although certain of our derivative financial instruments do not qualify or are not accounted for under hedge accounting, our objective is not to hold or issue derivative financial instruments for trading or other speculative purposes.

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We enter into various forward, swap and option contracts to manage our interest rate exposure and to limit our exposure to fluctuations in foreign currency exchange rates and fuel prices. These instruments are recorded on the balance sheet at their fair value and the vast majority are designated as hedges. We also use non-derivative financial instruments designated as hedges of our net investment in our foreign operations and investments.

At inception of the hedge relationship, a derivative instrument that hedges the exposure to changes in the fair value of a firm commitment or a recognized asset or liability is designated as a fair value hedge. A derivative instrument that hedges a forecasted transaction or the variability of cash flows related to a recognized asset or liability is designated as a cash flow hedge.

Changes in the fair value of derivatives that are designated as fair value hedges are offset against changes in the fair value of the underlying hedged assets, liabilities or firm commitments. Gains and losses on derivatives that are designated as cash flow hedges are recorded as a component of *Accumulated other comprehensive loss* until the underlying hedged transactions are recognized in earnings. The foreign currency transaction gain or loss of our non-derivative financial instruments and the changes in the fair value of derivatives designated as hedges of our net investment in foreign operations and investments are recognized as a component of *Accumulated other comprehensive loss* along with the associated foreign currency translation adjustment of the foreign operation or investment, with the amortization of excluded components affecting earnings.

On an ongoing basis, we assess whether derivatives used in hedging transactions are "highly effective" in offsetting changes in the fair value or cash flow of hedged items. For our net investment hedges, we use the dollar offset method to measure effectiveness. For all other hedging programs, we use the long-haul method to assess hedge effectiveness using regression analysis for each hedge relationship. The methodology for assessing hedge effectiveness is applied on a consistent basis for each one of our hedging programs (i.e., interest rate, foreign currency ship construction, foreign currency net investment and fuel). For our regression analyses, we use an observation period of up to three years, utilizing market data relevant to the hedge horizon of each hedge relationship. High effectiveness is achieved when a statistically valid relationship reflects a high degree of offset and correlation between the changes in the fair values of the derivative instrument and the hedged item. If it is determined that a derivative is not highly effective as a hedge or hedge accounting is discontinued, any change in fair value of the derivative since the last date at which it was determined to be effective is recognized in earnings.

Cash flows from derivative instruments that are designated as fair value or cash flow hedges are classified in the same category as the cash flows from the underlying hedged items. In the event that hedge accounting is discontinued, cash flows subsequent to the date of discontinuance are classified within investing activities. Cash flows from derivative instruments not designated as hedging instruments are classified as investing activities.

We consider the classification of the underlying hedged item's cash flows in determining the classification for the designated derivative instrument's cash flows. We classify derivative instrument cash flows from hedges of benchmark interest rate or hedges of fuel expense as operating activities due to the nature of the hedged item. Likewise, we classify derivative instrument cash flows from hedges of foreign currency risk on our newbuild ship payments as investing activities.

Interest Rate Risk

Our exposure to market risk for changes in interest rates primarily relates to our debt obligations including future interest payments. At December 31, 2019 and 2018, approximately 62.1% and 59.1%, respectively, of our debt was effectively fixed. We use interest rate swap agreements to modify our exposure to interest rate movements and to manage our interest expense.

Market risk associated with our fixed rate debt is the potential increase in fair value resulting from a decrease in interest rates. We use interest rate swap agreements that effectively convert a portion of our fixed-rate debt to a floating-rate basis to manage this risk. At December 31, 2019 and 2018, we maintained interest rate swap agreements on the following fixed-rate debt instruments:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Debt Instrument	Swap Notional as of December 31, 2019 (In thousands)	Maturity	Debt Fixed Rate	Swap Floating Rate: LIBOR plus	All-in Swap Floating Rate as of December 31, 2019
<i>Oasis of the Seas</i> term loan	\$ 70,000	October 2021	5.41%	3.87%	5.80%
Unsecured senior notes	650,000	November 2022	5.25%	3.63%	5.54%
	<u>\$ 720,000</u>				

These interest rate swap agreements are accounted for as fair value hedges.

