

ROYAL CARIBBEAN CRUISES LTD

Form 10-Q

August 02, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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 33132

(Address of principal executive offices) (zip code)

(305) 539-6000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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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  (Do not check if a smaller reporting 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 Exchange Act). Yes  No

There were 208,970,026 shares of common stock outstanding as of July 26, 2018.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## ROYAL CARIBBEAN CRUISES LTD.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited; in thousands, except per share data)

|  | Quarter Ended June 30, |             |
|--|------------------------|-------------|
|  | 2018                   | 2017        |
| Passenger ticket revenues                      | \$1,672,570            | \$1,581,385 |
| Onboard and other revenues                     | 665,035                | 613,889     |
| Total revenues                                 | 2,337,605              | 2,195,274   |
| Cruise operating expenses:                     |                        |             |
| Commissions, transportation and other          | 358,305                | 340,331     |
| Onboard and other                              | 142,240                | 132,437     |
| Payroll and related                            | 226,315                | 210,362     |
| Food   | 128,383                | 121,764     |
| Fuel   | 172,309                | 170,748     |
| Other operating                                | 286,859                | 281,143     |
| Total cruise operating expenses                | 1,314,411              | 1,256,785   |
| Marketing, selling and administrative expenses | 312,923                | 283,855     |
| Depreciation and amortization expenses         | 253,376                | 234,937     |
| Operating Income                               | 456,895                | 419,697     |
| Other income (expense):                        |                        |             |
| Interest income                                | 13,098                 | 5,811       |
| Interest expense, net of interest capitalized  | (81,864)               | (76,632)    |
| Equity investment income                       | 44,311                 | 23,359      |
| Other income (expense)                         | 33,855                 | (2,709)     |
|  | 9,400                  | (50,171)    |
| Net Income                                     | \$466,295              | \$369,526   |
| Earnings per Share:                            |                        |             |
| Basic  | \$2.20                 | \$1.72      |
| Diluted  | \$2.19                 | \$1.71      |
| Weighted-Average Shares Outstanding:           |                        |             |
| Basic  | 211,673                | 215,085     |
| Diluted  | 212,509                | 216,062     |
| Comprehensive Income                           |                        |             |
| Net Income                                     | \$466,295              | \$369,526   |
| Other comprehensive income (loss):             |                        |             |
| Foreign currency translation adjustments       | (11,521)               | 5,979       |
| Change in defined benefit plans                | (1,964)                | (3,649)     |
| (Loss) gain on cash flow derivative hedges     | (68,900)               | 128,954     |
| Total other comprehensive (loss) income        | (82,385)               | 131,284     |
| Comprehensive Income                           | \$383,910              | \$500,810   |

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



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ROYAL CARIBBEAN CRUISES LTD.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(unaudited; in thousands, except per share data)

|  | Six Months Ended June<br>30, |             |
|--|------------------------------|-------------|
|  | 2018                         | 2017        |
| Passenger ticket revenues                      | \$3,098,214                  | \$2,999,608 |
| Onboard and other revenues                     | 1,267,147                    | 1,204,226   |
| Total revenues                                 | 4,365,361                    | 4,203,834   |
| Cruise operating expenses:                     |                              |             |
| Commissions, transportation and other          | 648,914                      | 650,579     |
| Onboard and other                              | 241,777                      | 238,431     |
| Payroll and related                            | 453,471                      | 426,097     |
| Food   | 248,025                      | 242,975     |
| Fuel   | 332,650                      | 348,162     |
| Other operating                                | 565,593                      | 526,365     |
| Total cruise operating expenses                | 2,490,430                    | 2,432,609   |
| Marketing, selling and administrative expenses | 650,284                      | 601,320     |
| Depreciation and amortization expenses         | 493,606                      | 470,686     |
| Operating Income                               | 731,041                      | 699,219     |
| Other income (expense):                        |                              |             |
| Interest income                                | 20,831                       | 12,063      |
| Interest expense, net of interest capitalized  | (149,742)                    | (156,949)   |
| Equity investment income                       | 73,063                       | 35,239      |
| Other income (expense)                         | 9,755                        | (5,320)     |
|  | (46,093)                     | (114,967)   |
| Net Income                                     | \$684,948                    | \$584,252   |
| Earnings per Share:                            |                              |             |
| Basic  | \$3.23                       | \$2.72      |
| Diluted  | \$3.21                       | \$2.71      |
| Weighted-Average Shares Outstanding:           |                              |             |
| Basic  | 212,139                      | 214,978     |
| Diluted  | 213,079                      | 215,944     |
| Comprehensive Income                           |                              |             |
| Net Income                                     | \$684,948                    | \$584,252   |
| Other comprehensive income (loss):             |                              |             |
| Foreign currency translation adjustments       | (10,361)                     | 8,321       |
| Change in defined benefit plans                | 5,796                        | (4,290)     |
| Gain on cash flow derivative hedges            | 73,630                       | 151,415     |
| Total other comprehensive income               | 69,065                       | 155,446     |
| Comprehensive Income                           | \$754,013                    | \$739,698   |

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

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ROYAL CARIBBEAN CRUISES LTD.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

|  | As of<br>June 30,<br>2018<br>(unaudited) | December 31,<br>2017 |
|--|--|----------------------|
| Assets   |  |                      |
| Current assets   |  |                      |
| Cash and cash equivalents  | \$ 108,998                               | \$ 120,112           |
| Trade and other receivables, net   | 355,729                                  | 318,641              |
| Inventories  | 121,879                                  | 111,393              |
| Prepaid expenses and other assets  | 418,817                                  | 258,171              |
| Derivative financial instruments   | 94,473                                   | 99,320               |
| Total current assets   | 1,099,896                                | 907,637              |
| Property and equipment, net  | 21,429,719                               | 19,735,180           |
| Goodwill   | 288,418                                  | 288,512              |
| Other assets   | 1,239,003                                | 1,429,597            |
|  | \$24,057,036                             | \$22,360,926         |
| Liabilities and Shareholders' Equity   |  |                      |
| Current liabilities  |  |                      |
| Current portion of long-term debt  | \$ 1,177,626                             | \$ 1,188,514         |
| Accounts payable   | 418,616                                  | 360,113              |
| Accrued interest   | 61,175                                   | 47,469               |
| Accrued expenses and other liabilities   | 751,585                                  | 903,022              |
| Derivative financial instruments   | 44,203                                   | 47,464               |
| Customer deposits  | 3,049,145                                | 2,308,291            |
| Total current liabilities  | 5,502,350                                | 4,854,873            |
| Long-term debt   | 7,341,463                                | 6,350,937            |
| Other long-term liabilities  | 439,525                                  | 452,813              |
| Commitments and contingencies (Note 7)   |  |                      |
| 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; 235,779,344 and 235,198,901 shares issued, June 30, 2018 and December 31, 2017, respectively) | 2,358                                    | 2,352                |
| Paid-in capital  | 3,397,561                                | 3,390,117            |
| Retained earnings  | 9,429,784                                | 9,022,405            |
| Accumulated other comprehensive loss   | (265,200 )                               | (334,265 )           |
| Treasury stock (25,293,576 and 21,861,308 common shares at cost, June 30, 2018 and December 31, 2017, respectively)  | (1,790,805 )                             | (1,378,306 )         |
| Total shareholders' equity   | 10,773,698                               | 10,702,303           |
|  | \$24,057,036                             | \$22,360,926         |

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





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ROYAL CARIBBEAN CRUISES LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited; in thousands)

|   | Six Months Ended |              |
|---|------------------|--------------|
|   | June 30,         |              |
|   | 2018             | 2017         |
| Operating Activities  |                  |              |
| Net income  | \$684,948        | \$584,252    |
| Adjustments:  |                  |              |
| Depreciation and amortization                                   | 493,606          | 470,686      |
| Impairment losses   | 33,651           | —            |
| Net deferred income tax (benefit) expense                       | (893             | ) 1,084      |
| Gain (loss) on derivative instruments not designated as hedges  | 29,750           | (34,988 )    |
| Share-based compensation expense                                | 31,819           | 35,379       |
| Equity investment income  | (73,063          | ) (35,239 )  |
| Amortization of debt issuance costs                             | 16,283           | 26,035       |
| 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:                    |                  |              |
| Decrease in trade and other receivables, net                    | 16,162           | 33,045       |
| (Increase) decrease in inventories                              | (10,485          | ) 4,682      |
| Increase in prepaid expenses and other assets                   | (152,626         | ) (36,931 )  |
| Increase in accounts payable                                    | 58,842           | 69,634       |
| Increase in accrued interest                                    | 13,706           | 5,486        |
| Decrease in accrued expenses and other liabilities              | (71,254          | ) (47,189 )  |
| Increase in customer deposits                                   | 740,420          | 563,546      |
| Dividends received from unconsolidated affiliates               | 158,942          | 57,402       |
| Other, net  | (2,748           | ) (6,702 )   |
| Net cash provided by operating activities                       | 1,931,586        | 1,659,280    |
| Investing Activities  |                  |              |
| Purchases of property and equipment                             | (2,212,880       | ) (271,541 ) |
| Cash received on settlement of derivative financial instruments | 69,195           | 34,866       |
| Cash paid on settlement of derivative financial instruments     | (34,898          | ) —          |
| Cash received on loans to unconsolidated affiliates             | 37,607           | 23,487       |
| Proceeds from the sale of property and equipment                | —                | 230,000      |
| Proceeds from the sale of unconsolidated affiliate              | 13,215           | —            |
| Other, net  | (13,220          | ) (9,144 )   |
| Net cash (used in) provided by investing activities             | (2,140,981       | ) 7,668      |
| Financing Activities  |                  |              |
| Debt proceeds   | 3,929,322        | 2,236,000    |
| Debt issuance costs   | (48,535          | ) (14,575 )  |
| Repayments of debt  | (3,029,944       | ) (3,689,890 |
| Purchases of treasury stock                                     | (369,476         | ) —          |
| Dividends paid  | (254,645         | ) (206,039 ) |
| Proceeds from exercise of common stock options                  | 4,062            | 2,385        |
| Other, net  | (16,827          | ) 2,626      |
| Net cash provided by (used in) financing activities             | 213,957          | (1,669,493   |
| Effect of exchange rate changes on cash                         | (15,676          | ) 419        |

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|  |           |           |
|--|-----------|-----------|
| Net decrease in cash and cash equivalents        | (11,114 ) | (2,126 )  |
| Cash and cash equivalents at beginning of period | 120,112   | 132,603   |
| Cash and cash equivalents at end of period       | \$108,998 | \$130,477 |

Supplemental Disclosure

Cash paid during the period for:

|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Interest, net of amount capitalized | \$114,061 | \$125,007 |
|-------------------------------------|-----------|-----------|

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

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

As used in this Quarterly Report on Form 10-Q, 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,” and “Azamara Club Cruises” refer to our wholly-owned global cruise brands. Throughout this report, we also refer to regional brands in which we hold an ownership interest, including “TUI Cruises,” “Pullmantur” and “SkySea Cruises.” 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 report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017, including the audited consolidated financial statements and related notes included therein.

This Quarterly Report on Form 10-Q 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.

Note 1. General

Description of Business

We are a global cruise company. As of June 30, 2018, we own and operate three global cruise brands: Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises (collectively, our "Global Brands"). We also own a 50% joint venture interest in the German brand TUI Cruises, a 49% interest in the Spanish brand Pullmantur and a 36% interest in the Chinese brand SkySea Cruises (collectively, our "Partner Brands"). We account for our investments in our Partner Brands under the equity method of accounting.

In March 2018, we and Ctrip.com International Ltd. ("Ctrip") announced the decision to end the Skysea Holding International Ltd. ("Skysea Holding") venture. Skysea Holding expects to cease business operations by the end of 2018. The Golden Era, the ship operated by SkySea Cruises and owned by a wholly owned subsidiary of Skysea Holding, is expected to be sold to an affiliate of TUI AG, our joint venture partner in TUI Cruises, and is expected to be delivered in December 2018. Refer to Note 5. Other Assets for further information regarding our investment in SkySea Holding.

On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruises Holding Ltd. ("Silversea Cruises"), a privately-owned ultra-luxury cruise line with nine ships operating in all seven continents, for approximately \$1.0 billion. Refer to Note 6. Long-Term Debt for information on debt issued to finance a portion of the acquisition. In addition to the purchase price, Manfredi Lefebvre D'Ovidio, Executive Chairman of Silversea Cruises, will qualify for contingent consideration of approximately 472,000 shares of our common stock, payable upon achievement of certain 2019-2020 performance metrics. For reporting purposes, we will account for this transaction under the provisions of Accounting Standard Codification ("ASC") 805, Business Combinations, and we expect to include Silversea Cruises’ results of operations on a three-month reporting lag beginning with the fourth quarter of 2018. During the subsequent measurement period, we expect to receive additional information to perform the purchase price allocation.

Basis for Preparation of Consolidated Financial Statements

The unaudited consolidated financial statements are presented pursuant to the rules and regulations of the Securities and Exchange Commission. In our opinion, these statements include all adjustments necessary for a fair statement of the results of the interim periods reported herein. Adjustments consist only of normal recurring items, except for any discussed in the notes below. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted as permitted by such rules and regulations. Estimates are required for the preparation of financial statements in accordance with GAAP and actual results could differ from these estimates. Refer to Note 2. Summary of Significant Accounting Policies in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017 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

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determined to be the primary beneficiary. Refer to Note 5. Other Assets for further information regarding our variable interest entities. 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

#### Adoption of Accounting Pronouncements

On January 1, 2018, we adopted the guidance in ASC 606, Revenue from Contracts with Customers, and applied the guidance to all contracts using the modified retrospective method. The new standard converged wide-ranging revenue recognition concepts and requirements that lead to diversity in application for particular industries and transactions into a single revenue standard containing comprehensive principles for recognizing revenue. The cumulative effect of applying the newly issued guidance was not material and accordingly there was no adjustment made to our retained earnings upon adoption on January 1, 2018. We do not expect the newly issued guidance to have a material impact on our consolidated financial statements on an ongoing basis. Due to the adoption of ASC 606, we currently present prepaid commissions as an asset within Prepaid expenses and other assets. In addition, we have 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. Refer to Note 3. Revenues for disclosures with respect to our revenue recognition policies.

