

ROYAL CARIBBEAN CRUISES LTD  
Form 10-Q  
July 24, 2014  
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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, 2014

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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 222,309,015 shares of common stock outstanding as of July 17, 2014.

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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,      |             |   |
|  | 2014          | 2013        |   |
| Passenger ticket revenues                      | \$1,455,099   | \$1,366,713 |   |
| Onboard and other revenues                     | 524,944       | 516,054     |   |
| Total revenues                                 | 1,980,043     | 1,882,767   |   |
| Cruise operating expenses:                     |               |             |   |
| Commissions, transportation and other          | 346,180       | 316,506     |   |
| Onboard and other                              | 150,606       | 140,710     |   |
| Payroll and related                            | 209,171       | 208,975     |   |
| Food   | 119,184       | 112,530     |   |
| Fuel   | 242,804       | 232,471     |   |
| Other operating                                | 262,729       | 312,427     |   |
| Total cruise operating expenses                | 1,330,674     | 1,323,619   |   |
| Marketing, selling and administrative expenses | 260,988       | 257,948     |   |
| Depreciation and amortization expenses         | 192,880       | 186,184     |   |
| Restructuring charges                          | (86           | ) 1,678     |   |
| Operating Income                               | 195,587       | 113,338     |   |
| Other income (expense):                        |               |             |   |
| Interest income                                | 2,630         | 3,405       |   |
| Interest expense, net of interest capitalized  | (65,260       | ) (86,877   | ) |
| Other income (expense)                         | 4,716         | (5,119      | ) |
|  | (57,914       | ) (88,591   | ) |
| Net Income                                     | \$137,673     | \$24,747    |   |
| Earnings per Share:                            |               |             |   |
| Basic  | \$0.62        | \$0.11      |   |
| Diluted  | \$0.62        | \$0.11      |   |
| Weighted-Average Shares Outstanding:           |               |             |   |
| Basic  | 222,189       | 219,502     |   |
| Diluted  | 223,381       | 220,648     |   |
| Comprehensive Income                           |               |             |   |
| Net Income                                     | \$137,673     | \$24,747    |   |
| Other comprehensive (loss) income:             |               |             |   |
| Foreign currency translation adjustments       | (1,833        | ) (1,551    | ) |
| Change in defined benefit plans                | (2,054        | ) 5,293     |   |
| (Loss) gain on cash flow derivative hedges     | (20,638       | ) 17,542    |   |
| Total other comprehensive (loss) income        | (24,525       | ) 21,284    |   |
| Comprehensive Income                           | \$113,148     | \$46,031    |   |

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



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

|  | Six months ended |             |
|--|------------------|-------------|
|  | June 30,         |             |
|  | 2014             | 2013        |
| Passenger ticket revenues                      | \$2,803,302      | \$2,760,491 |
| Onboard and other revenues                     | 1,063,965        | 1,033,496   |
| Total revenues                                 | 3,867,267        | 3,793,987   |
| Cruise operating expenses:                     |                  |             |
| Commissions, transportation and other          | 672,045          | 639,443     |
| Onboard and other                              | 273,638          | 262,197     |
| Payroll and related                            | 419,972          | 418,898     |
| Food   | 237,264          | 232,013     |
| Fuel   | 487,263          | 474,123     |
| Other operating                                | 544,472          | 579,135     |
| Total cruise operating expenses                | 2,634,654        | 2,605,809   |
| Marketing, selling and administrative expenses | 551,295          | 531,982     |
| Depreciation and amortization expenses         | 386,615          | 375,548     |
| Restructuring charges                          | 1,650            | 1,678       |
| Operating Income                               | 293,053          | 278,970     |
| Other income (expense):                        |                  |             |
| Interest income                                | 5,906            | 7,152       |
| Interest expense, net of interest capitalized  | (133,831)        | (177,059)   |
| Other expense                                  | (998)            | (8,090)     |
|  | (128,923)        | (177,997)   |
| Net Income                                     | \$164,130        | \$100,973   |
| Earnings per Share:                            |                  |             |
| Basic  | \$0.74           | \$0.46      |
| Diluted  | \$0.74           | \$0.46      |
| Weighted-Average Shares Outstanding:           |                  |             |
| Basic  | 221,745          | 219,301     |
| Diluted  | 223,055          | 220,596     |
| Comprehensive Income                           |                  |             |
| Net Income                                     | \$164,130        | \$100,973   |
| Other comprehensive income (loss):             |                  |             |
| Foreign currency translation adjustments       | 637              | (5,795)     |
| Change in defined benefit plans                | (4,085)          | 5,293       |
| Loss on cash flow derivative hedges            | (73,553)         | (5,058)     |
| Total other comprehensive loss                 | (77,001)         | (5,560)     |
| Comprehensive Income                           | \$87,129         | \$95,413    |

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>2014<br>(unaudited) | December 31,<br>2013 |
|--|--|----------------------|
| Assets   |  |                      |
| Current assets   |  |                      |
| Cash and cash equivalents  | \$185,262                                | \$204,687            |
| Trade and other receivables, net   | 293,516                                  | 259,746              |
| Inventories  | 143,375                                  | 151,244              |
| Prepaid expenses and other assets  | 299,882                                  | 252,852              |
| Derivative financial instruments   | 56,305                                   | 87,845               |
| Total current assets   | 978,340                                  | 956,374              |
| Property and equipment, net  | 17,474,143                               | 17,517,752           |
| Goodwill   | 438,367                                  | 439,231              |
| Other assets   | 1,121,361                                | 1,159,590            |
|  | \$20,012,211                             | \$20,072,947         |
| Liabilities and Shareholders' Equity   |  |                      |
| Current liabilities  |  |                      |
| Current portion of long-term debt  | \$494,579                                | \$1,563,378          |
| Accounts payable   | 331,462                                  | 372,226              |
| Accrued interest   | 44,006                                   | 103,025              |
| Accrued expenses and other liabilities   | 576,233                                  | 563,702              |
| Customer deposits  | 2,103,140                                | 1,664,679            |
| Total current liabilities  | 3,549,420                                | 4,267,010            |
| Long-term debt   | 7,099,269                                | 6,511,426            |
| Other long-term liabilities  | 514,282                                  | 486,246              |
| Commitments and contingencies (Note 6)   |  |                      |
| 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; 232,639,334 and 230,782,315 shares issued, June 30, 2014 and December 31, 2013, respectively) | 2,326                                    | 2,308                |
| Paid-in capital  | 3,223,832                                | 3,159,038            |
| Retained earnings  | 6,108,116                                | 6,054,952            |
| Accumulated other comprehensive (loss) income  | (71,330)                                 | ) 5,671              |
| Treasury stock (10,308,683 common shares at cost, June 30, 2014 and December 31, 2013)   | (413,704)                                | ) (413,704)          |
| Total shareholders' equity   | 8,849,240                                | 8,808,265            |
|  | \$20,012,211                             | \$20,072,947         |