Market risk associated with our long-term floating rate debt is the potential increase in interest expense from an increase in interest rates. We use interest rate swap agreements that effectively convert a portion of our floating-rate debt to a fixed-rate basis to manage this risk. At December 31, 2019 and 2018, we maintained interest rate swap agreements on the following floating-rate debt instruments:

Debt Instrument	Swap Notional as of December 31, 2019 (In thousands)	Maturity	Debt Floating Rate	All-in Swap Fixed Rate
<i>Celebrity Reflection</i> term loan	\$ 272,708	October 2024	LIBOR plus 0.40%	2.85%
<i>Quantum of the Seas</i> term loan	428,750	October 2026	LIBOR plus 1.30%	3.74%
<i>Anthem of the Seas</i> term loan	453,125	April 2027	LIBOR plus 1.30%	3.86%
<i>Ovation of the Seas</i> term loan	587,917	April 2028	LIBOR plus 1.00%	3.16%
<i>Harmony of the Seas</i> term loan ⁽¹⁾	551,325	May 2028	EURIBOR plus 1.15%	2.26%
<i>Odyssey of the Seas</i> term loan ⁽²⁾	460,000	October 2032	LIBOR plus 0.95%	3.20%
	<u>\$ 2,753,825</u>			

- (1) Interest rate swap agreements hedging the Euro-denominated term loan for *Harmony of the Seas* include EURIBOR zero-floors matching the hedged debt EURIBOR zero-floor. Amount presented is based on the exchange rate as of December 31, 2019.
- (2) Interest rate swap agreements hedging the term loan for *Odyssey of the Seas* include LIBOR zero-floors matching the hedged debt LIBOR zero-floor. The anticipated unsecured term loan for the financing of *Odyssey of the Seas* is expected to be drawn in October 2020.

These interest rate swap agreements are accounted for as cash flow hedges.

The notional amount of interest rate swap agreements related to outstanding debt and our current unfunded financing arrangements as of December 31, 2019 and 2018 was \$3.5 billion and \$3.4 billion, respectively.

Foreign Currency Exchange Rate Risk

Derivative Instruments

Our primary exposure to foreign currency exchange rate risk relates to our ship construction contracts denominated in Euros, our foreign currency denominated debt and our international business operations. We enter into foreign currency forward contracts to manage portions of the exposure to movements in foreign currency exchange rates. As of December 31, 2019, the aggregate cost of our ships on order, was \$14.8 billion, of which we had deposited \$881.5 million as of such date. These amounts do not include any ships placed on order that are contingent upon completion of conditions precedent and/or financing, any ships on order by our Partner Brands and any ships on order placed by Silversea Cruises during the reporting lag period. Refer to Note 19. *Commitments and Contingencies*, for further information on our ships on order. At December 31, 2019 and 2018, approximately 65.9% and 53.5%, respectively, of the aggregate cost of the ships under construction was exposed to fluctuations in the Euro exchange rate. Our foreign currency forward contract agreements are accounted for as cash flow or net investment hedges depending on the designation of the related hedge.

On a regular basis, we enter into foreign currency forward contracts and, from time to time, we utilize cross-currency swap agreements and collar options to minimize the volatility resulting from the remeasurement of net monetary assets and liabilities denominated in a currency other than our functional currency or the functional

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

currencies of our foreign subsidiaries. During the year ended December 31, 2019, we maintained an average of approximately \$689.7 million of these foreign currency forward contracts. These instruments are not designated as hedging instruments. For the years ended December 31, 2019, 2018 and 2017, changes in the fair value of the foreign currency forward contracts resulted in gains (losses) of \$1.4 million, \$(62.4) million and \$62.0 million, respectively, which offset gains (losses) arising from the remeasurement of monetary assets and liabilities denominated in foreign currencies in those same years of \$0.4 million, \$57.6 million and \$(75.6) million, respectively. These amounts were recognized in earnings within *Other income (expense)* in our consolidated statements of comprehensive income (loss).

We consider our investments in our foreign operations to be denominated in relatively stable currencies and of a long-term nature. As of December 31, 2019, we maintained foreign currency forward contracts and designated them as hedges of a portion of our net investments primarily in TUI Cruises of €173.0 million, or approximately \$194.2 million based on the exchange rate at December 31, 2019. These forward currency contracts mature in October 2021.

The notional amount of outstanding foreign exchange contracts, excluding the forward contracts entered into to minimize remeasurement volatility, as of December 31, 2019 and 2018 was \$2.9 billion and \$3.7 billion, respectively.

Non-Derivative Instruments

We also address the exposure of our investments in foreign operations by denominating a portion of our debt in our subsidiaries' and investments' functional currencies and designating it as a hedge of these subsidiaries and investments. We had designated debt as a hedge of our net investments primarily in TUI Cruises of €319.0 million, or approximately \$358.1 million, as of December 31, 2019. As of December 31, 2018, we had designated debt as a hedge of our net investments primarily in TUI Cruises of €280.0 million, or approximately \$320.2 million.

Fuel Price Risk

Our exposure to market risk for changes in fuel prices relates primarily to the consumption of fuel on our ships. We use fuel swap agreements to mitigate the financial impact of fluctuations in fuel prices.