On January 1, 2018, we adopted the guidance in Accounting Standard Update ("ASU") 2016-16, Income Taxes 740: Intra-Entity Transfers of Assets Other Than Inventory, which requires the income tax consequences of an intra-entity transfer of an asset, other than inventory, to be recognized at the time that the transfer occurs, rather than when the asset is sold to an outside party. We adopted the standard using the modified retrospective method and recorded a cumulative-effect adjustment to reduce retained earnings as of January 1, 2018 by \$6.6 million, which reflects the elimination of the deferred tax asset related to intercompany asset transfers.

On January 1, 2018, we adopted the guidance in ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, that was issued to simplify and align the financial reporting of hedging relationships to the economic results of an entity's risk management activities. We adopted the amended guidance using the modified retrospective approach. Adoption of the guidance allowed us to modify the designated risk in our fair value interest rate hedges to the benchmark interest rate component, resulting in changes to the cumulative and ongoing fair value measurement for the hedged debt. Upon adoption, we also elected to hedge the contractually specified components of our commodities purchase contracts. For our cash flow hedges, there will be no periodic measurement or recognition of ineffectiveness. For all hedges, the earnings effect of the hedging instrument will be reported in the same period and in the same income statement line item in which the earnings effect of the hedged item is reported. As a result of the adoption of this guidance, we recorded a cumulative-effect adjustment to reduce retained earnings as of January 1, 2018 by \$16.9 million. The cumulative-effect adjustment includes an increase to the debt carrying value of \$14.4 million for our fair value interest rate hedges as of January 1, 2018, which reflects the cumulative fair value measurement change to debt at adoption resulting from the modified designated risk, and an increase to other comprehensive income of \$2.5 million, which represents an increase to the deferred gain on active cash flow hedges at adoption. Additionally, the new standard requires modifications to existing presentation and disclosure requirements on a prospective basis. As such, certain disclosures for the six months ended June 30, 2018 conform to these disclosure requirements. Refer to Note 9. Changes in Accumulated Other Comprehensive Income (Loss) and Note 10. Fair Value Measurements and Derivative Instruments for additional information.

#### Recent Accounting Pronouncements

Leases

In February 2016, amended GAAP guidance was issued to increase the transparency and comparability of lease accounting among organizations. For leases with a term greater than 12 months, the amendments require the lease rights and obligations arising from the leasing arrangements, including operating leases, to be recognized as assets and liabilities on the balance sheet. The amendments also expand the required disclosures surrounding leasing arrangements. The guidance must be applied using a retrospective application method and will be effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. We are currently evaluating the impact of adopting this guidance. In our evaluation, we have identified the contracts that provide an explicit right to use an asset and qualify as a leasing arrangement under the new guidance. We are currently evaluating certain contractual arrangements to determine if they contain an implicit or embedded right to use an asset that would qualify as a leasing arrangement under the new guidance. Upon implementation of the guidance, we expect an increase to both the assets and liabilities on our consolidated balance sheet to reflect

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the lease rights and obligations arising from our operating lease arrangements. In addition, we expect to include additional qualitative and quantitative disclosures regarding our leasing arrangements as required by the guidance.

### Change in Accounting Principle - Stock-based Compensation

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. The adoption of the straight-line attribution method for time-based stock awards represents a change in accounting principle which we believe to be preferable because it is the predominant method used in our industry. A change in accounting principle requires retrospective application, if material. The impact of the adoption of the straight-line attribution method to our time-based awards was immaterial to prior periods and is expected to be immaterial for our fiscal year ended December 31, 2018. As a result, we have accounted for this change in accounting principle in our consolidated results for the six months ended June 30, 2018. The effect of this change was an increase to net income of \$9.2 million, or \$0.04 per share for each of basic and diluted earnings per share, for the six months ended June 30, 2018, which is reported within Marketing, selling and administrative expenses in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2018.

### Note 3. 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 23 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 \$151.4 million and \$143.4 million for the second quarter of 2018 and 2017, respectively, and \$288.1 million and \$277.9 million for the six months ended June 30, 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):

|                               | Quarter Ended June 30, |             | Six Months Ended June 30, |             |
|-------------------------------|------------------------|-------------|---------------------------|-------------|
|                               | 2018                   | 2017        | 2018                      | 2017        |
| Revenues by itinerary         |                        |             |                           |             |
| North America <sup>(1)</sup>  | \$1,264,167            | \$1,246,103 | \$2,611,427               | \$2,598,272 |
| Asia/Pacific <sup>(2)</sup>   | 283,198                | 300,891     | 816,177                   | 826,747     |
| Europe <sup>(3)</sup>         | 597,399                | 467,829     | 597,399                   | 467,829     |
| Other regions                 | 101,631                | 94,719      | 178,816                   | 159,951     |
| Total revenues by itinerary   | 2,246,395              | 2,109,542   | 4,203,819                 | 4,052,799   |
| Other revenues <sup>(4)</sup> | 91,210                 | 85,732      | 161,542                   | 151,035     |
| Total revenues                | \$2,337,605            | \$2,195,274 | \$4,365,361               | \$4,203,834 |

(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., 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. 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 5. 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 quarters ended June 30, 2018 and 2017, our guests were sourced from the following areas:

|                                    | Quarter Ended June 30, |      |
|------------------------------------|------------------------|------|
|                                    | 2018                   | 2017 |
| Passenger ticket revenues:         |                        |      |
| United States                      | 63%                    | 63%  |
| United Kingdom                     | 10%                    | 9%   |
| All other countries <sup>(1)</sup> | 27%                    | 28%  |

For the six months ended June 30, 2018 and 2017, our guests were sourced from the following areas:

|                                    | Six Months Ended June 30, |      |
|------------------------------------|---------------------------|------|
|                                    | 2018                      | 2017 |
| Passenger ticket revenues:         |                           |      |
| United States                      | 62%                       | 62%  |
| All other countries <sup>(1)</sup> | 38%                       | 38%  |



(1) No other individual country's revenue exceeded 10% for the quarters and six months ended June 30, 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 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 do not consider customer deposits to be a contract liability until 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 presented in our

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consolidated balance sheets include contract liabilities of \$2.0 billion and \$1.4 billion as of June 30, 2018 and December 31, 2017, respectively. Substantially all of our contract liabilities as of December 31, 2017 were expensed and reported within Total revenues in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2018.

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 source in select markets outside of the United States. As a result, we have 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 June 30, 2018 and December 31, 2017, our contract assets were \$58.9 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 \$148.2 million and \$64.6 million as of June 30, 2018 and December 31, 2017, respectively. Substantially all of our prepaid travel agent commissions at December 31, 2017 were expensed and reported within Commissions, transportation and other in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2018.

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## Note 4. Earnings Per Share

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

|   | Quarter Ended June<br>30, |           | Six Months Ended<br>June 30, |           |
|---|---------------------------|-----------|------------------------------|-----------|
|   | 2018                      | 2017      | 2018                         | 2017      |
| Net income for basic and diluted earnings per share     | \$466,295                 | \$369,526 | \$684,948                    | \$584,252 |
| Weighted-average common shares outstanding              | 211,673                   | 215,085   | 212,139                      | 214,978   |
| Dilutive effect of stock-based awards and stock options | 836                       | 977       | 940                          | 966       |
| Diluted weighted-average shares outstanding             | 212,509                   | 216,062   | 213,079                      | 215,944   |
| Basic earnings per share                                | \$2.20                    | \$1.72    | \$3.23                       | \$2.72    |
| Diluted earnings per share                              | \$2.19                    | \$1.71    | \$3.21                       | \$2.71    |

There were no antidilutive shares for the quarters and six months ended June 30, 2018 and 2017.

## Note 5. 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 June 30, 2018, the net book value of our investment in TUI Cruises was approximately \$537.4 million, primarily consisting of \$349.3 million in equity and a loan of €158.5 million, or approximately \$185.1 million based on the exchange rate at June 30, 2018. As of December 31, 2017, the net book value of our investment in TUI Cruises was approximately \$624.5 million, primarily consisting of \$422.8 million in equity and a loan of €166.5 million, or approximately \$199.8 million based on the exchange rate at December 31, 2017. 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. 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 June 30, 2018, the outstanding principal amount of the loan was €41.3 million, or approximately \$48.2 million based on the exchange rate at June 30, 2018. In April 2018, Mein Schiff 1 was sold to an affiliate of TUI AG. The proceeds were used to repay €44.2 million of the bank loan during the six months ended June 30, 2018 and secure the release of the first mortgage on Mein Schiff 1. The loan amortizes quarterly and is currently secured by a first mortgage on Mein Schiff 2. 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 2028.

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 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. As mentioned above, 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 quarter and six months ended June 30, 2018.

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We have determined that Pullmantur Holdings S.L. ("Pullmantur Holdings"), in which we have a 49% noncontrolling 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 June 30, 2018, our maximum exposure to loss in Pullmantur Holdings was approximately \$58.8 million consisting of loans and other receivables. As of December 31, 2017, our maximum exposure to loss in Pullmantur Holdings was approximately \$53.7 million 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 \$17.5 million based on the exchange rate at June 30, 2018. Proceeds of the facility, which may be drawn through December 2018, will bear interest at the rate of 6.5% per annum and are payable through 2022. Springwater Capital LLC, 51% owner of Pullmantur Holdings, has guaranteed repayment of 51% of the outstanding amounts under the facility. As of June 30, 2018, €8.0 million, or approximately \$9.3 million, based on the exchange rate at June 30, 2018, was drawn on 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 and certain emergency repairs as may be required. During the quarter and six months ended June 30, 2018, we made payments of \$1.9 million and \$24.3 million respectively, to Grand Bahama for ship repair and maintenance services. During the quarter and six months ended June 30, 2017, we made payments of \$3.9 million and \$5.5 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 June 30, 2018, the net book value of our investment in Grand Bahama was approximately \$58.7 million, consisting of \$44.6 million in equity and a loan of \$14.1 million. As of December 31, 2017, the net book value of our investment in Grand Bahama was approximately \$49.4 million, consisting of \$32.4 million in equity and a loan of \$17.0 million. These amounts represent our maximum exposure to loss related to our investment in Grand Bahama. Our loan to Grand Bahama matures in March 2025 and bears interest at the lower of (i) LIBOR plus 3.50% and (ii) 5.5%. Interest payable on the loan is due on a semi-annual basis. We have experienced strong payment performance on the loan since its amendment in 2016, and as a result completed an evaluation and review of the loan resulting in a reclassification of the loan to accrual status as of October 2017. During the quarter and six months ended June 30, 2018, we received principal and interest payments of approximately \$11.2 million and \$14.2 million, respectively. During the quarter and six months ended June 30, 2017, we received principal payments of approximately \$3.9 million and \$4.2 million, respectively. The loan balance is included within Other assets in our consolidated balance sheets. The loan is currently accruing interest under the effective yield method, which includes the recognition of previously unrecognized interest that accumulated while the loan was in non-accrual status.

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 June 30, 2018.

We have determined that Skysea Holding International Ltd. ("Skysea Holding"), in which we currently have a 36% noncontrolling 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. In December 2014, we and Ctrip, which also owns 36% of Skysea Holding, each provided a debt facility to a wholly owned subsidiary of Skysea

Holding in the amount of \$80.0 million, with an applicable interest rate of 6.5% per annum, which originally matured in January 2030. The facilities, which are pari passu to each other, are each 100% guaranteed by Skysea Holding and are secured by first priority mortgages on the ship, Golden Era. Due to payment performance, the loans were classified to non-accrual status in 2017.

In March 2018, Skysea Holding's board of directors agreed to exit the business given increasing challenges faced by the brand. We expect Skysea Holding will cease business operations by the end of 2018. In connection with the decision to dissolve the brand, SkySea Holding has agreed to sell the Golden Era to an affiliate of TUI AG, our joint venture partner in TUI Cruises.

We review our equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. Given SkySea Holding's planned dissolution and sale of Golden Era, we reviewed the recoverability of our investment, debt facility and other receivables due from the brand. As a result of this analysis, we determined that our investment in SkySea Holding and the carrying value of our debt facility and other receivables due from the brand were impaired as of March 31, 2018 and recognized an impairment charge of \$23.3 million. The charge reflected a full impairment of our investment in SkySea Holding and reduced the debt facility and other receivables due to us to their net realizable value as of March 31, 2018. This impairment charge was recognized in Other income (expense) within our consolidated statements

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of comprehensive income (loss) for the six months ended June 30, 2018. Refer to Note 10. Fair Value Measurements and Derivative Instruments for further information on the fair value calculation of the debt facility.

As of June 30, 2018, the net book value of our investment in Skysea Holding and its subsidiaries was approximately \$64.7 million, consisting of the net book value of the \$80.0 million debt facility, its related accrued interest and other receivables due from Skysea Holding. Due to the expected sale of Golden Era in December of 2018, the amount was included within Trade and other receivables, net in our consolidated balance sheets and represents our maximum exposure to loss related to our investment in Skysea Holding as of June 30, 2018. As of December 31, 2017, the net book value of our investment in Skysea Holding and its subsidiaries was approximately \$96.0 million, which consisted of \$4.4 million in equity and loans and other receivables of \$91.6 million. The majority of these amounts were included within Other assets in our consolidated balance sheets and represented our maximum exposure to loss related to our investment in Skysea Holding as of December 31, 2017.