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, |              |
|--|---------------------------|--------------|
|  | 2014                      | 2013         |
| Operating Activities   |                           |              |
| Net income   | \$ 164,130                | \$ 100,973   |
| Adjustments:   |                           |              |
| Depreciation and amortization  | 386,615                   | 375,548      |
| (Gain) loss on derivative instruments not designated as hedges         | (10,841                   | ) 25,494     |
| Changes in operating assets and liabilities:                           |                           |              |
| Decrease in trade and other receivables, net                           | 15,903                    | 21,084       |
| Decrease in inventories  | 7,777                     | 4,679        |
| Increase in prepaid expenses and other assets                          | (35,799                   | ) (53,555    |
| Decrease in accounts payable   | (41,228                   | ) (36,265    |
| Decrease in accrued interest   | (59,019                   | ) (31,259    |
| Increase (decrease) in accrued expenses and other liabilities          | 45,730                    | (6,513       |
| Increase in customer deposits  | 388,693                   | 272,329      |
| Other, net   | 18,968                    | 273          |
| Net cash provided by operating activities                              | 880,929                   | 672,788      |
| Investing Activities   |                           |              |
| Purchases of property and equipment                                    | (342,472                  | ) (396,073   |
| Cash received (paid) on settlement of derivative financial instruments | 18,096                    | (25,843      |
| Investments in unconsolidated affiliates                               | (68,885                   | ) (35,757    |
| Cash received on loan to unconsolidated affiliate                      | 66,138                    | 11,993       |
| Other, net   | 1,280                     | 781          |
| Net cash used in investing activities                                  | (325,843                  | ) (444,899   |
| Financing Activities   |                           |              |
| Debt proceeds  | 1,846,200                 | 1,519,464    |
| Debt issuance costs  | (33,627                   | ) (20,554    |
| Repayments of debt   | (2,334,396                | ) (1,670,248 |
| Dividends paid   | (131,857                  | ) (54,098    |
| Proceeds from exercise of common stock options                         | 54,938                    | 6,918        |
| Cash received on settlement of derivative financial instruments        | 22,835                    | —            |
| Other, net   | 941                       | 742          |
| Net cash used in financing activities                                  | (574,966                  | ) (217,776   |
| Effect of exchange rate changes on cash                                | 455                       | 206          |
| Net (decrease) increase in cash and cash equivalents                   | (19,425                   | ) 10,319     |
| Cash and cash equivalents at beginning of period                       | 204,687                   | 194,855      |
| Cash and cash equivalents at end of period                             | \$ 185,262                | \$ 205,174   |
| Supplemental Disclosure  |                           |              |
| Cash paid during the period for:                                       |                           |              |
| Interest, net of amount capitalized                                    | \$ 173,470                | \$ 199,288   |
| Non cash Investing Activities  |                           |              |
| Purchase of property and equipment through asset trade-in              | \$—                       | \$46,375     |

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,” “Pullmantur,” “Azamara Club Cruises,” “CDF Croisières de France,” and “TUI Cruises” refer to our cruise brands. However, because TUI Cruises is an unconsolidated investment, our operating results and other disclosures herein do not include TUI Cruises 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, 2013, 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. We own Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Club Cruises, CDF Croisières de France and a 50% joint venture interest in TUI Cruises.

Basis for Preparation of Consolidated Financial Statements

The unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Estimates are required for the preparation of financial statements in accordance with these principles. Actual results could differ from these estimates. See 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, 2013 for a discussion of our significant accounting policies.

All significant intercompany accounts and transactions are eliminated in consolidation. We consolidate entities over which we have control, usually evidenced by a direct ownership interest of greater than 50%, and variable interest entities where we are determined to be the primary beneficiary. See Note 5. Goodwill and 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. We consolidate the operating results of Pullmantur and CDF Croisières de France on a two-month lag to allow for more timely preparation of our consolidated financial statements. On March 31, 2014, Pullmantur sold the majority of its interest in its non-core businesses. These non-core businesses included Pullmantur’s land-based tour operations, travel agency and 49% interest in its air business. Consistent with our Pullmantur two-month lag reporting period, we reported the impact of the sale during the second quarter of 2014. No material events or other transactions affecting Pullmantur or CDF Croisières de France have occurred during the two-month lag period of May and June 2014 that would require further disclosure or adjustment to our consolidated financial statements as of and for the quarter ended June 30, 2014.

We believe the accompanying unaudited consolidated financial statements contain all normal recurring accruals necessary for a fair presentation. Our revenues are seasonal and results for interim periods are not necessarily

indicative of results for the entire year.

## Note 2. Summary of Significant Accounting Policies

### Recent Accounting Pronouncements

In January 2014, amended guidance was issued regarding the accounting for service concession arrangements. The new guidance defines a service concession as an arrangement between a public-sector entity grantor and an operating entity under which the operating entity operates and maintains the grantor's infrastructure for a specified period of time and in return receives payments from the grantor and or third party user for use of the infrastructure. The guidance prohibits the operating entity from accounting for a service concession arrangement as a lease and from recording the infrastructure used in the arrangement within

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property plant and equipment. This guidance must be applied using a modified retrospective approach and will be effective for our interim and annual reporting periods beginning after December 15, 2014. Early adoption is permitted. The adoption of this newly issued guidance is not expected to have a material impact on our consolidated financial statements.

In April 2014, amended guidance was issued changing the requirements for reporting discontinued operations and enhancing the disclosures in this area. The new guidance requires a disposal of a component of an entity or a group of components of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The guidance will be effective prospectively for our interim and annual reporting periods beginning after December 15, 2014. The guidance will impact the reporting and disclosures of future disposals, if any.

In May 2014, amended guidance was issued to clarify the principles used to recognize revenue for all entities. The guidance is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not comprehensively addressed in the prior accounting guidance. This guidance must be applied using one of two retrospective application methods and will be effective for our interim and annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this newly issued guidance on our consolidated financial statements.

## Reclassifications

For the quarter and six months ended June 30, 2013, \$1.7 million has been reclassified in the consolidated statements of comprehensive income (loss) from Marketing, selling and administrative expenses to Restructuring Charges to conform to the current year presentation.

## Other

Revenues and expenses include port costs that vary with guest head counts. The amounts of such port costs included in passenger ticket revenues on a gross basis were \$137.7 million and \$117.0 million for the second quarters of 2014 and 2013, respectively, and \$261.8 million and \$232.7 million for the six months ended June 30, 2014 and 2013, respectively.

During the second quarter of 2013, we recorded an out-of-period adjustment of approximately \$15.2 million to correct an error in the calculation of our liability for our credit card rewards program which understated the liability and overstated income during the fiscal years 2003 through 2013. Because the adjustment, both individually and in the aggregate, was not material to any of the prior years' financial statements, and the impact of correcting the error was not material to the full year 2013 financial statements, we recorded the correction in the financial statements in the second quarter of 2013. This amount reduced onboard and other revenues in our consolidated statements of comprehensive income (loss).

## Note 3. Earnings Per Share

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

| Quarter Ended June 30, |      | Six Months Ended June 30, |      |
|------------------------|------|---------------------------|------|
| 2014                   | 2013 | 2014                      | 2013 |

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|  |           |          |           |           |
|--|-----------|----------|-----------|-----------|
| Net income for basic and diluted earnings per share                                    | \$137,673 | \$24,747 | \$164,130 | \$100,973 |
| Weighted-average common shares outstanding   | 222,189   | 219,502  | 221,745   | 219,301   |
| Dilutive effect of stock options, performance share awards and restricted stock awards | 1,192     | 1,146    | 1,310     | 1,295     |
| Diluted weighted-average shares outstanding  | 223,381   | 220,648  | 223,055   | 220,596   |
| Basic earnings per share   | \$0.62    | \$0.11   | \$0.74    | \$0.46    |
| Diluted earnings per share   | \$0.62    | \$0.11   | \$0.74    | \$0.46    |

Diluted earnings per share does not reflect options to purchase an aggregate of 2.4 million shares for each of the quarter and six months ended June 30, 2013, respectively, because the effect of including them would have been antidilutive. There were no antidilutive shares for the quarter and six months ended June 30, 2014.

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### Note 4. Long-Term Debt

In January 2014, we borrowed \$380.0 million under a previously committed unsecured term loan facility. The loan is due and payable at maturity in August 2018. Interest on the loan accrues at a floating rate based on LIBOR plus the applicable margin. The applicable margin varies with our debt rating and was 2.12% as of June 30, 2014. The proceeds of this loan were used to repay our €745.0 million 5.625% unsecured senior notes due January 2014.

In January 2014, we amended and restated our €365.0 million unsecured term loan due July 2017. Interest on the amended facility accrues at a floating rate based on EURIBOR plus a margin which varies with our credit rating. The amendment reduced the margin, which at our current credit rating resulted in a decrease from 3.00% to 2.30%. The amendment did not result in the extinguishment of debt.

In March 2014, we amended our unsecured term loans for Oasis of the Seas and Allure of the Seas primarily to reduce the margins on those facilities and eliminate the lenders option to exit those facilities in 2015 and 2017, respectively. The interest rate on the \$420.0 million floating rate tranche of the Oasis of the Seas term loan was reduced from LIBOR plus 2.10% to LIBOR plus 1.85%. The interest rate on the entire \$1.1 billion Allure of the Seas term loan was reduced from LIBOR plus 2.10% to LIBOR plus 1.85%. These amendments did not result in the extinguishment of debt.