Our fuel swap agreements are generally accounted for as cash flow hedges. At December 31, 2019, we have hedged the variability in future cash flows for certain forecasted fuel transactions occurring through 2023. As of December 31, 2019 and 2018, we had the following outstanding fuel swap agreements as hedges of our fuel exposure:

	Fuel Swap Agreements	
	As of December 31, 2019	As of December 31, 2018
	(metric tons)	
2019	—	856,800
2020	830,500	830,500
2021	488,900	488,900
2022	322,900	322,900
2023	82,400	—

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	Fuel Swap Agreements	
	As of December 31, 2019	As of December 31, 2018
	(% hedged)	
Projected fuel purchases for year:		
2019	—	58 %
2020	54 %	54 %
2021	30 %	28 %
2022	19 %	19 %
2023	5 %	—

At December 31, 2019 there was no material estimated unrealized net loss associated with our cash flow hedges pertaining to fuel swap agreements to be reclassified to earnings from *Accumulated other comprehensive loss* within the next twelve months when compared to \$26.8 million at December 31, 2018. Reclassification is expected to occur as the result of fuel consumption associated with our hedged forecasted fuel purchases.

The fair value and line item caption of derivative instruments recorded within our consolidated balance sheets were as follows (in thousands):

Fair Value of Derivative Instruments						
Asset Derivatives				Liability Derivatives		
	Balance Sheet Location	As of December 31, 2019	As of December 31, 2018	Balance Sheet Location	As of December 31, 2019	As of December 31, 2018
		Fair Value	Fair Value		Fair Value	Fair Value
Derivatives designated as hedging instruments under ASC 815-20⁽¹⁾						
Interest rate swaps	Other assets	\$ 11	\$ 23,518	Other long-term liabilities	\$ 64,168	\$ 40,467
Foreign currency forward contracts	Derivative financial instruments	—	4,044	Derivative financial instruments	75,260	39,665
Foreign currency forward contracts	Other assets	9,380	10,844	Other long-term liabilities	64,711	16,854
Fuel swaps	Derivative financial instruments	16,922	10,966	Derivative financial instruments	16,901	37,627
Fuel swaps	Other assets	8,677	9,204	Other long-term liabilities	33,965	65,182
Total derivatives designated as hedging instruments under ASC 815-20		<u>34,990</u>	<u>58,576</u>		<u>255,005</u>	<u>199,795</u>
Derivatives not designated as hedging instruments under ASC 815-20						
Foreign currency forward contracts	Derivative financial instruments	3,186	1,751	Derivative financial instruments	2,419	808
Foreign currency forward contracts	Other assets	—	1,579	Other long-term liabilities	—	833
Fuel swaps	Derivative financial instruments	1,643	2,804	Derivative financial instruments	295	376
Fuel swaps	Other assets	175	587	Other long-term liabilities	9	—
Total derivatives not designated as hedging instruments under ASC 815-20		<u>5,004</u>	<u>6,721</u>		<u>2,723</u>	<u>2,017</u>
Total derivatives		<u>\$ 39,994</u>	<u>\$ 65,297</u>		<u>\$ 257,728</u>	<u>\$ 201,812</u>

(1) Accounting Standard Codification 815-20 "Derivatives and Hedging."

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The location and amount of gain or (loss) recognized in income on fair value and cash flow hedging relationships were as follows (in thousands):

	Year Ended December 31, 2019				Year Ended December 31, 2018			
	Fuel Expense	Depreciation and Amortization Expenses	Interest Income (Expense)	Other Income (Expense)	Fuel Expense	Depreciation and Amortization Expenses	Interest Income (Expense)	Other Income (Expense)
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded	\$697,962	\$1,245,942	\$(381,568)	\$ (24,513)	\$710,617	\$1,033,697	\$(300,872)	\$ 11,107
The effects of fair value and cash flow hedging:								
Gain or (loss) on fair value hedging relationships in Subtopic 815-20								
Interest contracts								
Hedged items	n/a	n/a	\$ (23,464)	—	n/a	n/a	4,673	\$ —
Derivatives designated as hedging instruments	n/a	n/a	\$ 16,607	—	n/a	n/a	\$ (8,854)	\$ —
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20								
Interest contracts								
Amount of gain or (loss) reclassified from accumulated other comprehensive loss into income	n/a	n/a	\$ (4,289)	n/a	n/a	n/a	\$ (10,931)	n/a
Commodity contracts								
Amount of gain or (loss) reclassified from accumulated other comprehensive loss into income	\$ 29,929	n/a	n/a	\$ (1,292)	\$ 1,366	n/a	n/a	\$ (1,580)
Foreign exchange contracts								
Amount of gain or (loss) reclassified from accumulated other comprehensive loss into income	n/a	\$ (14,063)	n/a	\$ (5,080)	n/a	\$ (12,843)	n/a	\$ 12,855