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

|   | Quarter<br>Ended<br>June 30,<br>2018 | Quarter<br>Ended<br>June 30,<br>2017 | Six<br>Months<br>Ended<br>June 30,<br>2018 | Six<br>Months<br>Ended<br>June 30,<br>2017 |
|---|--------------------------------------|--------------------------------------|--|--|
| Share of equity income from investments | \$44,311                             | \$23,359                             | \$73,063                                   | \$35,239                                   |
| Dividends received                      | \$121,024                            | \$29,405                             | \$158,942                                  | \$57,402                                   |

|  | As of<br>June 30,<br>2018 | As of<br>December<br>31, 2017 |
|--|---------------------------|-------------------------------|
| Total notes receivable due from equity investments | \$277,635                 | \$314,323                     |
| Less-current portion <sup>(1)</sup>                | 89,632                    | 38,658                        |
| Long-term portion <sup>(2)</sup>                   | \$188,003                 | \$275,665                     |

(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. 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):

|          | Quarter<br>Ended<br>June 30,<br>2018 | Quarter<br>Ended<br>June 30,<br>2017 | Six<br>Months<br>Ended<br>June 30,<br>2018 | Six<br>Months<br>Ended<br>June 30,<br>2017 |
|----------|--------------------------------------|--------------------------------------|--|--|
| Revenues | \$14,157                             | \$13,318                             | \$28,230                                   | \$25,933                                   |
| Expenses | \$3,270                              | \$4,020                              | \$6,908                                    | \$7,733                                    |

Note 6. Long-Term Debt

In June 2018, we entered into a credit agreement for the financing of a portion of the purchase price payable for the Silversea Cruises acquisition and to pay related fees and expenses. This agreement makes available to us an unsecured U.S. dollar denominated term loan with a maximum aggregate principal amount of \$700 million. On July 31, 2018, we closed on the Silversea Cruises acquisition and subsequently drew in full on this credit agreement. The loan is due in July 2019 and we are required to prepay the loan with the proceeds of certain debt issuances prior to maturity. Interest on the loan will accrue at a floating rate based on LIBOR plus a margin that varies with our credit rating and which is currently 1.00%.

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. The commercial paper issued will be backstopped by our revolving credit facilities. As of June 30, 2018, we had not issued any notes under this program and as of July 31, 2018, we had \$415.0 million of commercial paper notes outstanding.

In March 2018, we took delivery of Symphony of the Seas. We had previously entered into a financing arrangement for the United States dollar financing of this ship in January 2015. Through the financing arrangement, we had 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



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assuming through a novation agreement, at delivery and acceptance, the debt indirectly incurred by the shipbuilder during the construction of the ship. We borrowed a total of \$1.2 billion under our previously committed unsecured term loan, which includes the execution of the novation to satisfy a portion of our final obligation under our shipbuilding agreement. The loan amortizes semi-annually over 12 years and bears interest at a fixed rate of 3.82%. In our consolidated statement of cash flows for the six months ended June 30, 2018, the acceptance of the ship and satisfaction of our obligation under the shipbuilding contract was classified as an outflow and constructive disbursement within Investing Activities while the amounts novated and effectively advanced from our lender under our previously committed unsecured term loan were classified as an inflow and constructive receipt within Financing Activities.

In March 2018, we entered into and drew in full on a credit agreement in the amount of \$130.0 million due February 2023. The loan accrues interest at a floating rate of LIBOR plus an applicable margin. The applicable margin varies with our debt rating and was 1.195% as of June 30, 2018. Amounts from the issuance of this loan were used for capital expenditures.

### Note 7. Commitments and Contingencies

#### Ship Purchase Obligations

Our future capital commitments consist primarily of new ship orders. As of June 30, 2018, we had two Quantum-class ships, one Oasis-class ship and two ships of a new generation of ships, known as our Icon-class, on order for our Royal Caribbean International brand with an aggregate capacity of approximately 25,300 berths. Additionally, as of June 30, 2018, we have four ships of a new generation of ships, known as our Edge-class, and a ship designed for the Galapagos Islands on order for our Celebrity Cruises brand with an aggregate capacity of approximately 12,300 berths.

As of June 30, 2018, the aggregate cost of our ships on order, not including any ships on order by our Partner Brands, was approximately \$11.4 billion, of which we had deposited \$586.1 million. Approximately 54.3% of the aggregate cost was exposed to fluctuations in the Euro exchange rate at June 30, 2018. Refer to Note 10. Fair Value Measurements and Derivative Instruments for further information.

#### Litigation

We are routinely involved in claims typical within the cruise vacation 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

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 at PortMiami in Miami, Florida. The terminal is expected to be approximately 170,000 square feet and will serve as a homeport. During the construction period, SMBC will fund the costs of the terminal’s construction and land lease. Upon completion of the terminal’s construction, which is expected to occur during the fourth quarter of 2018, we will operate and lease 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 upon completion of the terminal.

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.

Note 8. Shareholders' Equity

During both first and second quarters of 2018, we declared a cash dividend on our common stock of \$0.60 per share which was paid in April 2018 and July 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.

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During both first and second quarters of 2017, we declared a cash dividend on our common stock of \$0.48 per share which was paid in April 2017 and July 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.

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 second quarter of 2018, we repurchased 1.3 million shares of our common stock under this program for a total of \$137.5 million in open market transactions that were recorded within Treasury stock in our consolidated balance sheet. In July 2018, we repurchased an additional 1.5 million shares for a total of \$162.5 million in open market transactions.

In April 2017, our board of directors authorized a 12-month common stock repurchase program for up to \$500.0 million that was completed in February 2018. During the first quarter of 2018, we repurchased 2.1 million shares of our common stock for a total of \$275.0 million in open market transactions that were recorded within Treasury stock in our consolidated balance sheet. Our repurchases under this program, including the 1.8 million shares repurchased for \$225.0 million during 2017, totaled \$500.0 million.

## Note 9. Changes in Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) by component for the six months ended June 30, 2018 and 2017 (in thousands):

|  | Accumulated Other Comprehensive Income<br>(Loss) for the Six Months Ended June 30, 2018 |  |   |   | Accumulated Other Comprehensive Income<br>(Loss) for the Six Months Ended June 30, 2017 |  |   |   |
|--|---|--|---|---|---|--|---|---|
|  | Changes<br>related to<br>cash flow<br>derivative<br>hedges                              | Changes in<br>defined<br>benefit plans | Foreign<br>currency<br>translation<br>adjustments | Accumulated<br>other<br>comprehensive<br>loss | Changes<br>related to<br>cash flow<br>derivative<br>hedges                              | Changes in<br>defined<br>benefit plans | Foreign<br>currency<br>translation<br>adjustments | Accumulated<br>other<br>comprehensive<br>loss |
| Accumulated<br>comprehensive<br>loss at beginning<br>of the year           | \$ (250,355)  | \$ (33,666 )                           | \$ (50,244 )                                      | \$ (334,265 )                                 | \$ (820,850)  | \$ (28,083 )                           | \$ (67,551 )                                      | \$ (916,484 )                                 |
| Other<br>comprehensive<br>income (loss)<br>before<br>reclassifications     | 69,932  | 5,082                                  | (10,361 )   | 64,653  | 43,408  | (4,847 )                               | 8,321   | 46,882  |
| Amounts<br>reclassified from<br>accumulated other<br>comprehensive<br>loss | 3,698   | 714                                    | —   | 4,412   | 108,007   | 557                                    | —   | 108,564                                       |
| Net current-period<br>other<br>comprehensive<br>income (loss)              | 73,630  | 5,796                                  | (10,361 )   | 69,065  | 151,415   | (4,290 )                               | 8,321   | 155,446                                       |

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Ending balance \$(176,725) \$(27,870) \$(60,605) \$(265,200) \$(669,435) \$(32,373) \$(59,230) \$(761,038)

The following table presents reclassifications out of accumulated other comprehensive income (loss) for the quarters and six months ended June 30, 2018 and 2017 (in thousands):

| Details About Accumulated Other Comprehensive Income (Loss) Components | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income |                             |                                |                                | Affected Line Item in Statements of Comprehensive Income (Loss) |
|--|---|-----------------------------|--------------------------------|--------------------------------|---|
|  | Quarter Ended June 30, 2018   | Quarter Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |   |
| Gain (loss) on cash flow derivative hedges:                            |   |                             |                                |                                |   |
| Interest rate swaps  | \$(2,138)   | \$(7,863)                   | \$(8,976)                      | \$(16,720)                     | Interest expense, net of interest capitalized                   |
| Foreign currency forward contracts                                     | (3,156)   | (2,710)                     | (6,468)                        | (5,420)                        | Depreciation and amortization expenses                          |
| Foreign currency forward contracts                                     | 14,601  | (4,105)                     | 14,643                         | (7,675)                        | Other income (expense)  |
| Foreign currency collar options  | —   | (602)                       | —                              | (1,204)                        | Depreciation and amortization expenses                          |
| Fuel swaps   | (133)   | 2,498                       | 192                            | 4,775                          | Other income (expense)  |
| Fuel swaps   | 2,043   | (41,835)                    | (3,089)                        | (81,763)                       | Fuel  |
|  | 11,217  | (54,617)                    | (3,698)                        | (108,007)                      |   |
| Amortization of defined benefit plans:                                 |   |                             |                                |                                |   |
| Actuarial loss   | (372)   | (293)                       | (714)                          | (557)                          | Payroll and related   |
|  | (372)   | (293)                       | (714)                          | (557)                          |   |
| Total reclassifications for the period                                 | \$10,845  | \$(54,910)                  | \$(4,412)                      | \$(108,564)                    |   |

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## Note 10. 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 June 30, 2018 Using |                  |                        |                        | Fair Value Measurements at December 31, 2017 Using |                       |                  |                        |                        |                        |
|---|--|------------------|------------------------|------------------------|--|-----------------------|------------------|------------------------|------------------------|------------------------|
|   | Total Carrying Amount                          | Total Fair Value | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Level 3 <sup>(3)</sup>                             | Total Carrying Amount | Total Fair Value | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Level 3 <sup>(3)</sup> |
| Assets:   |  |                  |                        |                        |  |                       |                  |                        |                        |                        |
| Cash and cash equivalents <sup>(4)</sup>                                    | \$108,998                                      | \$108,998        | \$108,998              | \$—                    | \$—  | \$120,112             | \$120,112        | \$120,112              | \$—                    | \$—                    |
| Total Assets  | \$108,998                                      | \$108,998        | \$108,998              | \$—                    | \$—  | \$120,112             | \$120,112        | \$120,112              | \$—                    | \$—                    |
| Liabilities:  |  |                  |                        |                        |  |                       |                  |                        |                        |                        |
| Long-term debt (including current portion of long-term debt) <sup>(5)</sup> | \$8,474,818                                    | \$8,964,142      | \$—                    | \$8,964,142            | \$—  | \$7,506,312           | \$8,038,092      | \$—                    | \$8,038,092            | \$—                    |
| Total Liabilities   | \$8,474,818                                    | \$8,964,142      | \$—                    | \$8,964,142            | \$—  | \$7,506,312           | \$8,038,092      | \$—                    | \$8,038,092            | \$—                    |

(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.

(3) Inputs that are unobservable. The Company did not use any Level 3 inputs as of June 30, 2018 and December 31, 2017.

(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. This does not include our capital lease obligations.

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## Other Financial Instruments

The carrying amounts of accounts receivable, accounts payable, accrued interest and accrued expenses approximate fair value at June 30, 2018 and December 31, 2017.

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 June 30,<br>2018 Using |                        |                        | Fair Value Measurements at December<br>31, 2017 Using |            |                        |                        |                        |   |
|---|---|------------------------|------------------------|---|------------|------------------------|------------------------|------------------------|---|
|   | Total   | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Level 3 <sup>(3)</sup>                                | Total      | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Level 3 <sup>(3)</sup> |   |
| Assets:   |   |                        |                        |   |            |                        |                        |                        |   |
| Derivative financial instruments <sup>(4)</sup> | \$296,646   | \$                     | —\$296,646             | \$  | —\$320,385 | \$                     | \$320,385              | \$                     | — |
| Investments <sup>(5)</sup>                      | —   | —                      | —                      | —   | 3,340      | 3,340                  | —                      | —                      | — |
| Total Assets                                    | \$296,646   | \$                     | —\$296,646             | \$  | —\$323,725 | \$3,340                | \$320,385              | \$                     | — |
| Liabilities:                                    |   |                        |                        |   |            |                        |                        |                        |   |
| Derivative financial instruments <sup>(6)</sup> | \$103,206   | \$                     | —\$103,206             | \$  | —\$115,961 | \$                     | \$115,961              | \$                     | — |
| Total Liabilities                               | \$103,206   | \$                     | —\$103,206             | \$  | —\$115,961 | \$                     | \$115,961              | \$                     | — |

(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. All derivative instrument fair values take into account the creditworthiness of the counterparty and the Company.

(3) Inputs that are unobservable. The Company did not use any Level 3 inputs as of June 30, 2018 and December 31, 2017.

(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 exchange-traded equity securities and mutual funds reported within Other assets in our consolidated balance sheets.

(6) 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.

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 June 30, 2018 or December 31, 2017, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement.

The following table presents information about the fair value of our equity method investment and note and other receivables due related to SkySea Holding, further discussed in Note 5. Other Assets, recorded at fair value on a nonrecurring basis (in thousands):

Fair Value Measurements at June 30,  
2018 Using

| Description  | Total<br>Carrying<br>Amount | Total<br>Fair<br>Value | Level 3  | Total<br>Impairment |
|--|-----------------------------|------------------------|----------|---------------------|
| Equity-method investment - SkySea Holding <sup>(1)</sup>                   | \$—                         | \$—                    | \$—      | \$ 509              |
| Debt facility and other receivables due from Skysea Holding <sup>(2)</sup> | 64,667                      | 64,667                 | 64,667   | 22,834              |
| Total  | \$64,667                    | \$64,667               | \$64,667 | \$ 23,343           |

(1) Due to the expectation that Skysea Holding will cease business operations by the end of 2018, we do not deem our investment balance to be recoverable and therefore, we estimated the fair value of our investment to be zero. The fair value of our equity investment in Skysea Holding was estimated as of March 31, 2018, the date of the last impairment test, at which point the investment was fully impaired.