### Note 5. Goodwill and Other Assets

As of June 30, 2014, the carrying amounts of goodwill and trademarks and trade names attributable to our Pullmantur reporting unit were \$151.1 million and \$212.7 million, respectively. Pullmantur is a brand targeted primarily at the Spanish, Portuguese and Latin American markets, with an increasing focus on Latin America. The persistent economic instability in these markets has created significant uncertainties in forecasting operating results and future cash flows used in our impairment analyses. We continue to monitor economic events in these markets for their potential impact on Pullmantur's business and valuation. However, based on our most recent projections, we do not believe an interim impairment evaluation of Pullmantur's goodwill or trademarks and trade names is warranted as of June 30, 2014.

If there are relatively modest changes to the projected future cash flows used in the impairment analyses, especially in Net Yields, or if anticipated transfers of vessels from our other cruise brands to the Pullmantur fleet do not take place, it is reasonably possible that an impairment charge of Pullmantur's reporting unit's goodwill and trademarks and trade names may be required. Of these factors, the planned transfers of vessels to the Pullmantur fleet is most significant to the projected future cash flows. If the transfers do not occur, we will likely fail step one of the impairment test. We will continue to monitor these intangible assets for potential impairment and perform interim testing of our goodwill, trademarks or trade names if deemed necessary.

### Variable Interest Entities

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 Grand Bahama Shipyard Ltd. (“Grand Bahama”), a ship repair and maintenance facility in which we have a 40% noncontrolling interest, is a VIE. The 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. 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, 2014, the net book value of our investment in Grand Bahama, was approximately \$57.2 million, consisting of \$11.0 million in equity and \$46.2 million in loans. As of December 31, 2013, the net book value of our investment in Grand Bahama was approximately \$56.1 million, consisting of \$6.4 million in equity and \$49.7 million in loans. These amounts represent our maximum exposure to loss as we are not contractually required to provide any financial or other support to the facility. The majority of our loans to Grand Bahama are in non-accrual status and the majority of this amount is included within Other assets in our consolidated balance sheets. During the first six months of 2014, we received approximately \$3.4 million in principal and interest payments related to loans that are in accrual status from Grand Bahama and recorded income associated with our investment in Grand Bahama. We monitor credit risk associated with these loans through our participation on Grand Bahama’s board of directors along with our review of Grand Bahama’s financial

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statements and projected cash flows. Based on this review, we believe the risk of loss associated with these loans was not probable as of June 30, 2014.

On March 31, 2014, as part of Pullmantur's sale of its non-core businesses, Pullmantur sold the majority of its 49% interest in Pullmantur Air S.A. ("Pullmantur Air"), a small aircraft business that operates four aircraft in support of Pullmantur's operations. Post-sale, we retained a 19% interest in Pullmantur Air as well as 100% ownership of the aircraft, which are now being dry leased to Pullmantur Air. We will continue to utilize the services provided by Pullmantur Air. Consistent with our Pullmantur two-month lag reporting period, we reported the impact of the sale in the second quarter of 2014. As of the date of the sale, we determined that Pullmantur Air was no longer a VIE and have accounted for our 19% investment in Pullmantur Air under the cost method of accounting.

Prior to the sale, we determined that Pullmantur Air was a VIE for which we were the primary beneficiary and we consolidated the assets and liabilities of Pullmantur Air in our consolidated balance sheets as of December 31, 2013. We did not separately disclose the assets and liabilities of Pullmantur Air as they were immaterial to our December 31, 2013 consolidated financial statements. See Note 10. Restructuring Charges for further discussion on the Pullmantur sales transaction.

Additionally, in connection with the sale of Pullmantur's non-core businesses, Pullmantur sold the majority of its land-based tour operations and travel agency, retaining a 19% noncontrolling interest in both Nautalia Viajes, S.L. ("Nautalia"), a small travel agency network, and Global Tour Operación, S.L. ("Global Tour"), a small tour operations business. We will continue to utilize the services provided by these businesses, in addition to services from other travel agency and tour operations businesses. Consistent with our two-month lag Pullmantur reporting period, we reported the impact of this sale in our consolidated financial statements in the second quarter of 2014. As of the date of the sale, we determined that Nautalia and Global Tour were VIEs for which we were not the primary beneficiaries as we do not have the power to direct the activities that most significantly impact the economic performance of these entities. In accordance with authoritative guidance for nonconsolidated VIEs, we have accounted for our 19% investment in these companies under the equity method of accounting. See Note 10. Restructuring Charges for further discussion on the Pullmantur sales transaction.

We also extended a term loan facility to Nautalia due June 30, 2016 and maintained commercial and bank guarantees on behalf of Nautalia, Pullmantur Air and Global Tour for a maximum period of twelve months. As of June 30, 2014, our maximum exposure to loss related to these transactions was \$11.7 million. Except for the aforementioned, we are not contractually required to provide any financial or other support to these businesses. See Note 10. Restructuring Charges for further discussion on the sales transaction.

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, 2014 and December 31, 2013, our investment in TUI Cruises, including equity and loans, was approximately \$358.9 million and \$354.3 million, respectively. The majority of this amount was included within Other assets in our consolidated balance sheets. In addition, we and TUI AG, our joint venture partner, have each guaranteed the repayment of 50% of a €180.0 million bank loan provided to TUI Cruises due in 2016. Our investment amount and the potential obligations under this guarantee are substantially our maximum exposure to loss. 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. As of June 30, 2014, TUI Cruises' bank loan that is guaranteed by the shareholders had a remaining balance of €126.0 million, or approximately \$172.5 million based on the exchange rate at June 30, 2014. This bank loan amortizes quarterly and is secured by first mortgages on both Mein Schiff 1 and 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 connection with our sale of Celebrity Mercury to TUI Cruises in 2011, we provided a debt facility to TUI Cruises in the amount of up to €90.0 million. In February 2014, the maximum amount of the debt facility was increased to €125.0 million and we provided TUI Cruises with the ability to draw upon the available capacity through October 31, 2015. In addition, the interest rate for balances outstanding at the date of the facility increase was decreased from 9.54% per annum to 5.0% per annum. Further amounts drawn bear interest of EURIBOR plus 4.7%. This facility is 50% guaranteed by TUI AG and is secured by second and third mortgages on Mein Schiff 1 and Mein Schiff 2. The outstanding principal amount of the facility as of June 30, 2014 was €51.4 million, or \$70.4 million based on the exchange rate at June 30, 2014.

During 2012, TUI Cruises entered into a construction agreement with STX Finland to build its second newbuild ship, scheduled for delivery in the second quarter of 2015. TUI Cruises has entered into a credit agreement for the financing of up to 80% of the contract price of the ship. The remaining portion of the contract price of the ship will be funded through either TUI Cruises' cash flows from operations and/or loans and/or equity contributions from us and TUI AG. The ship construction agreement includes

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certain restrictions on each of our and TUI AG's ability to reduce our current ownership interest in TUI Cruises below 37.5% through the construction period. In addition, the credit agreements extend this restriction through 2019.

### Note 6. Commitments and Contingencies

As of June 30, 2014, the aggregate cost of our four ships on order (excluding TUI Cruises' Mein Schiff 4) was approximately \$4.8 billion, of which we had deposited \$525.4 million as of such date. Approximately 16.3% of the aggregate cost was exposed to fluctuations in the Euro exchange rate at June 30, 2014. (See Note 9. Fair Value Measurements and Derivative Instruments).

In addition to our ships on order, we reached an agreement with STX France in the second quarter of 2014 to build the fourth Oasis-class ship for Royal Caribbean International. This agreement is subject to certain conditions to effectiveness expected to occur in the third quarter of 2014. The ship will have a capacity of approximately 5,450 berths and is expected to enter service in 2018.

In April 2014, we entered into a credit agreement for the US dollar financing of a portion of the third Oasis-class ship. The credit agreement makes available to us an unsecured term loan in an amount up to the US dollar equivalent of €178.4 million. The loan amortizes semi-annually and will mature 12 years following delivery of the ship. At our election prior to the ship delivery, interest on the loan will accrue either (1) at a fixed rate of 2.53% (inclusive of the applicable margin) or (2) at a floating rate equal to LIBOR plus 1.20%. In connection with this credit agreement, we amended the €892.2 million credit agreement, originally entered into in 2013 to finance the ship, reducing the maximum facility amount to approximately €713.8 million. Both the existing Euro-denominated facility and the new US dollar-denominated facility are 100% guaranteed by Compagnie Française d'Assurance pour le Commerce Extérieur ("COFACE"), the export credit agency of France.