	Year Ended December 31, 2017			
	Fuel Expense	Depreciation and Amortization Expenses	Interest Income (Expense)	Other Income (Expense)
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded	\$ 681,118	\$ 951,194	\$ (269,881)	\$ (5,289)
The effects of fair value and cash flow hedging:				
Gain or (loss) on fair value hedging relationships in Subtopic 815-20				
Interest contracts				
Hedged items	n/a	n/a	\$ —	\$ 6,065
Derivatives designated as hedging instruments	n/a	n/a	\$ 3,007	\$ (3,139)
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20				
Interest contracts				
Amount of gain or (loss) reclassified from accumulated other comprehensive loss into income	n/a	n/a	\$ (31,603)	n/a
Commodity contracts				
Amount of gain or (loss) reclassified from accumulated other comprehensive loss into income	\$ (141,689)	n/a	n/a	\$ 7,382
Foreign exchange contracts				
Amount of gain or (loss) reclassified from accumulated other comprehensive loss into income	n/a	\$ (13,248)	n/a	\$ (9,472)

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The carrying value and line item caption of non-derivative instruments designated as hedging instruments recorded within our consolidated balance sheets were as follows (in thousands):

Non-derivative instrument designated as hedging instrument under ASC 815-20	Balance Sheet Location	Carrying Value	
		As of December 31, 2019	As of December 31, 2018
Foreign currency debt	Current portion of long-term debt	\$ 73,572	\$ 38,168
Foreign currency debt	Long-term debt	284,506	281,984
		<u>\$ 358,078</u>	<u>\$ 320,152</u>

The effect of derivative instruments qualifying and designated as hedging instruments and the related hedged items in fair value hedges on the consolidated statements of comprehensive income (loss) was as follows (in thousands):

Derivatives and related Hedged Items under ASC 815-20 Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income on Derivative and Hedged Item	Amount of Gain (Loss) Recognized in Income on Derivative			Amount of Gain (Loss) Recognized in Income on Hedged Item		
		Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Interest rate swaps	Interest expense (income), net of interest capitalized	\$ 16,607	\$ (8,854)	\$ 3,007	\$ (23,464)	\$ 4,673	\$ —
Interest rate swaps	Other income (expense)	—	—	(3,139)	—	—	6,065
		<u>\$ 16,607</u>	<u>\$ (8,854)</u>	<u>\$ (132)</u>	<u>\$ (23,464)</u>	<u>\$ 4,673</u>	<u>\$ 6,065</u>

The fair value and line item caption of derivative instruments recorded within our consolidated balance sheets for the cumulative basis adjustment for fair value hedges were as follows (in thousands):

Line Item in the Statement of Financial Position Where the Hedged Item is Included	Carrying Amount of the Hedged Liabilities		Cumulative amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Liabilities	
	As of December 31, 2019	As of December 31, 2018	As of December 31, 2019	As of December 31, 2018
Current portion of long-term debt and Long-term debt	\$ 715,234	\$ 725,486	\$ (1,301)	\$ (24,766)
	<u>\$ 715,234</u>	<u>\$ 725,486</u>	<u>\$ (1,301)</u>	<u>\$ (24,766)</u>

The effect of derivative instruments qualifying and designated as cash flow hedging instruments on the consolidated financial statements was as follows (in thousands):

Derivatives under ASC 815-20 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative			Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income		
	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017		Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Interest rate swaps	\$ (72,732)	\$ 18,578	\$ (13,312)	Interest expense	\$ (4,289)	\$ (10,931)	\$ (31,603)
Foreign currency forward contracts	(148,881)	(222,645)	276,573	Depreciation and amortization expenses	(14,063)	(12,843)	(10,840)
Foreign currency forward contracts	—	—	—	Other income (expense)	(5,080)	12,855	(9,472)
Foreign currency forward contracts	—	—	—	Other indirect operating expenses	—	—	—
Foreign currency collar options	—	—	—	Depreciation and amortization expenses	—	—	(2,408)
Fuel swaps	—	—	—	Other income (expense)	(1,292)	(1,580)	7,382
Fuel swaps	75,505	(93,927)	118,604	Fuel	29,929	1,366	(141,689)
	<u>\$ (146,108)</u>	<u>\$ (297,994)</u>	<u>\$ 381,865</u>		<u>\$ 5,205</u>	<u>\$ (11,133)</u>	<u>\$ (188,630)</u>

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The table below represents amounts excluded from the assessment of effectiveness for our net investment hedging instruments for which the difference between changes in fair value and periodic amortization is recorded in accumulated other comprehensive income (loss) (in thousands):