(2) We estimated the fair value of our debt facility and other receivables due from Skysea Holding based on the fair value of the collateral of the debt facility, Skysea Holding's ship, Golden Era, as of March 31, 2018, the date of the last impairment test, adjusted for foreign exchange rates as of June 30, 2018. We believe this amount estimates fair value as of June 30, 2018. The fair value of the ship represents the net realizable value based on the agreed upon sale price of the ship, which is expected to be completed in December 2018. For further information on the Skysea Holding impairment, refer to Note 5. Other Assets.

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We have master International Swaps and Derivatives Association (“ISDA”) agreements in place with our derivative instrument counterparties. These ISDA agreements 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, 2017   |  |                          |                                 |
|--|--|---|--------------------------|---------------------------------|---|--|--------------------------|---------------------------------|
|  | As of June 30, 2018  |   |                          |                                 | As of December 31, 2017   |  |                          |                                 |
|  | 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 | \$ 296,646   | \$ (91,084 )  | \$ —                     | \$ 205,562                      | \$ 320,385  | \$ (104,751 )  | \$ —                     | \$ 215,634                      |
| Total  | \$ 296,646   | \$ (91,084 )  | \$ —                     | \$ 205,562                      | \$ 320,385  | \$ (104,751 )  | \$ —                     | \$ 215,634                      |

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, 2017  |   |                         |                                      |
|--|--|--|-------------------------|--------------------------------------|--|---|-------------------------|--------------------------------------|
|  | As of June 30, 2018  |  |                         |                                      | As of December 31, 2017  |   |                         |                                      |
|  | 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 | \$ (103,206)   | \$ 91,084  | \$ —                    | \$ (12,122 )                         | \$ (115,961)   | \$ 104,751  | \$ —                    | \$ (11,210 )                         |
| Total  | \$ (103,206)   | \$ 91,084  | \$ —                    | \$ (12,122 )                         | \$ (115,961)   | \$ 104,751  | \$ —                    | \$ (11,210 )                         |

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 June 30, 2018 and December 31, 2017, we had counterparty credit risk exposure under our derivative instruments of approximately \$205.6 million and \$212.8 million, respectively, 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.

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### 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.

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. We use the long-haul method to assess hedge effectiveness using regression analysis for each hedge relationship under our interest rate, foreign currency and fuel hedging programs. We apply the same methodology on a consistent basis for assessing hedge effectiveness to all hedges within each hedging program (i.e., interest rate, foreign currency and fuel). We perform regression analyses over 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 and derivative instrument cash flows from hedges of foreign currency risk on debt payments as financing activities.

#### 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 June 30, 2018 and December 31, 2017, approximately 60.6% and 57.4%, respectively, of our long-term debt was effectively fixed. We use interest rate swap agreements to modify our exposure to interest rate movements and to manage our interest expense.

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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 June 30, 2018 and December 31, 2017, we maintained interest rate swap agreements on the following fixed-rate debt instruments:

| Debt Instrument             | Swap Notional as of June 30, 2018 (In thousands) | Maturity      | Debt Fixed Rate | Swap Floating Rate: LIBOR plus | All-in Swap Floating Rate as of June 30, 2018 |
|-----------------------------|--|---------------|-----------------|--------------------------------|---|
| Oasis of the Seas term loan | \$ 122,500                                       | October 2021  | 5.41%           | 3.87%                          | 6.39%   |
| Unsecured senior notes      | 650,000  | November 2022 | 5.25%           | 3.63%                          | 5.97%   |
|                             | \$ 772,500                                       |               |                 |                                |   |

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 June 30, 2018 and December 31, 2017, we maintained interest rate swap agreements on the following floating-rate debt instruments:

| Debt Instrument                              | Swap Notional as of June 30, 2018 (In thousands) | Maturity     | Debt Floating Rate | All-in Swap Fixed Rate |
|--|--|--------------|--------------------|------------------------|
| Celebrity Reflection term loan               | \$354,521  | October 2024 | LIBOR plus 0.40%   | 2.85%                  |
| Quantum of the Seas term loan                | 520,625  | October 2026 | LIBOR plus 1.30%   | 3.74%                  |
| Anthem of the Seas term loan                 | 543,750  | April 2027   | LIBOR plus 1.30%   | 3.86%                  |
| Ovation of the Seas term loan                | 691,667  | April 2028   | LIBOR plus 1.00%   | 3.16%                  |
| Harmony of the Seas term loan <sup>(1)</sup> | 674,563  | May 2028     | EURIBOR plus 1.15% | 2.26%                  |
|  | \$2,785,126                                      |              |                    |                        |

(1) Interest rate swap agreements hedging the Euro-denominated term loan for Harmony of the Seas include EURIBOR zero-floor matching the hedged debt EURIBOR zero-floor. Amount presented is based on the exchange rate as of June 30, 2018.

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

The notional amount of interest rate swap agreements related to outstanding debt as of June 30, 2018 and December 31, 2017 was \$3.6 billion and \$3.8 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 June 30, 2018, the aggregate cost of our ships on order, not including any ships on order by our Partner Brands, was approximately \$11.4 billion, of which we had deposited \$586.1 million. At June 30, 2018 and December 31, 2017, approximately 54.3% and 54.0%, respectively, of the aggregate cost of the ships under construction was exposed to fluctuations in the Euro exchange rate. The majority of our foreign currency forward contracts, collar options and cross currency swap agreements are accounted for as cash flow, fair value 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 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 the second quarter of 2018, we maintained an average of approximately \$733.6 million of these foreign currency forward contracts. These instruments are not designated as hedging instruments. For the quarters ended June 30, 2018 and 2017, changes in the fair value of the foreign currency forward contracts resulted in a (loss) gain of \$(36.9) million and \$21.3 million, respectively. For the six months ended June 30, 2018 and 2017, changes in the fair value of the foreign currency forward contracts resulted in a (loss) gain of \$(31.3) million and \$35.1 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 June 30, 2018, we maintained foreign currency forward contracts and designated them as hedges of a portion of our net investments primarily in

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TUI Cruises of €101.0 million, or approximately \$117.9 million based on the exchange rate at June 30, 2018. 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 June 30, 2018 and December 31, 2017 was \$3.8 billion and \$4.6 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 approximately €256.0 million, or approximately \$298.9 million, as of June 30, 2018. As of December 31, 2017, we had designated debt as a hedge of our net investments in TUI Cruises of approximately €246.0 million, or approximately \$295.3 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 accounted for as cash flow hedges. At June 30, 2018, we have hedged the variability in future cash flows for certain forecasted fuel transactions occurring through 2022. As of June 30, 2018 and December 31, 2017, we had the following outstanding fuel swap agreements:

| Fuel Swap Agreements      |                               |                        |                               |
|---------------------------|-------------------------------|------------------------|-------------------------------|
| As of June<br>30, 2018    | As of<br>December<br>31, 2017 |                        |                               |
| (metric tons)             |                               |                        |                               |
| 2018                      | 342,900                       | 673,700                |                               |
| 2019                      | 668,500                       | 668,500                |                               |
| 2020                      | 531,200                       | 531,200                |                               |
| 2021                      | 224,900                       | 224,900                |                               |
| 2022                      | —                             | —                      |                               |
|                           |                               |                        |                               |
|                           |                               | Fuel Swap Agreements   |                               |
|                           |                               | As of June<br>30, 2018 | As of<br>December<br>31, 2017 |
|                           |                               | (% hedged)             |                               |
| Projected fuel purchases: |                               |                        |                               |
| 2018                      | 50                            | %                      | 50                            |
| 2019                      | 47                            | %                      | 46                            |
| 2020                      | 36                            | %                      | 36                            |
| 2021                      | 14                            | %                      | 14                            |
| 2022                      | —                             | %                      | —                             |

At June 30, 2018 and December 31, 2017, \$53.0 million and \$(23.7) million, respectively, of estimated unrealized net gain (loss) associated with our cash flow hedges pertaining to fuel swap agreements were expected to be reclassified to earnings from Accumulated other comprehensive loss within the next twelve months. Reclassification is expected to occur as the result of fuel consumption associated with our hedged forecasted fuel purchases.



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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 June 30, 2018 Fair Value       | As of December 31, 2017 Fair Value | Balance Sheet Location | As of June 30, 2018 Fair Value   | As of December 31, 2017 Fair Value |            |
| Derivatives designated as hedging instruments under ASC 815-20 <sup>(1)</sup> |                                      |                                    |                        |                                  |                                    |            |
| Interest rate swaps   | Other assets                         | \$49,418                           | \$ 7,330               | Other long-term liabilities      | \$51,917                           | \$ 46,509  |
| Foreign currency forward contracts  | Derivative financial instruments     | 21,921                             | 68,352                 | Derivative financial instruments | 26,677                             | —          |
| Foreign currency forward contracts  | Other assets                         | 72,830                             | 158,879                | Other long-term liabilities      | 4,502                              | 6,625      |
| Fuel swaps  | Derivative financial instruments     | 62,366                             | 13,137                 | Derivative financial instruments | 9,098                              | 38,488     |
| Fuel swaps  | Other assets                         | 79,191                             | 51,265                 | Other long-term liabilities      | 2,584                              | 13,411     |
| Total derivatives designated as hedging instruments under ASC 815-20          |                                      | 285,726                            | 298,963                |                                  | 94,778                             | 105,033    |
| Derivatives not designated as hedging instruments under ASC 815-20            |                                      |                                    |                        |                                  |                                    |            |
| Foreign currency forward contracts  | Derivative financial instruments     | \$1,930                            | \$ 9,945               | Derivative financial instruments | \$—                                | \$ 2,933   |
| Foreign currency forward contracts  | Other assets                         | 734                                | 2,793                  | Other long-term liabilities      | —                                  | 1,139      |
| Fuel swaps  | Derivative financial instruments     | 8,256                              | 7,886                  | Derivative financial instruments | 8,428                              | 6,043      |
| Fuel swaps  | Other Assets                         | —                                  | 798                    | Other long-term liabilities      | —                                  | 813        |
| Total derivatives not designated as hedging instruments under ASC 815-20      |                                      | 10,920                             | 21,422                 |                                  | 8,428                              | 10,928     |
| Total derivatives   |                                      | \$296,646                          | \$ 320,385             |                                  | \$ 103,206                         | \$ 115,961 |

(1) Accounting Standard Codification 815-20 “Derivatives and Hedging.”





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The location and amount of gain or (loss) recognized in income on fair value and cash flow hedging relationships were as follows (in thousands):

|  | Quarter Ended June 30, 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 | 172,309                     | 253,376                                | (68,766)                  | 33,855                 | 170,748      | 234,937                                | (70,821)                  | (2,709 )               |
| 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                                    | 3,374                     | n/a                    | n/a          | n/a                                    | n/a                       | (4,311 )               |
| Derivatives designated as hedging instruments  | n/a                         | n/a                                    | (5,310)                   | n/a                    | n/a          | n/a                                    | 869                       | 5,351                  |
| Gain or (loss) on cash flow hedging relationships in Subtopic 815-20   |                             |  |                           |                        |              |  |                           |                        |
| Interest contracts   |                             |  |                           |                        |              |  |                           |                        |
| Amount of gain or (loss) reclassified from accumulated other comprehensive income into income  | n/a                         | n/a                                    | (2,138)                   | n/a                    | n/a          | n/a                                    | (7,863)                   | n/a                    |
| Commodity contracts  |                             |  |                           |                        |              |  |                           |                        |
| Amount of gain or (loss) reclassified from   | 2,043                       | n/a                                    | n/a                       | (133 )                 | (41,835)     | n/a                                    | n/a                       | 2,498                  |

|  |     |         |     |        |     |         |     |          |
|--|-----|---------|-----|--------|-----|---------|-----|----------|
| accumulated<br>other<br>comprehensive<br>loss into income<br>Foreign exchange<br>contracts<br>Amount of gain<br>or (loss)<br>reclassified from<br>accumulated<br>other<br>comprehensive<br>income into<br>income | n/a | (3,156) | n/a | 14,601 | n/a | (3,312) | n/a | (4,105 ) |
|--|-----|---------|-----|--------|-----|---------|-----|----------|

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|  | Six Months Ended June 30, 2018 |   |                                 |                              |                 |   |                                 |                              |
|--|--------------------------------|---|---------------------------------|------------------------------|-----------------|---|---------------------------------|------------------------------|
|  | Fuel<br>Expense                | Depreciation<br>and<br>Amortization<br>Expenses | Interest<br>Income<br>(Expense) | Other<br>Income<br>(Expense) | Fuel<br>Expense | Depreciation<br>and<br>Amortization<br>Expenses | Interest<br>Income<br>(Expense) | Other<br>Income<br>(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 | 332,650                        | 493,606   | (128,911)                       | 9,755                        | 348,162         | 470,686   | (144,886)                       | (5,320 )                     |
| 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   | 16,556                          | n/a                          | n/a             | n/a   | n/a                             | (1,854 )                     |
| Derivatives designated as hedging instruments  | n/a                            | n/a   | (17,880)                        | n/a                          | n/a             | n/a   | 2,042                           | 3,820                        |
| Gain or (loss) on cash flow hedging relationships in Subtopic 815-20   |                                |   |                                 |                              |                 |   |                                 |                              |
| Interest contracts   |                                |   |                                 |                              |                 |   |                                 |                              |
| Amount of gain or (loss) reclassified from accumulated other comprehensive income into income  | n/a                            | n/a   | (8,976)                         | n/a                          | n/a             | n/a   | (16,720)                        | n/a                          |
| Commodity contracts  |                                |   |                                 |                              |                 |   |                                 |                              |
| Amount of gain or (loss) reclassified from accumulated other comprehensive loss into income  | (3,089)                        | n/a   | n/a                             | 192                          | (81,763)        | n/a   | n/a                             | 4,775                        |

|   |     |         |     |        |     |         |     |          |
|---|-----|---------|-----|--------|-----|---------|-----|----------|
| Foreign exchange contracts  |     |         |     |        |     |         |     |          |
| Amount of gain or (loss) reclassified from accumulated other comprehensive income into income | n/a | (6,468) | n/a | 14,643 | n/a | (6,624) | n/a | (7,675 ) |