### Litigation

A class action complaint was filed in June 2011 against Royal Caribbean Cruises Ltd. in the United States District Court for the Southern District of Florida on behalf of a purported class of stateroom attendants employed onboard Royal Caribbean International cruise vessels. The complaint alleges that the stateroom attendants were required to pay other crew members to help with their duties and that certain stateroom attendants were required to work back of house assignments without the ability to earn gratuities, in each case in violation of the U.S. Seaman's Wage Act. Plaintiffs seek judgments for damages, wage penalties and interest in an indeterminate amount. In May 2012, the Court granted our motion to dismiss the complaint on the basis that the applicable collective bargaining agreement requires any such claims to be arbitrated. The United States Court of Appeals, 11<sup>th</sup> Circuit affirmed the Court's dismissal and denied Plaintiff's petition for re-hearing and re-hearing en banc. We believe the underlying claims made against us are without merit, and we intend to vigorously defend ourselves against them. Because of the inherent uncertainty as to the outcome of this proceeding, we are unable at this time to estimate the possible impact of this matter on us.

We are routinely involved in other 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 2002, we entered into an operating lease denominated in British pound sterling for the Brilliance of the Seas. The lease payments vary based on sterling LIBOR and are included in Other operating income (expenses) in our

consolidated statements of comprehensive income (loss). Brilliance of the Seas lease expense amounts were approximately £3.1 million and £3.1 million, or approximately \$5.3 million and \$4.8 million, for the quarters ended June 30, 2014 and June 30, 2013, respectively, and were approximately £6.2 million and £6.1 million, or approximately \$10.4 million and \$9.3 million for the six months ended June 30, 2014 and June 30, 2013, respectively. The lease has a contractual life of 25 years; however, both the lessor and we have certain rights to cancel the lease at year 18 (i.e. 2020) upon advance notice given approximately one year prior to cancellation. In the event of early termination at year 18, we have the option to cause the sale of the vessel at its fair value and to use the proceeds towards the applicable termination payment. Alternatively, we could opt at such time to make a termination payment of approximately £62.6 million, or approximately \$107.1 million based on the exchange rate at June 30, 2014, and relinquish our right to cause the sale of the vessel. Under current circumstances we do not believe early termination of this lease is probable.

Under the Brilliance of the Seas operating lease, we have agreed to indemnify the lessor to the extent its after-tax return is negatively impacted by unfavorable changes in corporate tax rates, capital allowance deductions and certain unfavorable determinations which may be made by the United Kingdom tax authorities. These indemnifications could result in an increase in our lease payments. We are unable to estimate the maximum potential increase in our lease payments due to the various

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circumstances, timing or a combination of events that could trigger such indemnifications. The United Kingdom tax authorities are disputing the lessor's accounting treatment of the lease and the lessor and tax authorities are in discussions on the matter. If the characterization of the lease by the lessor is ultimately determined to be incorrect, we could be required to indemnify the lessor under certain circumstances. The lessor has advised us that they believe their characterization of the lease is correct. Based on the foregoing and our review of available information, we do not believe an indemnification payment is probable. However, if the lessor loses its dispute and we are required to indemnify the lessor, we cannot at this time predict the impact that such an occurrence would have on our financial condition and results of operations.

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

If (i) any person other than A. Wilhelmsen AS. and Cruise Associates and their respective affiliates (the "Applicable Group") acquires ownership of more than 33% of our common stock and the Applicable Group owns less of our common stock than such person, or (ii) subject to certain exceptions, during any 24-month period, a majority of the Board is no longer comprised of individuals who were members of the Board on the first day of such period, we may be obligated to prepay indebtedness outstanding under the majority of our credit facilities, which we may be unable to replace on similar terms. Certain of our outstanding debt securities also contain change of control provisions that would be triggered by the acquisition of greater than 50% of our common stock by a person other than a member of the Applicable Group coupled with a ratings downgrade. If this were to occur, it would have an adverse impact on our liquidity and operations.

## Note 7. Shareholders' Equity

During the first and second quarters of 2014, we declared and paid a cash dividend on our common stock of \$0.25 per share. During the first quarter of 2014, we also paid a cash dividend on our common stock of \$0.25 per share which was declared during the fourth quarter of 2013.

During the first and second quarters of 2013, we declared and paid a cash dividend on our common stock of \$0.12 per share.

## Note 8. Changes in Accumulated Other Comprehensive (Loss) Income

The following table presents the changes in accumulated other comprehensive (loss) income by component for the six months ended June 30, 2014 and 2013 (in thousands):

|                              | Accumulated Other Comprehensive loss for the<br>Six Months Ended June 30, 2014 |  |   |                                      | Accumulated Other Comprehensive loss for the<br>Six Months Ended June 30, 2013 |  |   |   |
|------------------------------|--|--|---|--------------------------------------|--|--|---|---|
|                              | 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>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 | \$43,324   | \$(23,994 )                            | \$(13,659 )                                       | \$ 5,671                             | \$(84,505 )  | \$(34,823 )                            | \$(15,188 )                                       | \$ (134,516 )                                 |

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|   |             |             |             |              |             |             |             |               |  |
|---|-------------|-------------|-------------|--------------|-------------|-------------|-------------|---------------|--|
| income (loss) at beginning of the year                                  |             |             |             |              |             |             |             |               |  |
| Other comprehensive (loss) income before reclassifications              | (77,794 )   | (4,948 )    | (1,360 )    | (84,102 )    | 18,046      | 3,999       | (5,795 )    | 16,250        |  |
| Amounts reclassified from accumulated other comprehensive income (loss) | 4,241       | 863         | 1,997       | 7,101        | (23,104 )   | 1,294       | —           | (21,810 )     |  |
| Net current-period other comprehensive (loss) income                    | (73,553 )   | (4,085 )    | 637         | (77,001 )    | (5,058 )    | 5,293       | (5,795 )    | (5,560 )      |  |
| Ending balance  | \$(30,229 ) | \$(28,079 ) | \$(13,022 ) | \$( 71,330 ) | \$(89,563 ) | \$(29,530 ) | \$(20,983 ) | \$( 140,076 ) |  |

The following table presents reclassifications out of accumulated other comprehensive (loss) income for the three and six months ended June 30, 2014 and 2013 (in thousands):

| Details About Accumulated Other Comprehensive (Loss) Income Components | Amount of (Loss) Gain Reclassified from Accumulated Other Comprehensive (Loss) Income into Income |                             |                                |                                | Affected Line Item in Statements of Comprehensive (Loss) Income |
|--|---|-----------------------------|--------------------------------|--------------------------------|---|
|  | Quarter Ended June 30, 2014   | Quarter Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |   |
| (Loss) gain on cash flow derivative hedges:                            |   |                             |                                |                                |   |
| Cross currency swaps   | \$—   | \$(880 )                    | \$(261 )                       | \$(1,751 )                     | Interest expense, net of interest capitalized                   |
| Foreign currency forward contracts                                     | (450 )  | (450 )                      | (899 )                         | (899 )                         | Depreciation and amortization expenses                          |
| Foreign currency forward contracts                                     | (238 )  | (239 )                      | (3,814 )                       | (477 )                         | Other income (expense)  |
| Foreign currency forward contracts                                     | —   | (5 )                        | (57 )                          | (5 )                           | Interest expense, net of interest capitalized                   |
| Fuel swaps   | 884   | 9,408                       | 790                            | 26,236                         | Fuel  |
|  | 196   | 7,834                       | (4,241 )                       | 23,104                         |   |
| Amortization of defined benefit plans:                                 |   |                             |                                |                                |   |
| Actuarial loss   | (222 )  | (876 )                      | (445 )                         | (876 )                         | Payroll and related   |
| Prior service costs  | (209 )  | (418 )                      | (418 )                         | (418 )                         | Payroll and related   |
|  | (431 )  | (1,294 )                    | (863 )                         | (1,294 )                       |   |

Release of foreign cumulative translation due to sale of

Pullmantur's non-core businesses:

|  |            |         |            |          |                 |
|--|------------|---------|------------|----------|-----------------|
| Foreign cumulative translation         | (1,997 )   | —       | (1,997 )   | —        | Other operating |
| Total reclassifications for the period | \$(2,232 ) | \$6,540 | \$(7,101 ) | \$21,810 |                 |