Gain (Loss) Recognized in Income (Net Investment Excluded Components)	Year Ended December 31, 2019
Net inception fair value at January 1, 2019	\$ (8,359)
Amount of gain recognized in income on derivatives for the year ended December 31, 2019	4,024
Amount of loss remaining to be amortized in accumulated other comprehensive loss as of December 31, 2019	(3,673)
Fair value at December 31, 2019	<u>\$ (8,008)</u>

The effect of non-derivative instruments qualifying and designated as net investment hedging instruments on the consolidated financial statements was as follows (in thousands):

Non-derivative instruments under ASC 815-20 Net Investment Hedging Relationships	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss)		
	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Foreign Currency Debt	\$ 6,111	\$ 13,210	\$ (38,971)
	<u>\$ 6,111</u>	<u>\$ 13,210</u>	<u>\$ (38,971)</u>

The effect of derivatives not designated as hedging instruments on the consolidated financial statements was as follows (in thousands):

Derivatives Not Designated as Hedging Instruments under ASC 815-20	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative		
		Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Foreign currency forward contracts	Other income (expense)	\$ 1,356	\$ (62,423)	\$ 61,952
Fuel swaps	Fuel	(37)	1,161	—
Fuel swaps	Other income (expense)	112	114	(1,133)
		<u>\$ 1,431</u>	<u>\$ (61,148)</u>	<u>\$ 60,819</u>

Credit Related Contingent Features

Our current interest rate derivative instruments may require us to post collateral if our Standard & Poor's and Moody's credit ratings are below specified levels. Generally, if on the fifth anniversary of executing a derivative instrument or on any succeeding fifth-year anniversary our credit ratings for our senior unsecured debt were to be rated below BBB- by Standard & Poor's and Baa3 by Moody's, then the counterparty may periodically demand that we post collateral in an amount equal to the difference between (i) the net market value of all derivative transactions with such counterparty that have reached their fifth year anniversary, to the extent negative, and (ii) the applicable minimum call amount.

The amount of collateral required to be posted following such event will change as, and to the extent, our net liability position increases or decreases by more than the applicable minimum call amount. If our credit rating for our senior unsecured debt is subsequently equal to, or above BBB- by Standard & Poor's or Baa3 by Moody's, then any collateral posted at such time will be released to us and we will no longer be required to post collateral unless we meet the collateral trigger requirement, generally, at the next fifth-year anniversary. At December 31, 2019, five of our interest rate derivative instruments had reached their fifth anniversary; however, our senior unsecured debt credit rating was Baa2 by Moody's and BBB- by Standard & Poor's and, accordingly, we were not required to post any collateral as of such date.

Note 19. Commitments and Contingencies

Ship Purchase Obligations

Our future capital commitments consist primarily of new ship orders. As of December 31, 2019, we had one Quantum-class ship, two Oasis-class ships and three ships of a new generation, known as our Icon-class, on order

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for our Royal Caribbean International brand with an aggregate capacity of approximately 32,400 berths. As of December 31, 2019, we had three Edge-class ships on order for our Celebrity brand with an aggregate capacity of approximately 9,400 berths. Additionally as of December 31, 2019, we had five ships on order with an aggregate capacity of approximately 2,400 berths for our Silversea Cruises brand. The following provides further information on recent developments with respect to our ship orders.

During 2017, we entered into credit agreements for the unsecured financing of the two Icon-class ships for up to 80% of each ship's contract price. For each ship, the official Finnish export credit agency, Finnvera plc, has agreed to guarantee 100% of a substantial majority of the financing to the lenders, with a smaller portion of the financing to be 95% guaranteed by Euler Hermes, the official German export credit agency. The maximum loan amount under each facility is not to exceed €1.4 billion, or approximately \$1.6 billion, based on the exchange rate at December 31, 2019. Interest on approximately 75% of each loan will accrue at a fixed rate of 3.56% and 3.76% for the first and the second Icon-class ships, respectively, and the balance will accrue interest at a floating rate ranging from LIBOR plus 1.10% to 1.15% and LIBOR plus 1.15% to 1.20% for the first and the second Icon-class ships, respectively. Each loan will amortize semi-annually and will mature 12 years following delivery of each ship. The first and second Icon-class ships will each have a capacity of approximately 5,600 berths and are expected to enter service in the second quarters of 2022 and 2024, respectively.