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 June 30, 2018 | As of December 31, 2017 |
| Foreign currency debt   | Current portion of long-term debt | \$79,575            | \$70,097                |
| Foreign currency debt   | Long-term debt                    | 219,279             | 225,226                 |
|   |                                   | \$298,854           | \$295,323               |

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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 |                             |                                |                                |
|--|--|--|-----------------------------|--------------------------------|--------------------------------|---|-----------------------------|--------------------------------|--------------------------------|
|  |  | Quarter Ended June 30, 2018                              | Quarter Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 | Quarter Ended June 30, 2018                               | Quarter Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
| Interest rate swaps  | Interest expense, net of interest capitalized                              | \$(5,310)  | \$ 869                      | \$(17,880)                     | \$ 2,042                       | \$3,374   | \$—                         | \$16,556                       | \$—                            |
| Interest rate swaps  | Other income (expense)   | —  | 5,351                       | —                              | 3,820                          | —   | (4,311)                     | —                              | (1,854)                        |
|  |  | \$(5,310)  | \$6,220                     | \$(17,880)                     | \$5,862                        | \$3,374   | \$(4,311)                   | \$16,556                       | \$(1,854)                      |

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 Assets/(Liabilities)   |                         | Cumulative amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets/(Liabilities) |                         |
|--|--|-------------------------|---|-------------------------|
|  | As of June 30, 2018                                  | As of December 31, 2017 | As of June 30, 2018   | As of December 31, 2017 |
|  | Current portion of long-term debt and Long-term debt | \$730,462               | \$749,155   | \$(36,648)              |
|  | \$730,462  | \$749,155               | \$(36,648)  | \$(34,813)              |

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 (Effective Portion) |                             |                                |                                | Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion) |                             |                                |                                |
|--|---|-----------------------------|--------------------------------|--------------------------------|--|---|-----------------------------|--------------------------------|--------------------------------|
|  | Quarter Ended June 30, 2018   | Quarter Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |  | Quarter Ended June 30, 2018   | Quarter Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
| Interest rate swaps  | \$8,867   | \$(19,060)                  | \$46,058                       | \$(21,549)                     | Interest expense, net of interest  | \$(2,138)   | \$(7,863)                   | \$(8,976)                      | \$(16,720)                     |

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|                                    |            |          |           |           |  |          |            |           |             |
|------------------------------------|------------|----------|-----------|-----------|--|----------|------------|-----------|-------------|
| Foreign currency forward contracts | (193,329 ) | 97,521   | (97,963 ) | 99,650    | capitalized Depreciation and amortization expenses | (3,156 ) | (2,710 )   | (6,468 )  | (5,420 )    |
| Foreign currency forward contracts | —          | —        | —         | —         | Other income (expense)                             | 14,601   | (4,105 )   | 14,643    | (7,675 )    |
| Foreign currency collar options    | —          | —        | —         | —         | Depreciation and amortization expenses             | —        | (602 )     | —         | (1,204 )    |
| Fuel swaps                         | —          | —        | —         | —         | Other income (expense)                             | (133 )   | 2,498      | 192       | 4,775       |
| Fuel swaps                         | 126,778    | (4,125 ) | 121,837   | (34,693 ) | Fuel   | 2,043    | (41,835 )  | (3,089 )  | (81,763 )   |
|                                    | \$(57,684) | \$74,336 | \$69,932  | \$43,408  |  | \$11,217 | \$(54,617) | \$(3,698) | \$(108,007) |

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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)                                 | Six Months Ended June 30, 2018 |
| Net inception fair value at January 1, 2018   | \$(11,335)                     |
| Amount of gain recognized in income on derivatives for the period ended June 30, 2018                 | 1,488                          |
| Amount of loss remaining to be amortized in accumulated other comprehensive loss, as of June 30, 2018 | (2,205 )                       |
| Fair value at June 30, 2018   | \$(12,052)                     |

The effect of non-derivative instruments qualifying and designated as net investment hedging instruments on the consolidated financial statements was as follows (in thousands):

|  | Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) |                             |                                |                                |
|--|---|-----------------------------|--------------------------------|--------------------------------|
|  | Quarter Ended June 30, 2018   | Quarter Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
| Non-derivative instruments under ASC 815-20 Net Investment Hedging Relationships | \$15,853  | \$21,888                    | \$7,609                        | \$26,257                       |
| Foreign Currency Debt  | \$15,853  | \$21,888                    | \$7,609                        | \$26,257                       |

There was no amount recognized in income (ineffective portion and amount excluded from effectiveness testing) for the quarters and six months ended June 30, 2018 and 2017.

The effect of derivatives not designated as hedging instruments on the consolidated financial statements was as follows (in thousands):

|  | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives |                             |                                |                                |
|--|---|---|-----------------------------|--------------------------------|--------------------------------|
|  |   | Quarter Ended June 30, 2018                               | Quarter Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
| Derivatives Not Designated as Hedging Instruments under ASC 815-20 |   |   |                             |                                |                                |
| Foreign currency forward contracts                                 | Other income (expense)                                      | \$(36,894)  | \$21,256                    | \$(31,259)                     | \$35,068                       |
| Fuel swaps   | Other income (expense)                                      | 213   | (20 )                       | 183                            | (80 )                          |
| Fuel swaps   | Fuel  | (881 )  | —                           | 1,326                          | —                              |
|  |   | \$(37,562)  | \$21,236                    | \$(29,750)                     | \$34,988                       |

## 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. Specifically, 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 at the next fifth-year anniversary. At June 30, 2018, 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.

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Item 2. 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 third quarter and full year of 2018 and our earnings and yield estimates for 2018 set forth under the heading "Outlook" below), business and industry prospects or future results of operations or financial position, made in this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q and, in particular, the risks discussed under the caption "Risk Factors" in Part II, Item 1A herein.

All forward-looking statements made in this Quarterly Report on Form 10-Q 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 has been organized to present the following:

- a review 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 quarter and six months ended June 30, 2018 compared to the same periods in 2017;
- a discussion of our business outlook, including our expectations for selected financial items for the third quarter and full year of 2018; and
- a discussion of our liquidity and capital resources, including our future capital and contractual commitments and potential funding sources.

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### Critical Accounting Policies

For a discussion of our critical accounting policies, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations within our Annual Report on Form 10-K for the year ended December 31, 2017.

### 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 and pre- and post-cruise tours. Onboard and other revenues also includes 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.

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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.

Adjusted Earnings per Share ("Adjusted EPS") represents Adjusted Net Income 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 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 the impairment loss related to Skysea Holding, the impairment loss and other costs related to the exit of our tour operations business, transaction costs related to the Silversea Cruises acquisition and 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 the impairment loss and other costs related to the exit of our tour operations business, transaction costs related to the Silversea Cruises acquisition and 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. For the periods presented, Net Cruise Costs exclude the impairment loss and other costs related to the exit of our tour operations business, transaction costs related to the Silversea Cruises acquisition and 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.

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

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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 periods' currency exchange rates had remained constant with the comparable prior periods' 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, there exists the possibility that 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 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 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.

Results of Operations

Summary

Net income and Adjusted Net Income for the second quarter of 2018 were \$466.3 million and \$482.2 million, or \$2.19 and \$2.27 per share on a diluted basis, respectively, compared to both net income and Adjusted Net Income of \$369.5 million, or \$1.71 per share on a diluted basis, respectively, for the second quarter of 2017.

Net income and Adjusted Net Income for the six months ended June 30, 2018 were \$684.9 million and \$715.0 million, or \$3.21 and \$3.36 per share on a diluted basis, respectively, compared to both net income and Adjusted Net Income of \$584.3 million, or \$2.71 per share on a diluted basis for the six months ended June 30, 2017.

Significant items for the quarter and six months ended June 30, 2018 include:

Total revenues, excluding the favorable effect of changes in foreign currency exchange rates, increased \$119.7 million and \$100.3 million for the quarter and six months ended June 30, 2018, respectively, as compared to the same periods in 2017. The increase was primarily due to higher pricing on our Europe and Asia/Pacific sailings which are further discussed below.

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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 an increase in total revenues of \$22.6 million and \$61.2 million for the quarter and six months ended June 30, 2018, respectively, compared to the same periods in 2017.

Total cruise operating expenses, excluding the unfavorable effect of changes in foreign currency exchange rates, increased \$48.7 million and \$38.0 million for the quarter and six months ended June 30, 2018, respectively, as compared to the same periods in 2017. The increase for the quarter ended June 30, 2018 was mainly due to the increase in capacity and the increase for the six months ended June 30, 2018 was primarily due to the gain of \$30.9 million recognized on the sale of Legend of the Seas in March 2017 that did not recur in 2018.



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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 an increase in total operating expenses of \$9.0 million and \$19.8 million for the quarter and six months ended June 30, 2018, respectively, compared to the same periods in 2017.

In April 2018, TUI Cruises, our 50% joint venture, took delivery of a new Mein Schiff 1. Also in April 2018, the original Mein Schiff 1 was sold to an affiliate of TUI AG, which offset the capacity of the new ship delivery. Due to the sale of the original Mein Schiff 1, we recognized a gain of \$21.8 million related to a deferred gain from the 2009 sale of Celebrity Galaxy, which served as the original Mein Schiff 1, to TUI cruises. Refer to Note 5. Other Assets to our consolidated financial statements for further information

We recognized an impairment loss of \$23.3 million related to the Skysea Holding investment, debt facility and other receivables due, which is reported within Other income (expense) within our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2018. Refer to Note 5. Other Assets to our consolidated financial statements for further discussion on the impairment.

Other Items

In March 2018, we took delivery of Symphony of the Seas. To finance the purchase, we borrowed \$1.2 billion under a previously committed unsecured term loan. Refer to Note 6. Long-Term Debt to our consolidated financial statements for further information. The ship entered service at the end of the first quarter of 2018.

In March 2018, we completed the purchase of Azamara Pursuit. The ship is expected to enter service during the third quarter of 2018.

- On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruises, a privately-owned ultra-luxury cruise line with nine ships operating in all seven continents, for approximately \$1.0 billion and contingent consideration payable upon achievement of certain 2019-2020 performance metrics. Refer to Note 1. General to our consolidated financial statements for further information.

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Operating results for the quarter and six months ended June 30, 2018 compared to the same period in 2017 are shown in the following table (in thousands, except per share data):

|  | Quarter Ended June 30,<br>2018 |                        |   | 2017        |                        |   | Six months ended June 30,<br>2018 |                        |   | 2017                   |       |   |
|--|--------------------------------|------------------------|---|-------------|------------------------|---|-----------------------------------|------------------------|---|------------------------|-------|---|
|  |                                | % of Total<br>Revenues |   |             | % of Total<br>Revenues |   |                                   | % of Total<br>Revenues |   | % of Total<br>Revenues |       |   |
| Passenger ticket revenues                      | \$1,672,570                    | 71.6                   | % | \$1,581,385 | 72.0                   | % | \$3,098,214                       | 71.0                   | % | \$2,999,608            | 71.4  | % |
| Onboard and other revenues                     | 665,035                        | 28.4                   | % | 613,889     | 28.0                   | % | 1,267,147                         | 29.0                   | % | 1,204,226              | 28.6  | % |
| Total revenues                                 | 2,337,605                      | 100.0                  | % | 2,195,274   | 100.0                  | % | 4,365,361                         | 100.0                  | % | 4,203,834              | 100.0 | % |
| Cruise operating expenses:                     |                                |                        |   |             |                        |   |                                   |                        |   |                        |       |   |
| Commissions, transportation and other          | 358,305                        | 15.3                   | % | 340,331     | 15.5                   | % | 648,914                           | 14.9                   | % | 650,579                | 15.5  | % |
| Onboard and other                              | 142,240                        | 6.1                    | % | 132,437     | 6.0                    | % | 241,777                           | 5.5                    | % | 238,431                | 5.7   | % |
| Payroll and related                            | 226,315                        | 9.7                    | % | 210,362     | 9.6                    | % | 453,471                           | 10.4                   | % | 426,097                | 10.1  | % |
| Food   | 128,383                        | 5.5                    | % | 121,764     | 5.5                    | % | 248,025                           | 5.7                    | % | 242,975                | 5.8   | % |
| Fuel   | 172,309                        | 7.4                    | % | 170,748     | 7.8                    | % | 332,650                           | 7.6                    | % | 348,162                | 8.3   | % |
| Other operating                                | 286,859                        | 12.3                   | % | 281,143     | 12.8                   | % | 565,593                           | 13.0                   | % | 526,365                | 12.5  | % |
| Total cruise operating expenses                | 1,314,411                      | 56.2                   | % | 1,256,785   | 57.2                   | % | 2,490,430                         | 57.0                   | % | 2,432,609              | 57.9  | % |
| Marketing, selling and administrative expenses | 312,923                        | 13.4                   | % | 283,855     | 12.9                   | % | 650,284                           | 14.9                   | % | 601,320                | 14.3  | % |
| Depreciation and amortization expenses         | 253,376                        | 10.8                   | % | 234,937     | 10.7                   | % | 493,606                           | 11.3                   | % | 470,686                | 11.2  | % |
| Operating Income                               | 456,895                        | 19.5                   | % | 419,697     | 19.1                   | % | 731,041                           | 16.7                   | % | 699,219                | 16.6  | % |
| Other income (expense):                        |                                |                        |   |             |                        |   |                                   |                        |   |                        |       |   |
| Interest income                                | 13,098                         | 0.6                    | % | 5,811       | 0.3                    | % | 20,831                            | 0.5                    | % | 12,063                 | 0.3   | % |
| Interest expense, net of interest capitalized  | (81,864)                       | (3.5)                  | % | (76,632)    | (3.5)                  | % | (149,742)                         | (3.4)                  | % | (156,949)              | (3.7) | % |
| Equity investment income                       | 44,311                         | 1.9                    | % | 23,359      | 1.1                    | % | 73,063                            | 1.7                    | % | 35,239                 | 0.8   | % |
| Other income (expense)                         | 33,855                         | 1.4                    | % | (2,709)     | (0.1)                  | % | 9,755                             | 0.2                    | % | (5,320)                | (0.1) | % |
|  | 9,400                          | 0.4                    | % | (50,171)    | (2.3)                  | % | (46,093)                          | (1.1)                  | % | (114,967)              | (2.7) | % |
| Net Income                                     | \$466,295                      | 19.9                   | % | \$369,526   | 16.8                   | % | \$684,948                         | 15.7                   | % | \$584,252              | 13.9  | % |
| Diluted Earnings per Share                     | \$2.19                         |                        |   | \$1.71      |                        |   | \$3.21                            |                        |   | \$2.71                 |       |   |