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## Note 9. Fair Value Measurements and Derivative Instruments

## Fair Value Measurements

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

| Description   | Fair Value Measurements at June 30, 2014 Using |                  |                        |                        | Fair Value Measurements at December 31, 2013 Using |                  |                        |                        |                        |
|---|--|------------------|------------------------|------------------------|--|------------------|------------------------|------------------------|------------------------|
|   | Total Carrying Amount                          | Total Fair Value | Level 1 <sup>(1)</sup> | Level 2 <sup>(2)</sup> | Level 3 <sup>(3)</sup> 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>                                    | \$185,262                                      | \$185,262        | \$185,262              | \$—                    | \$—  | \$204,687        | \$204,687              | \$—                    | \$—                    |
| Total Assets  | \$185,262                                      | \$185,262        | \$185,262              | \$—                    | \$—  | \$204,687        | \$204,687              | \$—                    | \$—                    |
| Liabilities:  |  |                  |                        |                        |  |                  |                        |                        |                        |
| Long-term debt (including current portion of long-term debt) <sup>(5)</sup> | \$7,538,280                                    | \$7,909,833      | \$1,902,445            | \$6,007,388            | \$—  | \$8,431,220      | \$2,888,255            | \$5,542,965            | \$—                    |
| Total Liabilities   | \$7,538,280                                    | \$7,909,833      | \$1,902,445            | \$6,007,388            | \$—  | \$8,431,220      | \$2,888,255            | \$5,542,965            | \$—                    |

(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, 2014 and December 31, 2013.

(4) Consists of cash and marketable securities with original maturities of less than 90 days.

(5) Consists of unsecured revolving credit facilities, unsecured senior notes, senior debentures and unsecured term loans. Does not include our capital lease obligations.

## Other Financial Instruments

The carrying amounts of accounts receivable, accounts payable, accrued interest and accrued expenses approximate fair value at June 30, 2014 and December 31, 2013.

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):

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| Description                                     | Fair Value Measurements at June 30, 2014 Using |                        |                        |                        | Fair Value Measurements at December 31, 2013 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> |
| <b>Assets:</b>                                  |  |                        |                        |                        |  |                        |                        |                        |
| Derivative financial instruments <sup>(4)</sup> | \$80,112                                       | \$—                    | \$80,112               | \$—                    | \$188,576  | \$—                    | \$188,576              | \$—                    |
| Investments <sup>(5)</sup>                      | 5,973  | 5,973                  | —                      | —                      | 6,044  | 6,044                  | —                      | —                      |
| <b>Total Assets</b>                             | <b>\$86,085</b>                                | <b>\$5,973</b>         | <b>\$80,112</b>        | <b>\$—</b>             | <b>\$194,620</b>                                   | <b>\$6,044</b>         | <b>\$188,576</b>       | <b>\$—</b>             |
| <b>Liabilities:</b>                             |  |                        |                        |                        |  |                        |                        |                        |
| Derivative financial instruments <sup>(6)</sup> | \$74,431                                       | \$—                    | \$74,431               | \$—                    | \$100,260  | \$—                    | \$100,260              | \$—                    |
| <b>Total Liabilities</b>                        | <b>\$74,431</b>                                | <b>\$—</b>             | <b>\$74,431</b>        | <b>\$—</b>             | <b>\$100,260</b>                                   | <b>\$—</b>             | <b>\$100,260</b>       | <b>\$—</b>             |



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- (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, cross currency 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. Fair value for foreign currency collar options is determined by using standard option pricing models with inputs based on the options' contract terms, such as exercise price and maturity, and readily available public market data, such as foreign exchange curves, foreign exchange volatility levels and discount rates. 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, 2014 and December 31, 2013.
- (4) Consists of foreign currency forward contracts, foreign currency collar options, interest rate swaps and fuel swaps. Please refer to the "Fair Value of Derivative Instruments" table for breakdown by instrument type.
- (5) Consists of exchange-traded equity securities and mutual funds.
- (6) Consists of interest rate swaps, fuel swaps and foreign currency forward contracts. Please 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, 2014 or December 31, 2013, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement.

We have master International Swaps and Derivatives Association ("ISDA") agreements in place with our derivative instrument counterparties. These ISDA agreements 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.

As of June 30, 2014 and December 31, 2013, no cash collateral was received or pledged under our ISDA agreements. 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:

| Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements |  |                          |                                 |   |   |                          |                                 |
|--|--|--------------------------|---------------------------------|---|---|--------------------------|---------------------------------|
| As of June 30, 2014  |  |                          |                                 | As of December 31, 2013   |   |                          |                                 |
| Gross Amount of Derivative Assets Presented in the Consolidated Balance                                  | Gross Amount of Eligible Offsetting Derivative Liabilities | Cash Collateral Received | Net Amount of Derivative Assets | Gross Amount of Derivative Assets Presented in the Consolidated Balance | Gross Amount of Eligible Offsetting Derivative Assets | Cash Collateral Received | Net Amount of Derivative Assets |
|  |  |                          |                                 |   |   |                          |                                 |

|  | Sheet    |             |   | Sheet    |           |             |   |
|--|----------|-------------|---|----------|-----------|-------------|---|
| In<br>thousands<br>of dollars                                |          |             |   |          |           |             |   |
| Derivatives<br>subject to<br>master<br>netting<br>agreements | \$80,112 | \$(42,808 ) | — | \$37,304 | \$188,576 | \$(91,627 ) | — |
| Total  | \$80,112 | \$(42,808 ) | — | \$37,304 | \$188,576 | \$(91,627 ) | — |

The following table presents information about the Company's offsetting of financial liabilities under master netting agreements with derivative counterparties:

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## Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements

|  | As of June 30, 2014  |  |                         |                                      | As of December 31, 2013  |   |                         |                                      |
|--|--|--|-------------------------|--------------------------------------|--|---|-------------------------|--------------------------------------|
|  | 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 |
| In thousands of dollars                          |  |  |                         |                                      |  |   |                         |                                      |
| Derivatives subject to master netting agreements |  |  |                         |                                      |  |   |                         |                                      |
| Total  | \$(74,431 )  | \$42,808   | —                       | \$(31,623 )                          | \$(100,260 )   | \$91,627  | —                       | \$(8,633 )                           |

## 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. In addition, our exposure under our derivative instruments was approximately \$38.5 million and \$92.5 million as of June 30, 2014 and December 31, 2013, respectively, and was limited to the cost of replacing the contracts in the event of non-performance by the counterparties to the contracts, all 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.

## Derivative Instruments

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

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 have 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) income until the underlying hedged transactions are recognized in earnings. The foreign currency transaction gain or loss of our non-derivative financial instruments designated as hedges of our net investment in foreign operations and investments are recognized as a component of Accumulated other comprehensive (loss) income along with the associated foreign currency translation adjustment of the foreign operation.

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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. The determination of ineffectiveness is based on the amount of dollar offset between the change in fair value of the derivative instrument and the change in fair value of the hedged item at the end of the reporting period. 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. In addition, the ineffective portion of our highly effective hedges is immediately recognized in earnings and reported in Other income (expense) in our consolidated statements of comprehensive income (loss).

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

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

### Interest Rate Risk

Our exposure to market risk for changes in interest rates relates to our long-term debt obligations including future interest payments. At June 30, 2014, approximately 22.4% of our long-term debt was effectively fixed as compared to 34.6% as of December 31, 2013. We use interest rate swap agreements to modify our exposure to interest rate movements and to manage our interest expense.