During 2017, we entered into credit agreements for the unsecured financing of the third and fourth Edge-class ships and the fifth Oasis-class ship for up to 80% of each ship's contract price through facilities to be guaranteed 100% by Bpifrance Assurance Export, the official export credit agency of France. Under these financing arrangements, we have the right, but not the obligation, to satisfy the obligations to be incurred upon delivery and acceptance of each ship under the shipbuilding contract by assuming, at delivery and acceptance, the debt indirectly incurred by the shipbuilder during the construction of each ship. The maximum loan amount under each facility is not to exceed €684.2 million in the case of the third Edge-class ship and the United States dollar equivalent of €714.6 million and €1.1 billion in the case of the fourth Edge-class ship and fifth Oasis-class ship, or approximately \$802.1 million and \$1.2 billion, respectively, based on the exchange rate at December 31, 2019. The loans will amortize semi-annually and will mature 12 years following delivery of each ship. Interest on the loans will accrue at a fixed rate of 1.28% for the third Edge-class ship and at a fixed rate of 3.18% for both, the fourth Edge-class ship and the fifth Oasis-class ship. The third and fourth Edge-class ships, each of which will have a capacity of approximately 3,250, are expected to enter service in the fourth quarters of 2021 and 2022, respectively. The fifth Oasis-class ship will have a capacity of approximately 5,700 berths and is expected to enter service in the second quarter of 2021.

During 2016, we entered into credit agreements for the unsecured financing of our first two Edge-class ships for up to 80% of each ship's contract price through facilities to be guaranteed 100% by Bpifrance Assurance Export, the official export credit agency of France. *Celebrity Edge*, the first Edge-class ship for our Celebrity Cruises brand, entered service in December 2018. For further information on the financing agreement for this ship, refer to Note 9. *Debt*. The second Edge-class ship will have a capacity of approximately 2,900 berths and is expected to enter service in the first quarter of 2020. Under the financing arrangement for the second Edge-class ship, we have the right, but not the obligation, to satisfy the obligations to be incurred upon delivery and acceptance of the vessel under the shipbuilding contract by assuming, at delivery and acceptance, the debt indirectly incurred by the shipbuilder during the construction of the ship. The maximum loan amount under the facility for the second Edge-class ship delivery is not to exceed the United States dollar equivalent of €627.1 million, or approximately \$704.0 million, respectively, based on the exchange rate at December 31, 2019. The loan will amortize semi-annually and will mature 12 years following delivery of the ship. Interest on the loan will accrue at a fixed rate of 3.23%.

During 2015, we entered into a credit agreement for the unsecured financing of the fifth Quantum-class ship for up to 80% of the ship's contract price, through a facility to be guaranteed 95% by Euler Hermes, official export credit agency of Germany. Hermes has agreed to guarantee to the lender payment of 95% of the financing. The ship will have a capacity of approximately 4,200 berths and is expected to enter service in the fourth quarter of 2020. This credit agreement makes available to us an unsecured term loan in an amount up to the United States dollar equivalent of €777.5 million, or approximately \$872.7 million, based on the exchange rate at December 31, 2019.

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The loan will amortize semi-annually and will mature 12 years following delivery of the ship. At our election, prior to delivery of the ship, interest on the loans will accrue either (1) at a fixed rate of 3.45% (inclusive of the applicable margin) or (2) at a floating rate equal to LIBOR plus 0.95%.

Our future capital commitments consist primarily of new ship orders. As of December 31, 2019, our Global Brands have the following ships on order:

Ship	Shipyard	Expected to Enter Service	Approximate Berths
Royal Caribbean International —			
Oasis-class:			
<i>Wonder of the Seas</i>	Chantiers de l'Atlantique	2nd Quarter 2021	5,700
<i>Unnamed</i>	Chantiers de l'Atlantique	4th Quarter 2023	5,700
Quantum-class:			
<i>Odyssey of the Seas</i>	Meyer Werft	4th Quarter 2020	4,200
Icon-class:			
<i>Unnamed</i>	Meyer Turku Oy	2nd Quarter 2022	5,600
<i>Unnamed</i>	Meyer Turku Oy	2nd Quarter 2024	5,600
<i>Unnamed</i>	Meyer Turku Oy	2nd Quarter 2025	5,600
Celebrity Cruises —			
Edge-class:			
<i>Celebrity Apex</i>	Chantiers de l'Atlantique	2nd Quarter 2020	2,900
<i>Celebrity Beyond</i>	Chantiers de l'Atlantique	4th Quarter 2021	3,250
<i>Unnamed</i>	Chantiers de l'Atlantique	4th Quarter 2022	3,250
Silversea Cruises — ⁽¹⁾			
<i>Silver Origin</i>	De Hoop	3rd Quarter 2020	100
Muse-class:			
<i>Silver Moon</i>	Fincantieri	3rd Quarter 2020	550
<i>Silver Dawn</i>	Fincantieri	3rd Quarter 2021	550
Evolution-class:			
<i>Unnamed</i>	Meyer Werft	1st Quarter 2022	600
<i>Unnamed</i>	Meyer Werft	1st Quarter 2023	600
TUI Cruises (50% joint venture) —			
<i>Mein Schiff 7</i>	Meyer Turku Oy	2nd Quarter 2023	2,900
<i>Unnamed</i>	Fincantieri	3rd Quarter 2024	4,100
<i>Unnamed</i>	Fincantieri	1st Quarter 2026	4,100
Total Berths			55,300

(1) The revenue impact from Silversea Cruises' new ships will be recognized on a three month reporting lag from the "Expected to Enter Service" dates above. Refer to Note 1. *General* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information.