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Adjusted Net Income and Adjusted Earnings per Share were calculated as follows (in thousands, except per share data):

|   | Quarter Ended June 30, |           | Six Months Ended June 30, |           |
|---|------------------------|-----------|---------------------------|-----------|
|   | 2018                   | 2017      | 2018                      | 2017      |
| Net Income  | \$466,295              | \$369,526 | \$684,948                 | \$584,252 |
| Adjusted Net income   | 482,221                | 369,526   | 714,979                   | 584,252   |
| Net Adjustments to Net Income - Increase  | \$15,926               | \$—       | \$30,031                  | \$—       |
| Adjustments to Net Income:  |                        |           |                           |           |
| Impairment loss related to Skysea Holding <sup>(1)</sup>                              | \$—                    | \$—       | \$23,343                  | \$—       |
| Impairment and other costs related to exit of tour operations business <sup>(2)</sup> | 11,255                 | —         | 11,255                    | —         |
| Transaction costs related to Silversea Cruises acquisition <sup>(3)</sup>             | 4,671                  | —         | 4,671                     | —         |
| Impact of change in accounting principle <sup>(4)</sup>                               | —                      | —         | (9,238)                   | —         |
| Net Adjustments to Net Income - Increase  | \$15,926               | \$—       | \$30,031                  | \$—       |
| Basic:  |                        |           |                           |           |
| Earnings per Share  | \$2.20                 | \$1.72    | \$3.23                    | \$2.72    |
| Adjusted Earnings per Share   | \$2.28                 | \$1.72    | \$3.37                    | \$2.72    |
| Diluted:  |                        |           |                           |           |
| Earnings per Share  | \$2.19                 | \$1.71    | \$3.21                    | \$2.71    |
| Adjusted Earnings per Share   | \$2.27                 | \$1.71    | \$3.36                    | \$2.71    |
| Weighted-Average Shares Outstanding:  |                        |           |                           |           |
| Basic   | 211,673                | 215,085   | 212,139                   | 214,978   |
| Diluted   | 212,509                | 216,062   | 213,079                   | 215,944   |

(1) Refer to Note 5. Other Assets for information on the impairment loss related to Skysea Holding.

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.

(2) Refer to Note 1. General for information on the Silversea Cruises acquisition.

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

(3) Note 2. Summary of Significant Accounting Policies to our consolidated financial statements for further information.

Selected statistical information is shown in the following table:

|                       | Quarter Ended June 30, |           | Six Months Ended June 30, |            |
|-----------------------|------------------------|-----------|---------------------------|------------|
|                       | 2018                   | 2017      | 2018                      | 2017       |
| Passengers Carried    | 1,461,055              | 1,433,339 | 2,866,006                 | 2,858,872  |
| Passenger Cruise Days | 10,213,067             | 9,950,570 | 19,838,849                | 19,910,135 |
| APCD                  | 9,402,736              | 9,152,899 | 18,318,442                | 18,432,309 |
| Occupancy             | 108.6                  | % 108.7   | % 108.3                   | % 108.0    |



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

|                                       | Quarter Ended June 30, |  |             | Six Months Ended June 30, |  |             |
|---------------------------------------|------------------------|--|-------------|---------------------------|--|-------------|
|                                       | 2018                   | 2018 On a<br>Constant<br>Currency<br>Basis | 2017        | 2018                      | 2018 On a<br>Constant<br>Currency<br>Basis | 2017        |
| Passenger ticket revenues             | \$1,672,570            | \$1,653,080                                | \$1,581,385 | \$3,098,214               | \$3,045,394                                | \$2,999,608 |
| Onboard and other revenues            | 665,035                | 661,938                                    | 613,889     | 1,267,147                 | 1,258,780                                  | 1,204,226   |
| Total revenues                        | 2,337,605              | 2,315,018                                  | 2,195,274   | 4,365,361                 | 4,304,174                                  | 4,203,834   |
| Less:                                 |                        |  |             |                           |  |             |
| Commissions, transportation and other | 358,305                | 354,488                                    | 340,331     | 648,914                   | 640,082                                    | 650,579     |
| Onboard and other                     | 142,240                | 141,115                                    | 132,437     | 241,777                   | 240,475                                    | 238,431     |
| Net Revenues                          | \$1,837,060            | \$1,819,415                                | \$1,722,506 | \$3,474,670               | \$3,423,617                                | \$3,314,824 |
| APCD                                  | 9,402,736              | 9,402,736                                  | 9,152,899   | 18,318,442                | 18,318,442                                 | 18,432,309  |
| Gross Yields                          | \$248.61               | \$246.21                                   | \$239.84    | \$238.30                  | \$234.96                                   | \$228.07    |
| Net Yields                            | \$195.38               | \$193.50                                   | \$188.19    | \$189.68                  | \$186.89                                   | \$179.84    |

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

|   | Quarter Ended June 30, |  |             | Six Months Ended June 30, |  |             |
|---|------------------------|--|-------------|---------------------------|--|-------------|
|   | 2018                   | 2018 On a<br>Constant<br>Currency<br>Basis | 2017        | 2018                      | 2018 On a<br>Constant<br>Currency<br>Basis | 2017        |
| Total cruise operating expenses                                   | \$1,314,411            | \$1,305,451                                | \$1,256,785 | \$2,490,430               | \$2,470,629                                | \$2,432,609 |
| Marketing, selling and administrative expenses <sup>(1) (2)</sup> | 296,997                | 294,106                                    | 283,855     | 643,596                   | 635,066                                    | 601,320     |
| Gross Cruise Costs  | 1,611,408              | 1,599,557                                  | 1,540,640   | 3,134,026                 | 3,105,695                                  | 3,033,929   |
| Less:   |                        |  |             |                           |  |             |
| Commissions, transportation and other                             | 358,305                | 354,488                                    | 340,331     | 648,914                   | 640,082                                    | 650,579     |
| Onboard and other   | 142,240                | 141,115                                    | 132,437     | 241,777                   | 240,475                                    | 238,431     |
| Net Cruise Costs  | 1,110,863              | 1,103,954                                  | 1,067,872   | 2,243,335                 | 2,225,138                                  | 2,144,919   |
| Less:   |                        |  |             |                           |  |             |
| Fuel  | 172,309                | 172,309                                    | 170,748     | 332,650                   | 332,650                                    | 348,162     |
| Net Cruise Costs Excluding Fuel                                   | \$938,554              | \$931,645                                  | \$897,124   | \$1,910,685               | \$1,892,488                                | \$1,796,757 |
| APCD  | 9,402,736              | 9,402,736                                  | 9,152,899   | 18,318,442                | 18,318,442                                 | 18,432,309  |
| Gross Cruise Costs per APCD                                       | \$171.38               | \$170.12                                   | \$168.32    | \$171.09                  | \$169.54                                   | \$164.60    |
| Net Cruise Costs per APCD   | \$118.14               | \$117.41                                   | \$116.67    | \$122.46                  | \$121.47                                   | \$116.37    |
| Net Cruise Costs Excluding Fuel per APCD                          | \$99.82                | \$99.08                                    | \$98.02     | \$104.30                  | \$103.31                                   | \$97.48     |

For the six months ended June 30, 2018, the amount does not include the impact of the change in accounting (1) 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 for further information.

(2) For the quarter and six months ended June 30, 2018, the amounts do not include the impairment and other costs related to the exit of our tour operations business of \$11.3 million and transaction costs related to the Silversea Cruises acquisition of \$4.7 million.



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## 2018 Outlook

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 August 2, 2018, we announced the following full year and third quarter 2018 guidance based on the then current fuel pricing, interest rates and currency exchange rates:

Full Year 2018 <sup>(1)</sup>

|   | As Reported                | Constant Currency |
|---|----------------------------|-------------------|
| Net Yields                                | 3.25% to 4.25%             | 2.75% to 3.75%    |
| Net Cruise Costs per APCD                 | 2.0% to 2.5%               | Approx. 2.0%      |
| Net Cruise Costs per APCD, Excluding Fuel | Approx. 3.0%               | Approx. 2.5%      |
| Capacity Change                           | 3.7%                       |                   |
| Depreciation and Amortization             | \$1,025 to \$1,035 million |                   |
| Interest Expense, net                     | \$288 to \$298 million     |                   |
| Fuel Consumption (metric tons)            | 1,337,000                  |                   |
| Fuel Expenses                             | \$693 million              |                   |
| Percent Hedged (fwd consumption)          | 50%                        |                   |
| Adjusted Earnings per Share-Diluted       | \$8.70 to \$8.90           |                   |

## Sensitivity

|                               | Remaining Periods 2018 |
|-------------------------------|------------------------|
| 1% Change in Currency         | \$11 million           |
| 1% Change in Net Yields       | \$40 million           |
| 1% Change in NCC x Fuel       | \$19 million           |
| 100 basis pt. Change in LIBOR | \$17 million           |
| 10% Change in Fuel Prices     | \$21 million           |

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|   | As Reported            | Constant Currency |
|---|------------------------|-------------------|
| Net Yields                                | Approx. 1.5%           | Approx. 2.0%      |
| Net Cruise Costs per APCD                 | Flat                   | Flat              |
| Net Cruise Costs per APCD, Excluding Fuel | Approx. (1.0%)         | Approx. (1.0%)    |
| Capacity Change                           | 8.2%                   |                   |
| Depreciation and Amortization             | \$260 to \$265 million |                   |
| Interest Expense, net                     | \$78 to \$82 million   |                   |
| Fuel Consumption (metric tons)            | 340,200                |                   |
| Fuel Expenses                             | \$184 million          |                   |
| Percent Hedged (fwd consumption)          | 47%                    |                   |
| Adjusted Earnings per Share-Diluted       | \$3.90 to \$3.95       |                   |

## Sensitivity

|                               | Third Quarter 2018 |
|-------------------------------|--------------------|
| 1% Change in Currency         | \$7 million        |
| 1% Change in Net Yields       | \$22 million       |
| 1% Change in NCC x Fuel       | \$9 million        |
| 100 basis pt. Change in LIBOR | \$7 million        |
| 10% Change in Fuel Prices     | \$15 million       |

(1) The guidance above does not include Silversea Cruises, except for additional interest expense associated with the financing of the Silversea Cruises acquisition. We will be consolidating Silversea Cruises' results of operations on a three-month reporting lag beginning with the fourth quarter of 2018, which we do not expect will be material to our results of operations for the year ended December 31, 2018.

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 2018, the top five foreign currencies are ranked below. For example, the British Pound is expected to be the most impactful currency in the third quarter of 2018. Rankings for the first and second quarters of 2018 are based on actual results. Rankings for the remaining quarters and full year are based on estimated net exposures.

| Ranking | Q1  | Q2  | Q3  | Q4  | FY 2018 |
|---------|-----|-----|-----|-----|---------|
| 1       | AUD | GBP | GBP | AUD | GBP     |
| 2       | CAD | AUD | EUR | GBP | AUD     |
| 3       | GBP | CAD | CNH | CAD | CAD     |
| 4       | CNH | CNH | CAD | EUR | EUR     |
| 5       | EUR | EUR | MXN | CNH | CNH     |

The currency abbreviations above are defined as follows:

| Currency Abbreviation | Currency          |
|-----------------------|-------------------|
| AUD                   | Australian Dollar |
| CAD                   | Canadian Dollar   |
| CNH                   | Chinese Yuan      |
| EUR                   | Euro              |
| GBP                   | British Pound     |
| MXN                   | Mexican Peso      |



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Quarter Ended June 30, 2018 Compared to Quarter Ended June 30, 2017

In this section, references to 2018 refer to the quarter ended June 30, 2018 and references to 2017 refer to the quarter ended June 30, 2017.

Revenues

Total revenues for 2018 increased \$142.3 million, or 6.5%, from 2017.

Passenger ticket revenues comprised 71.6% of our 2018 total revenues. Passenger ticket revenues for 2018 increased by \$91.2 million, or 5.8%, from 2017. The increase was primarily due to:

- a 2.7% increase in capacity, which increased passenger ticket revenues by \$43.2 million primarily due to the addition of Symphony of the Seas to our fleet during the second quarter of 2018;
- an increase of \$28.5 million in ticket prices primarily driven by higher pricing on our Europe and Asia/Pacific sailings and the improvement in our ticket price on a per passenger basis due to the addition of Symphony of the Seas; and
- a 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 \$19.5 million.

The remaining 28.4% of 2018 total revenues was comprised of onboard and other revenues, which increased \$51.1 million, or 8.3%, to \$665.0 million in 2018 from \$613.9 million in 2017. The increase in onboard and other revenues was primarily due to:

- a \$29.7 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, new strategies and promotions on our specialty restaurants, internet and other telecommunication services, and an increase in port activities mainly due to itinerary changes;
- a \$16.4 million increase attributable to the 2.7% increase in capacity noted above; and
- a favorable effect of changes in foreign currency exchange rates related to our onboard and other revenue transactions denominated in currencies other than the United States dollar of approximately \$3.1 million.

Onboard and other revenues included concession revenues of \$82.6 million in 2018 and \$77.7 million in 2017.

Cruise Operating Expenses

Total cruise operating expenses for 2018 increased \$57.6 million, or 4.6%, from 2017. The increase was primarily due to:

- the 2.7% increase in capacity noted above, which increased cruise operating expenses by \$34.1 million;
- a \$10.1 million increase in payroll and related expenses primarily driven by changes in our gratuity structure; 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 approximately \$9.0 million.