Market risk associated with our long-term fixed rate debt is the potential increase in fair value resulting from a decrease in interest rates. We use interest rate swap agreements that effectively convert a portion of our fixed-rate debt to a floating-rate basis to manage this risk. At June 30, 2014 and December 31, 2013, we maintained interest rate swap agreements on the \$420.0 million fixed rate portion of our Oasis of the Seas unsecured amortizing term loan and on the \$650.0 million unsecured senior notes due 2022. The interest rate swap agreements on Oasis of the Seas debt effectively changed the interest rate on the balance of the unsecured term loan, which was \$262.5 million as of June 30, 2014, from a fixed rate of 5.41% to a LIBOR-based floating rate equal to LIBOR plus 3.87%, currently approximately 4.20%. The interest rate swap agreements on the \$650.0 million unsecured senior notes effectively changed the interest rate of the unsecured senior notes from a fixed rate of 5.25% to a LIBOR-based floating rate equal to LIBOR plus 3.63%, currently approximately 3.86%. 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, 2014 and December 31, 2013, we maintained forward-starting interest rate swap agreements that hedge the anticipated unsecured amortizing term loans that will

finance our purchase of Quantum of the Seas and Anthem of the Seas. Forward-starting interest rate swaps hedging the Quantum of the Seas loan will effectively convert the interest rate for \$735.0 million of the anticipated loan balance from LIBOR plus 1.30% to a fixed rate of 3.74% (inclusive of margin) beginning in October 2014. Forward-starting interest rate swaps hedging the Anthem of the Seas loan will effectively convert the interest rate for \$725.0 million of the anticipated loan balance from LIBOR plus 1.30% to a fixed rate of 3.86% (inclusive of margin) beginning in April 2015. These interest rate swap agreements are accounted for as cash flow hedges.

In addition, at June 30, 2014 and December 31, 2013, we maintained interest rate swap agreements that effectively converted the interest rate on a portion of the Celebrity Reflection unsecured amortizing term loan balance of approximately \$572.7 million from LIBOR plus 0.40% to a fixed rate (including applicable margin) of 2.85% through the term of the loan. These interest rate swap agreements are accounted for as cash flow hedges.

The notional amount of interest rate swap agreements related to outstanding debt and on our current unfunded financing arrangements as of June 30, 2014 and December 31, 2013 was \$2.9 billion and \$3.0 billion, respectively.

#### Foreign Currency Exchange Rate Risk

#### Derivative Instruments

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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, collar options and cross currency swap agreements to manage portions of the exposure to movements in foreign currency exchange rates. As of June 30, 2014, the aggregate cost of our ships on order was approximately \$4.8 billion, of which we had deposited \$525.4 million as of such date. Approximately 16.3% and 36.3% of the aggregate cost of the ships under construction was exposed to fluctuations in the Euro exchange rate at June 30, 2014 and December 31, 2013, respectively. 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 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 2014, we maintained an average of approximately \$459.8 million of these foreign currency forward contracts. These instruments are not designated as hedging instruments. Changes in the fair value of the foreign currency forward contracts resulted in a gain (loss), of approximately \$9.0 million and \$(16.9) million, respectively, during the quarter ended June 30, 2014 and June 30, 2013, respectively, and approximately \$10.8 million and \$(25.5) million, during the six months ended June 30, 2014 and June 30, 2013, respectively, that 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. In January 2014, we entered into €415.6 million foreign currency forward contracts and designated them as hedges of a portion of our net investments in Pullmantur and TUI Cruises as of June 30, 2014. These forward currency contracts mature in April 2016.

The notional amount of outstanding foreign exchange contracts including our forward contracts and collar options as of June 30, 2014 and December 31, 2013 was \$3.4 billion and \$2.5 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 in Pullmantur and TUI Cruises of approximately €124.9 million and €544.9 million, or approximately \$171.0 million and \$750.8 million, as of June 30, 2014 and December 31, 2013, respectively.

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 and fuel call options to mitigate the financial impact of fluctuations in fuel prices.

Our fuel swap agreements are accounted for as cash flow hedges. At June 30, 2014, we have hedged the variability in future cash flows for certain forecasted fuel transactions occurring through 2017. As of June 30, 2014 and December 31, 2013, we had the following outstanding fuel swap agreements:

| Fuel Swap Agreements |                   |
|----------------------|-------------------|
| June 30, 2014        | December 31, 2013 |
| (metric tons)        |                   |

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|      |         |         |
|------|---------|---------|
| 2014 | 731,000 | 762,000 |
| 2015 | 720,000 | 665,000 |
| 2016 | 526,000 | 372,000 |
| 2017 | 229,000 | 74,000  |

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|                                    | Fuel Swap Agreements |                         |   |
|------------------------------------|----------------------|-------------------------|---|
|                                    | As of June 30, 2014  | As of December 31, 2013 |   |
|                                    | (% hedged)           |                         |   |
| Projected fuel purchases for year: |                      |                         |   |
| 2014                               | 55                   | % 57                    | % |
| 2015                               | 51                   | % 45                    | % |
| 2016                               | 35                   | % 25                    | % |
| 2017                               | 15                   | % 5                     | % |

At June 30, 2014 and December 31, 2013, \$8.5 million and \$9.5 million, respectively, of estimated unrealized net (loss) gain associated with our cash flow hedges pertaining to fuel swap agreements were expected to be reclassified to earnings from Accumulated other comprehensive (loss) income within the next twelve months. Reclassification is expected to occur as a result of fuel consumption associated with our hedged forecasted fuel purchases.

The fair value and line item caption of derivative instruments recorded within our consolidated balance sheets were as follows:

|   | Fair Value of Derivative Instruments |                                |                                    |  |                                |                                    |
|---|--------------------------------------|--------------------------------|------------------------------------|--|--------------------------------|------------------------------------|
|   | Asset Derivatives                    |                                |                                    | Liability Derivatives                  |                                |                                    |
|   | Balance Sheet Location               | As of June 30, 2014 Fair Value | As of December 31, 2013 Fair Value | Balance Sheet Location                 | As of June 30, 2014 Fair Value | As of December 31, 2013 Fair Value |
| In thousands  |                                      |                                |                                    |  |                                |                                    |
| Derivatives designated as hedging instruments under ASC 815-20 <sup>(1)</sup> |                                      |                                |                                    |  |                                |                                    |
| Interest rate swaps   | Other assets                         | \$ 1,640                       | \$ 56,571                          | Other long-term liabilities            | \$ 51,387                      | \$ 66,920                          |
| Foreign currency forward contracts  | Derivative financial instruments     | 30,214                         | 61,596                             | Accrued expenses and other liabilities | —                              | —                                  |
| Foreign currency forward contracts  | Other assets                         | 9,582                          | 13,783                             | Other long-term liabilities            | 2,636                          | —                                  |
| Foreign currency collar options   | Derivative financial instruments     | 13,439                         | —                                  | Other long-term liabilities            | —                              | —                                  |
| Foreign currency collar options   | Other assets                         | —                              | 22,172                             | Other long-term liabilities            | —                              | —                                  |
| Fuel swaps  | Derivative financial instruments     | 10,738                         | 10,902                             | Accrued expenses and other liabilities | 3,029                          | 1,657                              |
| Fuel swaps  | Other assets                         | 12,585                         | 8,205                              | Other long-term                        | 5,167                          | 9,052                              |

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|  |                                  |          |           |  |          |           |
|--|----------------------------------|----------|-----------|--|----------|-----------|
| Total derivatives designated as hedging instruments under 815-20     |                                  | \$78,198 | \$173,229 | liabilities                            | \$62,219 | \$77,629  |
| Derivatives not designated as hedging instruments under ASC 815-20   |                                  |          |           |  |          |           |
| Foreign currency forward contracts                                   | Derivative financial instruments | \$1,914  | \$15,347  | Accrued expenses and other liabilities | \$12,212 | \$22,631  |
| Total derivatives not designated as hedging instruments under 815-20 |                                  | 1,914    | 15,347    |  | 12,212   | 22,631    |
| Total derivatives  |                                  | \$80,112 | \$188,576 |  | \$74,431 | \$100,260 |

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

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The carrying value and line item caption of non-derivative instruments designated as hedging instruments recorded within our consolidated balance sheets were as follows:

| Non-derivative instrument designated as hedging instrument under ASC 815-20 | Balance Sheet Location            | Carrying Value      |                         |
|---|-----------------------------------|---------------------|-------------------------|
|   |                                   | As of June 30, 2014 | As of December 31, 2013 |
| In thousands  |                                   |                     |                         |
| Foreign currency debt   | Current portion of long-term debt | \$—                 | \$477,442               |
| Foreign currency debt   | Long-term debt                    | 171,035             | 273,354                 |
|   |                                   | \$171,035           | \$750,796               |