In June 2019, Silversea Cruises entered into a \$300 million unsecured term loan facility for the financing of Silver Moon to pay a portion of the ship's contract price through a facility guaranteed by us. We expect to draw upon this loan when we take delivery of the ship. The loan will be due and payable at maturity in June 2028. Interest on the loan will accrue at LIBOR plus 1.50%.

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In September 2019, Silversea Cruises entered into two credit agreements, guaranteed by us, for the unsecured financing of the first and second Evolution-class ships for an amount of up to 80% of each ship's contract price through facilities to be guaranteed 95% by Euler Hermes, the official export credit agency of Germany. The maximum loan amount under each facility is not to exceed the United States dollar equivalent of €351.6 million in the case of the first Evolution-class ship and €359.0 million in the case of the second Evolution-class ship, or approximately \$394.7 million and \$403.0 million, respectively, based on the exchange rate at December 31, 2019. Each loan, once funded, will amortize semi-annually and will mature 12 years following the delivery of each ship. At our election, interest on each loan will accrue either (1) at a fixed rate of 4.14% and 4.18%, respectively (inclusive of the applicable margin) or (2) at a floating rate equal to LIBOR plus 0.79% and 0.83%, respectively. The first and second Evolution-class ships will each have a capacity of approximately 600 berths and are scheduled for delivery in the first quarters of 2022 and 2023, respectively.

In December 2019, we entered into a credit agreement for the unsecured financing of the sixth Oasis-class ship for up to 80% of the ship's contract price through a facility to be guaranteed 100% by Bpifrance Assurance Export, the official export credit agency of France. Under the financing arrangement, we have the right, but not the obligation, to satisfy the obligations to be incurred upon delivery and acceptance of the ship under the shipbuilding contract by assuming, at delivery and acceptance, the debt indirectly incurred by the shipbuilder during the construction of the ship. The maximum loan amount under the facility is not to exceed the United States dollar equivalent of €1.3 billion, or approximately \$1.5 billion based on the exchange rate at December 31, 2019. The loan will amortize semi-annually and will mature 12 years following delivery of the ship. Interest on the loan will accrue at a fixed rate of 3.00% (inclusive of margin). The sixth Oasis-class ship will have a capacity of approximately 5,700 berths and is scheduled for delivery in the fall of 2023.

In December 2019, we entered into a credit agreement for the unsecured financing of the third Icon-class ship for up to 80% of the ship's contract price. Finnvera plc, the official export credit agency of Finland, has agreed to guarantee 95% of the substantial majority of the financing, with a smaller portion of the financing to be 95% guaranteed by Euler Hermes, the official German export credit agency. The maximum loan amount under the facility is not to exceed the United States dollar equivalent of €1.4 billion, or approximately \$1.6 billion based on the exchange rate at December 31, 2019. The loan, once funded, will amortize semi-annually and will mature 12 years following the delivery of the ship. Approximately 60% of the loan will accrue interest at a fixed rate of 3.29%. The balance of the loan will accrue interest at a floating rate of LIBOR plus 0.85%. The third Icon-class ship will have a capacity of approximately 5,600 berths and is scheduled for delivery in the second quarter of 2025.

As of December 31, 2019, the aggregate cost of our ships on order, not including any ships on order by our Partner Brands and the Silversea Cruises ships that remain contingent upon final documentation and financing, was approximately \$14.8 billion, of which we had deposited \$881.5 million as of such date. Approximately 65.9% of the aggregate cost was exposed to fluctuations in the Euro exchange rate at December 31, 2019. Refer to Note 18. *Fair Value Measurements and Derivative Instruments* for further information.

In addition, as of December 31, 2019, we have an agreement in place with Chantiers de l'Atlantique to build an additional Edge-class ship for delivery in the 4th quarter of 2024, which is contingent upon completion of conditions precedent and financing.

Litigation

On August 27, 2019, two lawsuits were filed against Royal Caribbean Cruises Ltd. in the U.S. District Court for the Southern District of Florida under Title III of the Cuban Liberty and Democratic Solidarity Act, also known as the Helms-Burton Act. The complaint filed by Havana Docks Corporation alleges it holds an interest in the Havana Cruise Port Terminal and the complaint filed by Javier Garcia-Bengochea alleges that he holds an interest in the Port of Santiago, Cuba, both of which were expropriated by the Cuban Government. The complaints further allege that Royal Caribbean Cruises Ltd. trafficked in those properties by embarking and disembarking passengers at these facilities. The plaintiffs seek all available statutory remedies, including the value of the expropriated property, plus interest, treble damages, attorneys' fees and costs. Royal Caribbean Cruises Ltd. filed its answer to each complaint on October 4, 2019. We believe we have meritorious defenses to the claims, and we intend to vigorously defend ourselves against them. We believe that it is unlikely that the outcome of these matters will have

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a material adverse impact to our financial condition, results of operations or cash flows. However, the outcome of litigation is inherently unpredictable and subject to significant uncertainties, and there can be no assurances that the final outcome of this case will not be material.