Marketing, Selling and Administrative Expenses

Marketing, selling and administrative expenses for 2018 increased \$29.1 million, or 10.2%, to \$312.9 million from \$283.9 million in 2017. The increase was primarily due to the impairment and other costs related to the exit of our tour operations business and transaction costs related to the Silversea Cruises acquisition, which did not occur in 2017, as well as higher spending on advertisement.

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Depreciation and Amortization Expenses

Depreciation and amortization expenses for 2018 increased \$18.4 million, or 7.8%, to \$253.4 million from \$234.9 million in 2017. The increase was primarily due to the addition of Symphony of the Seas to our fleet and to a lesser extent, 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 for 2018 increased \$5.2 million, or 6.8%, to \$81.9 million from \$76.6 million in 2017. The increase was due to higher interest rates, and to a lesser extent, a higher average debt level in 2018 compared to 2017, partially offset by an increase in capitalized interest due to our ships on order.

Equity investment income increased \$21.0 million, or 89.7%, to \$44.3 million in 2018 from \$23.4 million in 2017 mainly due to an increase in income from TUI Cruises.

Other income was \$33.9 million in 2018 compared to Other expense of \$2.7 million in 2017. The change of \$36.6 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. Refer to Note 5. Other Assets to our consolidated financial statements for further information. 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.

Gross and Net Yields

Gross and Net Yields increased 3.7% and 3.8%, respectively, in 2018 compared to 2017 primarily due to the increases in passenger ticket and onboard and other revenues, which are further discussed above. Gross and Net Yields on a Constant Currency basis increased 2.7% and 2.8%, respectively, in 2018 compared to 2017.

Gross and Net Cruise Costs

Gross and Net Cruise Costs increased 4.6% and 4.0%, respectively, in 2018 compared to 2017 primarily due to the increase in capacity. Gross and Net Cruise Costs per APCD increased 1.8% and 1.3%, respectively, in 2018 compared to 2017. Gross and Net Cruise Costs per APCD on a Constant Currency basis increased 1.1% and 0.6%, respectively, in 2018 compared to 2017.

Net Cruise Costs Excluding Fuel

Net Cruise Costs Excluding Fuel per APCD increased 1.8% in 2018 compared to 2017 and increased 1.1% in 2018 compared to 2017 on a Constant Currency basis.

Other Comprehensive Loss (Income)

Other comprehensive loss in 2018 was \$82.4 million compared to Other comprehensive income in 2017 of \$131.3 million. The change of \$213.7 million was primarily due to the Loss on cash flow derivative hedges in 2018 of \$68.9 million compared to a Gain on cash flow derivative hedges in 2017 of \$129.0 million. The change of \$197.9 million was primarily due to a decrease in foreign currency forward contract values in 2018 compared to an increase in 2017, partially offset by an increase in fuel swap values in 2018.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

In this section, references to 2018 refer to the six months ended June 30, 2018 and references to 2017 refer to the six months ended June 30, 2017.

Revenues

Total revenues for 2018 increased \$161.5 million, or 3.8%, to \$4.4 billion from \$4.2 billion in 2017.

Passenger ticket revenues comprised 71.0% of our 2018 total revenues. Passenger ticket revenues for 2018 increased by \$98.6 million, or 3.3%, from 2017. The increase was primarily due to:

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an increase of \$64.3 million in ticket prices primarily driven by higher pricing on Europe and Asia/Pacific sailings; and

a 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 \$52.8 million.

The increase in passenger ticket revenues was partially offset by a 0.6% decrease in capacity, which decreased passenger ticket revenues by \$18.5 million primarily due to the sale of Legend of the Seas in the first quarter of 2017 and additional drydock days in 2018 compared to 2017, partially offset by the addition of Symphony of the Seas in the second quarter of 2018.

The remaining 29.0% of 2018 total revenues was comprised of onboard and other revenues, which increased \$62.9 million, or 5.2%, in 2018 from 2017. The increase in onboard and other revenues was primarily due to:

a \$54.7 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, new strategies and promotions of our specialty restaurants, internet and other telecommunication services, and an increase in port activities mainly due to itinerary changes; and

a favorable effect of changes in foreign currency exchange rates related to our onboard and other revenue transactions denominated in currencies other than the United States dollar of approximately \$8.4 million.

The increase in onboard and other revenues was partially offset by a \$7.3 million decrease attributable to the 0.6% decrease in capacity noted above.

Onboard and other revenues included concession revenues of \$162.6 million in 2018 and \$157.0 million in 2017.

## Cruise Operating Expenses

Total cruise operating expenses increased \$57.8 million, or 2.4%. The increase was primarily due to:

a \$30.9 million gain recognized in 2017 resulting from the sale of Legend of the Seas, which did not recur in 2018;

a \$29.6 million increase in payroll and related expenses primarily driven by changes in our gratuity structure; 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 approximately \$19.8 million.

The above increases in cruise operating expenses were mostly offset by:

the 0.6% decrease in capacity noted above, which decreased cruise operating expenses by \$15.1 million; and

a \$13.4 million decrease in fuel expense, excluding the impact of the decrease in capacity. Our cost of fuel (net of the financial impact of fuel swap agreements) for 2018 decreased 4.2% per metric ton compared to 2017.

## Marketing, Selling and Administrative Expenses

Marketing, selling and administrative expenses increased \$49.0 million, or 8.1%, to \$650.3 million from \$601.3 million in 2017. The increase was primarily due to the impairment and other costs related to the exit of our tour

operations business and transaction costs related to the Silversea Cruises acquisition, which did not occur in 2017, as well as higher spending on advertisement.

#### Depreciation and Amortization Expenses

Depreciation and amortization expenses for 2018 increased \$22.9 million, or 4.9%, to \$493.6 million from \$470.7 million in 2017. The increase was primarily due to the addition of Symphony of the Seas to our fleet and to a lesser extent 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 the first quarter of 2017.

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### Other Income (Expense)

Interest expense, net of interest capitalized, for 2018 decreased \$7.2 million, or 4.6%, to \$149.7 million from \$156.9 million in 2017. The decrease was due to an increase in capitalized interest primarily due to our ships on order and a lower average debt level in 2018 compared to 2017, partially offset by higher interest rates in 2018 compared to 2017.

Equity investment income increased \$37.8 million, or 107.3%, to \$73.1 million in 2018 from \$35.2 million in 2017 mainly due to an increase in income from TUI Cruises.

Other income was \$9.8 million in 2018 compared to Other expense of \$5.3 million in 2017. The change of \$15.1 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 in 2018 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. For further information on the deferred gain recognized and impairment charge, refer to Note 5. Other Assets to our consolidated financial statements.

### Gross and Net Yields

Gross and Net Yields increased 4.5% and 5.5%, respectively, in 2018 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 3.0% and 3.9%, respectively, in 2018 compared to 2017.

### Gross and Net Cruise Costs

Gross and Net Cruise Costs increased 3.3% and 4.6%, respectively, in 2018 compared to 2017 and Gross and Net Cruise Costs per APCD increased 3.9% and 5.2%, respectively, in 2018 compared to 2017, primarily due to the gain of \$30.9 million recognized on the sale of Legend of the Seas in March 2017 that did not recur in 2018. Gross and Net Cruise Costs per APCD on a Constant Currency basis increased 3.0% and 4.4%, respectively, in 2018 compared to 2017.

### Net Cruise Costs Excluding Fuel

Net Cruise Costs Excluding Fuel per APCD increased 7.0% in 2018 compared to 2017 and on a Constant Currency basis increased 6.0% in 2018 compared to 2017.

### Other Comprehensive Income

Other comprehensive income in 2018 was \$69.1 million compared to \$155.4 million in 2017. The decrease of \$86.4 million, or 55.6%, was primarily due to Gain on cash flow derivative hedges in 2018 of \$73.6 million, compared to \$151.4 million in 2017. The decrease of \$77.8 million in 2018 was primarily due to a decrease in foreign currency forward contract values in 2018 compared to an increase in 2017, partially offset by an increase in fuel swap instrument values in 2018 compared to a decrease in 2017.

### Future Application of Accounting Standards

Refer to Note 2. Summary of Significant Accounting Policies to our consolidated financial statements 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 \$272.3 million to \$1.9 billion for the first six months in 2018 compared to \$1.7 billion for the same period in 2017. The increase in cash provided by operating activities was primarily attributable to an increase in proceeds from customer deposits during the first six months in 2018 compared to the same period in 2017. Additionally, dividends received from unconsolidated affiliates increased by \$101.5 million.



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Net cash used in investing activities was \$2.1 billion for the first six months in 2018 compared to Net cash provided in investing activities of \$7.7 million for the same period in 2017. The change was primarily attributable to an increase in capital expenditures of \$1.9 billion primarily due to the delivery of Symphony of the Seas and the purchase of Azamara Pursuit during the first six months of 2018 compared to no ship deliveries or purchases for the same period in 2017, 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 provided by financing activities was \$214.0 million for the first six months in 2018 compared to Net cash used in financing activities of \$1.7 billion for the same period in 2017. The change was primarily attributable to an increase in debt proceeds of \$1.7 billion during the first six months of 2018 compared to the same period in 2017 and a decrease in repayments of debt of \$659.9 million during the first six months of 2018 compared to the same period in 2017, partially offset by stock repurchases of \$369.5 million during the first six months of 2018 that did not occur during the same period in 2017 and a higher amount of dividends paid during the first six months of 2018 compared to the same period in 2017. The increase in debt proceeds during the first six months in 2018 was primarily due to the \$1.2 billion unsecured term loan borrowed to finance Symphony of the Seas, an increase in borrowings on our revolving credit facilities and the \$130.0 million credit agreement. The decrease in repayment of debt was due to lower payments on our revolving credit facilities during the first six months in 2018 compared to the same period in 2017.

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## Future Capital Commitments

## Capital Expenditures

As of June 30, 2018, our Global Brands and our Partner Brands have twelve ships on order. The expected dates that these ships will enter service and their approximate berths are as follows:

| Ship   | Expected to Enter Service | Approximate Berths |
|--|---------------------------|--------------------|
| Royal Caribbean International —                  |                           |                    |
| Oasis-class:                                     |                           |                    |
| Unnamed  | 2nd Quarter 2021          | 5,500              |
| Quantum-class:                                   |                           |                    |
| Spectrum of the Seas                             | 2nd Quarter 2019          | 4,250              |
| Unnamed  | 4th Quarter 2020          | 4,250              |
| Icon-class:                                      |                           |                    |
| Unnamed  | 2nd Quarter 2022          | 5,650              |
| Unnamed  | 2nd Quarter 2024          | 5,650              |
| Celebrity Cruises —                              |                           |                    |
| Edge-class:                                      |                           |                    |
| Celebrity Edge                                   | 4th Quarter 2018          | 2,900              |
| Celebrity Apex                                   | 2nd Quarter 2020          | 2,900              |
| Unnamed  | 4th Quarter 2021          | 3,200              |
| Unnamed  | 4th Quarter 2022          | 3,200              |
| Celebrity Flora                                  | 2nd Quarter 2019          | 100                |
| TUI Cruises (50% joint venture) <sup>(1)</sup> — |                           |                    |
| Unnamed  | 1st Quarter 2019          | 2,850              |
| Unnamed  | 3rd Quarter 2023          | 2,850              |
| Total Berths                                     |                           | 43,300             |

(1) The additional capacity is partially offset through the transfer of the original Mein Schiff 1 to an affiliate of TUI AG, our joint venture partner in TUI Cruises, in April 2018.

In July 2018, TUI Cruises signed conditional agreements with Fincantieri to build two ships of a new generation of ships. The ships will have an aggregate capacity of approximately 8,200 berths and are expected to enter service in 2024 and 2026, respectively. TUI Cruises' agreement with Fincantieri is contingent upon completion of conditions precedent, including financing.

Our future capital commitments consist primarily of new ship orders. As of June 30, 2018, the aggregate cost of our ships on order, not including any ships on order by our Partner Brands, was approximately \$11.4 billion, of which we had deposited \$586.1 million. Approximately 54.3% of the aggregate cost was exposed to fluctuations in the Euro exchange rate at June 30, 2018. Refer to Note 10. Fair Value Measurements and Derivative Instruments to our consolidated financial statements.

Including the investment in Silversea Cruises and their ships on order, we anticipate overall full year capital expenditures will be approximately \$4.7 billion for 2018, \$2.5 billion for 2019, \$2.8 billion for 2020, \$2.9 billion for 2021 and \$3.0 billion for 2022. These amounts do not include any ships on order by our Partner Brands.



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## Contractual Obligations

As of June 30, 2018, our contractual obligations were as follows (in thousands):

|  | Payments due by period |                     |              |              |                      |
|--|------------------------|---------------------|--------------|--------------|----------------------|
|  | Total                  | Less than<br>1 year | 1-3<br>years | 3-5<br>years | More than<br>5 years |
| Operating Activities:                      |                        |                     |              |              |                      |
| Operating lease obligations <sup>(1)</sup> | \$229,732              | \$27,937            | \$41,779     | \$19,932     | \$140,084            |
| Interest on long-term debt <sup>(2)</sup>  | 1,504,109              | 302,578             | 498,991      | 333,956      | 368,584              |
| Other <sup>(3)</sup>                       | 976,284                | 188,253             | 364,704      | 193,942      | 229,385              |
| Investing Activities:                      | 0                      |                     |              |              |                      |
| Ship purchase obligations <sup>(4)</sup>   | 9,199,772              | 1,752,333           | 3,179,667    | 3,016,319    | 1,251,453            |
| Financing Activities:                      | 0                      |                     |              |              |                      |
| Long-term debt obligations <sup>(5)</sup>  | 8,474,818              | 1,170,169           | 2,369,772    | 2,210,570    | 2,724,307            |
| Capital lease obligations <sup>(6)</sup>   | 44,271                 | 7,457               | 14,343       | 10,255       | 12,216               |
| Other <sup>(7)</sup>                       | 23,454                 | 9,238               | 11,093       | 3,123        | —                    |
| Total                                      | \$20,452,440           | \$3,457,965         | \$6,480,349  | \$5,788,097  | \$4,726,029          |

(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.