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:

| 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 (Loss) Gain Recognized in Income on Hedged Item |                             |                                |                                |
|--|--|--|-----------------------------|--------------------------------|--------------------------------|---|-----------------------------|--------------------------------|--------------------------------|
|  |  | Quarter Ended June 30, 2014                              | Quarter Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 | Quarter Ended June 30, 2014                               | Quarter Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
| In thousands   |  |  |                             |                                |                                |   |                             |                                |                                |
| Interest rate swaps  | Interest expense, net of interest capitalized                              | \$3,067  | \$2,498                     | \$6,136                        | \$3,277                        | \$3,925   | \$9,323                     | \$9,467                        | \$18,599                       |
| Interest rate swaps  | Other income (expense)   | 14,931   | (57,675 )                   | 27,441                         | (59,244 )                      | (11,621 )   | 54,761                      | (23,056 )                      | 56,173                         |
|  |  | \$17,998   | \$(55,177)                  | \$33,577                       | \$(55,967)                     | \$(7,696)   | \$64,084                    | \$(13,589)                     | \$74,772                       |

The effect of derivative instruments qualifying and designated as cash flow hedging instruments on the consolidated financial statements was as follows:

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| Derivatives<br>under ASC<br>815-20 Cash Flow<br>Hedging<br>Relationships | Amount of (Loss) Gain Recognized in<br>Accumulated Other<br>Comprehensive (Loss)<br>Income on Derivative (Effective<br>Portion) |                                      |  |  | Location of<br>Gain (Loss)<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>(Loss) Gain<br>into Income<br>(Effective<br>Portion) | Amount of Gain (Loss)<br>Reclassified from<br>Accumulated Other Comprehensive (Loss)<br>Income into<br>Income (Effective Portion) |                                      |  |  |
|--|---|--------------------------------------|--|--|---|---|--------------------------------------|--|--|
|  | Quarter<br>Ended<br>June 30,<br>2014  | Quarter<br>Ended<br>June 30,<br>2013 | Six<br>Months<br>Ended<br>June 30,<br>2014 | Six<br>Months<br>Ended<br>June 30,<br>2013 |   | Quarter<br>Ended<br>June<br>30,<br>2014   | Quarter<br>Ended<br>June 30,<br>2013 | Six<br>Months<br>Ended<br>June 30,<br>2014 | Six<br>Months<br>Ended<br>June 30,<br>2013 |
| In thousands   |   |                                      |  |  |   |   |                                      |  |  |
| Cross currency<br>swaps  | —   | —                                    | —  | —  | Interest<br>expense, net of<br>interest<br>capitalized  | —   | (880 )                               | (261 )                                     | (1,751 )                                   |
| Interest rate swaps  | (32,221 )   | 80,800                               | (66,745 )                                  | 93,488                                     | Other income<br>(expense)   | —   | —                                    | —  | —  |
| Foreign currency<br>forward contracts                                    | (10,437 )   | 6,087                                | (9,243 )                                   | (8,995 )                                   | Depreciation<br>and<br>amortization<br>expenses   | (450 )  | (450 )                               | (899 )                                     | (899 )                                     |
| Foreign currency<br>forward contracts                                    | —   | —                                    | —  | —  | Other income<br>(expense)   | (238 )  | (239 )                               | (3,814 )                                   | (477 )                                     |
| Foreign currency<br>forward contracts                                    | —   | —                                    | —  | —  | Interest<br>expense, net of<br>interest<br>capitalized  | —   | (5 )                                 | (57 )                                      | (5 )                                       |
| Foreign currency<br>collar options                                       | (6,127 )  | 3,714                                | (8,734 )                                   | (11,247 )                                  | Depreciation<br>and<br>amortization<br>expenses   | —   | —                                    | —  | —  |
| Fuel swaps   | 28,344<br>\$(20,441)  | (65,225 )<br>\$25,376                | 6,928<br>\$(77,794)                        | (55,200 )<br>\$18,046                      | Fuel  | 884<br>\$196  | 9,408<br>\$7,834                     | 790<br>\$(4,241)                           | 26,236<br>\$23,104                         |

| Derivatives<br>under ASC 815-<br>20 Cash Flow<br>Hedging<br>Relationships | Location of<br>Gain (Loss)<br>Recognized in<br>Income on<br>Derivative<br>(Ineffective<br>Portion and<br>Amount<br>Excluded from<br>Effectiveness<br>Testing) | Amount of Gain (Loss) Recognized in Income on<br>Derivative (Ineffective Portion and Amount<br>Excluded from Effectiveness Testing) |                                   |                                      |                                      |
|---|---|---|-----------------------------------|--------------------------------------|--------------------------------------|
|   |   | Quarter<br>Ended June<br>30, 2014   | Quarter<br>Ended June<br>30, 2013 | Six Months<br>Ended June<br>30, 2014 | Six Months<br>Ended June<br>30, 2013 |
| In thousands  |   |   |                                   |                                      |                                      |
| Interest rate swaps   |   | (76 )   | 373                               | (95 )                                | 427                                  |

|                                    |                           |         |          |         |          |
|------------------------------------|---------------------------|---------|----------|---------|----------|
|                                    | Other income<br>(expense) |         |          |         |          |
| Foreign currency forward contracts | Other income<br>(expense) | (7      | ) (5     | ) (27   | ) (10    |
| Fuel swaps                         | Other income<br>(expense) | 2,094   | (3,649   | ) 462   | (4,369   |
|                                    |                           | \$2,011 | \$(3,281 | ) \$340 | \$(3,952 |

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

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| Non-derivative instruments under ASC 815-20 Net Investment Hedging Relationships | Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) (Effective Portion) |                             |                                |                                | Location of Gain (Loss) in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing) |                             |                                |                                |
|--|---|-----------------------------|--------------------------------|--------------------------------|--|---|-----------------------------|--------------------------------|--------------------------------|
|  | Quarter Ended June 30, 2014   | Quarter Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |  | Quarter Ended June 30, 2014   | Quarter Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
| In thousands   |   |                             |                                |                                |  |   |                             |                                |                                |
| Foreign Currency Debt  | \$256   | \$(7,978 )                  | \$4,630                        | \$4,754                        | Other income (expense)   | \$—   | \$—                         | \$—                            | \$—                            |
|  | \$256   | \$(7,978 )                  | \$4,630                        | \$4,754                        |  | \$—   | \$—                         | \$—                            | \$—                            |

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

| Derivatives Not Designated as Hedging Instruments under ASC 815-20 | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives |                             |                                |                                |
|--|---|---|-----------------------------|--------------------------------|--------------------------------|
|  |   | Quarter Ended June 30, 2014                               | Quarter Ended June 30, 2013 | Six Months Ended June 30, 2014 | Six Months Ended June 30, 2013 |
| In thousands   |   |   |                             |                                |                                |
| Foreign currency forward contracts                                 | Other income (expense)                                      | \$ 8,889  | \$(18,669 )                 | \$ 10,770                      | \$(27,280 )                    |
| Fuel swaps   | Other income (expense)                                      | 285   | (61 )                       | (937 )                         | 48                             |
| Fuel call options  | Other income (expense)                                      | —   | (121 )                      | —                              | 37                             |
|  |   | \$ 9,174  | \$(18,851 )                 | \$ 9,833                       | \$(27,195 )                    |

## 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 remain below specified levels. Specifically, if on the fifth anniversary of entering into a derivative transaction or on any succeeding fifth-year anniversary our credit ratings for our senior unsecured debt were to be below BBB- by Standard & Poor's and Baa3 by Moody's, then each counterparty to such derivative transaction with whom we are in a net liability position that exceeds the applicable minimum call amount may demand that we post collateral in an amount equal to the net liability position. The amount of collateral required to be posted following such event will change each time 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. Currently, our senior unsecured debt credit rating is BB with a positive outlook by Standard & Poor's and Ba1 with a stable outlook by Moody's. We currently have five interest rate derivative hedges that have a term of at least five years. The aggregate fair values of all derivative instruments with such credit-related contingent features in net liability positions as of June 30, 2014 and December 31, 2013 were \$51.4 million and \$66.9 million, respectively, which do not include the impact of any such derivatives in net asset positions. The earliest that any of the five interest

rate derivative hedges will reach their fifth anniversary is November 2016. Therefore, as of June 30, 2014, we were not required to post collateral for any of our derivative transactions.