We are routinely involved in other claims typical within the travel and tourism industry. The majority of these claims are covered by insurance. We believe the outcome of such claims, net of expected insurance recoveries, will not have a material adverse impact on our financial condition or results of operations and cash flows.

Other

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

If any person acquires ownership of more than 50% of our common stock or, subject to certain exceptions, during any 24-month period, a majority of our board of directors is no longer comprised of individuals who were members of our board of directors on the first day of such period, we may be obligated to prepay indebtedness outstanding under our credit facilities, which we may be unable to replace on similar terms. Our public debt securities also contain change of control provisions that would be triggered by a third-party acquisition of greater than 50% of our common stock coupled with a ratings downgrade. If this were to occur, it would have an adverse impact on our liquidity and operations.

At December 31, 2019, we have future commitments to pay for our usage of certain port facilities, marine consumables, services and maintenance contracts as follows (in thousands):

<u>Year</u>		
2020	\$	202,879
2021		137,840
2022		57,096
2023		14,596
2024		8,760
Thereafter		34,233
	<u>\$</u>	<u>455,404</u>

Note 20. Restructuring Charges

For the year ended December 31, 2019, we incurred restructuring charges of \$12.0 million in connection with our international sales and marketing strategy. For the year ended December 31, 2018 and 2017, we did not incur restructuring charges.

Centralization of Global Sales and Marketing Structure

During the year ended December 31, 2019, we implemented a strategy related to the restructuring and centralization of our international sales and marketing structure. Activities related to this strategy focused on moving from a multi-brand sales model to a brand dedicated sales model, which resulted in the consolidation of some of our international offices and personnel reorganization among our sales and marketing teams. The personnel reorganization resulted in the recognition of a liability for one-time termination benefits during the twelve months ended December 31, 2019. We also incurred contract termination costs related to the closure of some of our international offices and other related costs consisting of legal and consulting fees to implement this initiative. As a

result of these actions, we incurred restructuring exit costs of \$12.0 million for the year ended December 31, 2019, which were reported within *Marketing, selling and administrative expenses* in our consolidated statements of comprehensive income (loss). In 2020, we expect to incur additional immaterial costs as it relates to the restructuring activities of this strategy.

The following table summarizes our restructuring exit costs (in thousands):

	Beginning Balance January 1, 2019	Accruals	Payments	Ending Balance December 31, 2019	Cumulative Charges Incurred
Termination benefits	—	\$ 8,880	\$ 491	\$ 8,389	\$ 8,880
Contract termination costs	—	338	—	338	338
Other related costs	—	2,808	23	2,785	2,808
Total	—	\$ 12,026	\$ 514	\$ 11,512	\$ 12,026

Note 21. Quarterly Selected Financial Data (Unaudited)

	(In thousands, except per share data)							
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2019	2018	2019	2018	2019	2018	2019	2018
Total revenues ⁽¹⁾	\$ 2,439,767	\$ 2,027,756	\$ 2,806,631	\$ 2,337,605	\$ 3,186,850	\$ 2,796,187	\$ 2,517,413	\$ 2,332,301
Operating income	\$ 318,831	\$ 274,146	\$ 573,653	\$ 456,895	\$ 890,792	\$ 799,733	\$ 299,425	\$ 364,027
Net Income attributable to Royal Caribbean Cruises Ltd.	\$ 249,681	\$ 218,653	\$ 472,830	\$ 466,295	\$ 883,240	\$ 810,391	\$ 273,136	\$ 315,703
Earnings per share								
Basic	\$ 1.19	\$ 1.03	\$ 2.26	\$ 2.20	\$ 4.21	\$ 3.88	\$ 1.31	\$ 1.51
Diluted	\$ 1.19	\$ 1.02	\$ 2.25	\$ 2.19	\$ 4.20	\$ 3.86	\$ 1.30	\$ 1.50
Dividends declared per share	\$ 0.70	\$ 0.60	\$ 0.70	\$ 0.60	\$ 0.78	\$ 0.70	\$ 0.78	\$ 0.70

- (1) Our revenues are seasonal based on the demand for cruises. Demand is strongest for cruises during the Northern Hemisphere's summer months and holidays.