Long-term debt obligations mature at various dates through fiscal year 2030 and bear interest at fixed and

(2) 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 June 30, 2018. Debt denominated in other currencies is calculated based on the applicable exchange rate at June 30, 2018.

Amounts primarily represent future commitments with remaining terms in excess of one year to pay for our usage

(3) of certain port facilities, marine consumables, services and maintenance contracts. Amounts do not include the PortMiami lease further discussed below under Off-Balance Sheet Arrangements.

(4) Amounts do not include potential obligations which remain subject to cancellation at our sole discretion.

(5) Amounts represent debt obligations with initial terms in excess of one year. Debt denominated in other currencies is calculated based on the applicable exchange rate at June 30, 2018.

(6) Amounts represent capital lease obligations with initial terms in excess of one year.

(7) 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 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 June 30, 2018, the outstanding principal amount of the loan was €41.3 million, or approximately \$48.2 million based on the exchange rate at June 30, 2018. The loan amortizes quarterly and is currently secured by a first mortgage on 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 2028.

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 at PortMiami in Miami, Florida. The terminal is expected to be approximately 170,000 square feet and will serve as a homeport. During the construction period,

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SMBC will fund the costs of the terminal's construction and land lease. Upon completion of the terminal's construction, which is expected to be during the fourth quarter of 2018, we will operate and lease 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 upon completion of the terminal.

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 June 30, 2018, 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 June 30, 2018, we had approximately \$3.5 billion in contractual obligations due through June 30, 2019, of which approximately \$1.2 billion relates to debt maturities, \$302.6 million relates to interest on long-term debt and \$1.8 billion relates to progress payments on our ship orders and the final installments payable due upon the deliveries of Celebrity Edge in the fourth quarter of 2018 and Spectrum of the Seas and Celebrity Flora in the second quarter of 2019. We have historically relied on a combination of cash flows provided by operations, drawdowns under our available credit facilities, 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.

We had a working capital deficit of \$4.4 billion and \$3.9 billion as of June 30, 2018 and December 31, 2017, respectively. Included within our working capital deficit is \$1.2 billion of current portion of long-term debt, including capital leases, as of both June 30, 2018 and December 31, 2017. 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 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, 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 June 30, 2018, we had liquidity of \$2.0 billion, consisting of approximately \$109.0 million in cash and cash equivalents and \$1.9 billion available under our unsecured credit facilities. 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.

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. The commercial paper issued will be backstopped by our revolving credit facilities. As of June 30, 2018, we had not issued any notes under this program and as of July 31, 2018, we had \$415.0 million of commercial paper notes outstanding.

On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruises for approximately \$1.0 billion and contingent consideration payable upon achievement of certain 2019-2020 performance metrics. Additionally, in August 2018, we fully drew on a \$700 million credit agreement that we entered into to finance a portion of the purchase price of the Silversea Cruises acquisition. The loan is due July 2019 and we are required to prepay the loan with the proceeds of certain debt issuances prior to maturity. We plan to finance the remainder of the transaction through the use of our revolving credit facilities. For further information on the \$700 million credit agreement, refer to Note 6. Long-Term Debt to our consolidated financial statements.

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As of June 30, 2018, we have approximately \$862.5 million that remains available for future common stock repurchase transactions under a 24-month common stock repurchase program for up to \$1.0 billion approved 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 under our revolving credit facilities. Refer to Note 8. Shareholders' Equity to our consolidated financial statements for further information.

In April 2017, our board of directors authorized a common stock repurchase program for up to \$500 million that was completed in February 2018. Refer to Note 8. Shareholders' Equity to our consolidated financial statements.

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 \$8.4 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 June 30, 2018. 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

During both first and second quarters of 2018, we declared a cash dividend on our common stock of \$0.60 per share which was paid in April 2018 and July 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 both first and second quarters of 2017, we declared a cash dividend on our common stock of \$0.48 per share which was paid in April 2017 and July 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.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of our market risks, refer to Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant developments or material changes since the date of our Annual Report.

### Item 4. 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 SEC's rules and forms.

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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 June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Readers are cautioned 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are routinely involved in claims typical within the cruise vacation 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.

Item 1A. Risk Factors

The risk factors set forth below and elsewhere in this Quarterly Report on Form 10-Q 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 Part I, Item 2. 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 could result in a prolonged period of booking slowdowns, depressed cruise prices and 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. See Part 1, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 3. 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

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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. In March 2017, China's National Tourism Administration issued a directive to travel agents to halt sales of holiday packages to South Korea. This travel restriction has had a direct impact on our related itineraries impacting the overall performance of our China business. It is uncertain what the ultimate scope and duration of this restriction will be, but to the extent that this or similar sanctions affecting regional travel and/or tourism continues or are put in place, it may impact local demand, available cruise itineraries and the overall financial performance of the China market.

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 other member countries of the European Union. In March 2017, the United Kingdom notified the European Council of its intent to withdraw from the European Union. Since the initial referendum in June 2016, the expected withdrawal has resulted in increased volatility in the global financial markets and, in particular, in global currency exchange rates. The expected withdrawal could potentially adversely affect tax, legal and regulatory regimes to which our business in the region is subject. The expected withdrawal could also, among other potential outcomes, disrupt the free movement of goods, services and people between the United Kingdom and the European Union. Further, as the expected withdrawal approaches, continued uncertainty around these issues 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. These risks may be exacerbated if voters of other countries within the European Union similarly elect to exit the European Union in future referendums.

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.

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 airfare, as well as our ability to fly our guests to or from our cruise ships, which could adversely affect our results of operations.

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Incidents or adverse publicity concerning our ships and/or passengers or the cruise vacation industry in general, unusual weather conditions and other natural disasters or disruptions could affect our reputation as well as 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 which could negatively impact our reputation. Incidents involving cruise ships, and, in particular the safety, health and security of guests and crew and 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 and the potentially adverse environmental impacts of cruising. The considerable expansion in the use of social media and digital marketing over recent years has compounded the potential scope 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 the case of incidents involving our ships, potential litigation.

Our cruise ships and port facilities may also be adversely impacted by weather or natural disasters or disruptions, such as hurricanes. 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 and profitability in the current and future periods. For example, the 2017 hurricane season was particularly impactful to our operations in the Caribbean. Increases in the frequency, severity or duration of severe weather events, including those related to climate change, could exacerbate the impact and cause further disruption to our operations. In addition, these and any other events which impact the travel industry more generally may negatively impact our ability to deliver guests or crew to our cruises and/or interrupt our ability to obtain services and goods from key vendors in our supply chain. Any of the foregoing could have an adverse impact on our results of operations and on industry 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, 2017, a total of 75 new ships with approximately 184,000 berths are on order for delivery through 2022 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 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, such as China, 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 existing capacity constraints, constraints related to the size of certain ships, security, environmental and health concerns, adverse

weather conditions and natural disasters, financial limitations on port development, exclusivity arrangements that ports may have with our competitors, local governmental regulations and local community concerns about port development and other adverse impacts on their communities from additional tourists and overcrowding. In addition, fuel costs may adversely impact the destinations on certain of our itineraries. Any limitations on the availability or feasibility of our ports of call or on the availability of shore excursions and other service providers at such ports could adversely affect our results of operations.

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.



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There are a limited number of shipyards with the capability and capacity to build our new ships and, accordingly, increased demand for available new construction slots and/or continued consolidation in the cruise shipyard industry (including completion of Italian shipbuilder Fincantieri's bid for STX France) could impact our ability to construct new ships when and as planned, cause us to continue to commit to new ship orders earlier than we have historically done so and/or result in stronger bargaining power on the part of the shipyards and the export credit agencies providing financing for the project. Our inability to timely and cost-effectively procure new capacity could have a significant negative impact on our future business plans and results of operations.

Building, repairing, maintaining and/or upgrading a ship is 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 or mechanical faults 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 and services 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.

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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 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.

Our failure to comply with the terms of our 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, such as ordering new ships and/or upgrading our existing fleet, based on expected market preferences 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 destination 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.

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, 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, such as China, where we have a large number of travel agent charter and group sales and less retail agency and direct booking. In addition, the travel agent industry is sensitive to economic conditions that impact discretionary income. 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 systems 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.

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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 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, 2017, 85% 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-investment with third parties may subject us to additional risks.

Partnerships, joint ventures, and other business structures involving our co-investment 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-investment 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 recent 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 required 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. 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.

A failure to keep pace with developments in technology or technological obsolescence could impair our operations or competitive position.

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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, 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, and a failure to do so could result in higher than anticipated costs or could impair our operating results.

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

Cyber attacks can vary in scope and intent from economically driven attacks to malicious attacks targeting our key operating systems with the intent to disrupt, disable or otherwise cripple our maritime and /or shoreside operations. This can include any combination of phishing attacks, malware and/or viruses targeted at our key systems. The breadth and scope of this threat has grown over time, and the techniques and sophistication used to conduct cyber attacks, as well as the sources and targets of the attacks, change frequently. While we invest time, effort and capital resources to secure our key systems and networks, our security measures cannot provide absolute assurance that we will be successful in preventing or responding to all such attacks.

A successful cyber attack may target us directly, or may be the result of a third party vendor's inadequate care. In either scenario, the Company may suffer damage to its key systems and/or data that could interrupt our operations, adversely impact our reputation and brand and expose us to increased risks of governmental investigation, litigation 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 to malicious cyber attacks, 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 internal, 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 which took effect in May 2018), 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.

Even if we are fully compliant with legal and/or industry standards and any relevant contractual requirements, we still may not be able to prevent security breaches involving sensitive data and/or critical systems. 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 or an inability to obtain insurance coverage at commercially reasonable rates 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 which could result in an unexpected decrease in our revenue and results of operations in the event of an incident.



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We are members of three 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. 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, 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 and greenhouse gas (GHG) 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.

Some environmental groups have also lobbied for more stringent regulation of cruise ships and have generated negative publicity about the cruise vacation industry and its environmental impact. See Item 1. Business-Regulation-Environmental Regulations of our Annual Report on Form 10-K for the year ended December 31, 2017.

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. Drinker Biddle & Reath LLP, our U.S. tax counsel, has delivered 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 a ship or

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 such that it no longer qualifies as an equivalent exemption jurisdiction, 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

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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 a 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.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Share Repurchases

The following table presents the total number of shares of our common stock that we repurchased during the quarter ended June 30, 2018:

| Period                            | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs <sup>(1)</sup> | Approximate dollar value of shares that may yet be purchased under the plans or programs |
|-----------------------------------|----------------------------------|------------------------------|---|--|
| April 1, 2018<br>- April 30, 2018 | —                                | \$—                          | —   | \$—  |
| May 1, 2018<br>- May 31, 2018     | —                                | \$—                          | —   | \$1,000,000,000  |
| June 1, 2018<br>- June 30, 2018   | 1,285,234                        | \$106.93                     | 1,285,234   | \$862,500,000  |
| Total                             | 1,285,234                        |                              | 1,285,234   |  |

On May 9 2018, we announced that our board of directors authorized a 24-month common stock repurchase (1) program for up to \$1.0 billion. For further information on our stock repurchase transactions, refer to Note 8. Shareholders' Equity to our consolidated financial statements.

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Item 6. Exhibits

- 10.1 Amendment to Employment Agreement, dated May 8, 2018, of Adam Goldstein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 11, 2018).
- 10.2 Commercial Paper Dealer Agreement, dated June 14, 2018, between Royal Caribbean Cruises Ltd., as Issuer, and the Dealer party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 18, 2018).
- 10.3 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 JPMorgan 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 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 5, 2018).
- 10.4 Amended and Restated Hull No. S-697 Credit Agreement, dated as of July 3, 2018 (Amendment No. 5 to the original agreement, dated as of June 8, 2011), 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.\*
- 10.5 Amended and Restated Hull No. S-698 Credit Agreement, dated as of July 3, 2018 (Amendment No. 5 to the original agreement, dated as of June 8, 2011), 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.\*
- 10.6 Amended and Restated Hull No. S-699 Credit Agreement, dated as of July 3, 2018 (Amendment No. 2 to the original agreement, dated as of November 27, 2013), 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.\*
- 10.7 Amendment No. 1 to Hull S-700 Credit Agreement, dated as of September 7, 2016, by and between 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.\*
- 10.8 Amended and Restated Hull No. S-700 Credit Agreement, dated as of July 3, 2018 (Amendment No. 2 to the original 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.\*
- 10.9 Amendment No. 1 to Hull S-713 Credit Agreement, dated as of September 7, 2016, by and between 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.\*

10.10 Amended and Restated Hull No. S-713 Credit Agreement, dated as of July 3, 2018 (Amendment No. 2 to the original 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.\*

10.11 Amended and Restated Icon 1 Hull No. S-1400 Credit Agreement, dated as of July 3, 2018 (Amendment No. 1 to the original 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.\*

10.12 Amended and Restated Icon 2 Hull No. S-1401 Credit Agreement, dated as of July 3, 2018 (Amendment No. 1 to the original 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.\*

31.1 Certification of the Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934\*

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934\*

32.1 Certifications of the Chairman and Chief Executive Officer and the Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code\*\*

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\* Filed herewith

\*\* Furnished herewith

Interactive Data File

101 The following financial statements of Royal Caribbean Cruises Ltd. for the quarter ended June 30, 2018, formatted in XBRL are filed herewith:

(i) the Consolidated Statements of Comprehensive Income (Loss) for the quarter and six months ended June 30, 2018 and 2017;

(ii) the Consolidated Balance Sheets at June 30, 2018 and December 31, 2017;

(iii) the Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017; and

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

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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)

/s/ JASON T. LIBERTY

Jason T. Liberty

Executive Vice President, Chief Financial Officer

August 2, 2018 (Principal Financial Officer and duly authorized signatory)