#### Note 10. Restructuring Charges

For the quarter ended June 30, 2014 and June 30, 2013, we incurred \$(0.1) million and \$1.7 million, respectively, and for both of the six months ended June 30, 2014 and June 30, 2013, we incurred \$1.7 million of restructuring charges in connection with our broad profitability improvement program. The following are the profitability initiatives that are at different stages of implementation.

##### Consolidation of Global Sales, Marketing, General and Administrative Structure

One of our profitability initiatives relates to restructuring and consolidation of our global sales, marketing and general and administrative structure. Activities related to this initiative include the consolidation of most of our call centers located outside of the United States and the establishment of brand dedicated sales, marketing and revenue management teams in key priority markets.

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This resulted in the elimination of approximately 500 shore-side positions in 2013, primarily from our international markets, resulting in recognition of a liability for one-time termination benefits during the year ended December 31, 2013. Additionally, we incurred contract termination costs and other related costs consisting of legal and consulting fees to implement this initiative.

For the quarter and six months ended June 30, 2014, we did not incur significant restructuring exit costs associated with this initiative. For both the quarter and six months ended June 30, 2013, we incurred \$1.7 million of restructuring exit costs associated with this initiative.

The following table summarizes our restructuring exit costs related to the above initiative (in thousands):

|                            | Beginning<br>Balance<br>January 1,<br>2014 | Accruals | Payments  | Ending<br>Balance<br>June 30,<br>2014 | Cumulative<br>Charges<br>Incurred | Expected<br>Additional<br>Expenses<br>to be<br>Incurred |
|----------------------------|--|----------|-----------|---------------------------------------|-----------------------------------|---|
| Termination benefits       | \$8,315                                    | \$(577)  | ) \$4,984 | \$2,754                               | \$9,061                           | \$—   |
| Contract termination costs | 126  | 5        | 59        | \$72                                  | 4,147                             | —   |
| Other related costs        | 1,397                                      | 150      | 244       | \$1,303                               | 4,529                             | —   |
| Total                      | \$9,838                                    | \$(422)  | ) \$5,287 | \$4,129                               | \$17,737                          | \$—   |

In connection with this initiative, we incurred approximately \$1.7 million and \$7.4 million of other costs during the quarter and six months ended June 30, 2014, respectively, that primarily consisted of call center transition costs and accelerated depreciation on leasehold improvements and were classified within Marketing, selling and administrative expenses and Depreciation and amortization expenses in our consolidated statements of comprehensive income (loss).

During the second quarter of 2014, we completed activities related to this initiative and do not expect to incur any restructuring exit or other additional costs.

#### Pullmantur Restructuring

##### Restructuring Exit Costs

A second initiative relates to Pullmantur's focus on its cruise business and its expansion in Latin America. Activities related to this initiative include the sale of Pullmantur's non-core businesses and placing operating management closer to the Latin American market. This resulted in the elimination of approximately 100 Pullmantur shore-side positions and recognition of a liability for one-time termination benefits during the year ended December 31, 2013. In the second quarter of 2014, we elected not to execute the dismissal of approximately 30 of the positions which resulted in a partial reversal of the liability. Additionally, we incurred contract termination costs and other related costs consisting of legal and consulting fees to implement this initiative. During the second quarter of 2014, we continued with activities related to this initiative.

As a result of these actions, we incurred restructuring exit costs of \$0.3 million and \$2.1 million for the quarter and six months ended June 30, 2014, which are reported within Restructuring charges in our consolidated statements of comprehensive income (loss). Included in these amounts is a \$0.7 million reversal of termination benefits due to the reinstatement of certain Pullmantur shore-side positions. We do not expect to incur additional restructuring exit costs to complete this initiative.

The following table summarizes our restructuring exit costs related to the above initiative (in thousands):



|                            | Beginning<br>Balance<br>January 1,<br>2014 | Accruals | Payments | Ending<br>Balance<br>June 30,<br>2014 | Cumulative<br>Charges<br>Incurred | Expected<br>Additional<br>Expenses<br>to be<br>Incurred <sup>(1)</sup> |
|----------------------------|--|----------|----------|---------------------------------------|-----------------------------------|--|
| Termination benefits       | \$3,910                                    | \$1,362  | \$1,224  | \$4,048                               | \$5,272                           | \$103  |
| Contract termination costs | 847  | —        | —        | \$847                                 | 847                               | (845 )   |
| Other related costs        | 516  | 710      | 626      | \$600                                 | 1,226                             | —  |
| Total                      | \$5,273                                    | \$2,072  | \$1,850  | \$5,495                               | \$7,345                           | \$(742 )   |

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(1) These amounts relate to restructuring exit costs associated with our Pullmantur restructuring.

In connection with this initiative, we incurred approximately \$5.3 million and \$6.5 million of other costs during the quarter and six months ended June 30, 2014, respectively, associated with placing operating management closer to the Latin American market that was classified within Marketing, selling and administrative expenses in our consolidated statements of comprehensive income (loss). We expect to incur an additional amount for such costs of approximately \$6.0 million through the end of 2014.

Sale of Pullmantur Non-core Businesses

As part of our Pullmantur related initiatives, on March 31, 2014, Pullmantur sold the majority of its interest in its non-core businesses. These non-core businesses included Pullmantur's land-based tour operations, travel agency and 49% interest in its air business. In connection with the sale agreement, we retained a 19% interest in each of the non-core businesses as well as 100% ownership of the aircraft which are being dry leased to Pullmantur Air. Consistent with our Pullmantur two-month lag reporting period, we reported the impact of the sale in the second quarter of 2014. See Note 1. General for information on the basis on which we prepare our consolidated financial statements and Note 5. Goodwill and Other Assets for the accounting of our 19% retained interest.

The sale resulted in a \$0.8 million gain reported in the second quarter of 2014, inclusive of the release of cumulative translation adjustment losses, which is classified within Other operating expenses in our consolidated statements of comprehensive income (loss). As part of the sale, we agreed to maintain commercial and bank guarantees on behalf of the buyer for a maximum period of twelve months and extended a term loan facility to Nautalia due June 30, 2016. In addition, as of June 30, 2014, we recorded the fair value of the guarantees and a loss reserve for the loan amount drawn, offsetting the gain recognized by \$2.9 million. See Note 8. Changes in Accumulated Other Comprehensive Income (Loss) for further information on the release of the foreign currency translation losses.

The non-core businesses met the accounting criteria to be classified as held for sale during the fourth quarter of 2013 which resulted in restructuring related impairment charges of \$20.0 million in 2013 to adjust the carrying value of assets held for sale to their fair value, less cost to sell. As of December 31, 2013, assets and liabilities held for sale were not material to our consolidated balance sheet and no longer exist as of June 30, 2014. The businesses did not meet the criteria for discontinued operations reporting as a result of our significant continuing involvement.

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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 2014 set forth under the heading "Outlook" below and expectations regarding the timing and results of our Double-Double Program), 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," 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 our Annual Report on Form 10-K for the year ended December 31, 2013 and, in particular, the risks discussed under the caption "Risk Factors" in Part I, Item 1A of that report.

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, 2014 compared to the same period in 2013;
- a discussion of our business outlook, including our expectations for selected financial items for the third quarter and full year of 2014; and
- a discussion of our liquidity and capital resources, including our future capital and contractual commitments and potential funding sources.

#### Critical Accounting Policies

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

As of June 30, 2014, the carrying amounts of goodwill and trademarks and trade names attributable to our Pullmantur reporting unit were \$151.1 million and \$212.7 million, respectively. Pullmantur is a brand targeted primarily at the Spanish, Portuguese and Latin American markets, with an increasing focus on Latin America. The persistent

economic instability in these markets has created significant uncertainties in forecasting operating results and future cash flows used in our impairment analyses. We continue to monitor economic events in these markets for their potential impact on Pullmantur's business and valuation. However, based on our most recent projections we do not believe an interim impairment evaluation of Pullmantur's goodwill or trademarks and trade names is warranted as of June 30, 2014.

If there are relatively modest changes to the projected future cash flows used in the impairment analyses, especially in Net Yields, or if anticipated transfers of vessels from our other cruise brands to the Pullmantur fleet do not take place, it is reasonably possible that an impairment charge of Pullmantur's reporting unit's goodwill and trademarks and trade names may be required. Of these factors, the planned transfers of vessels to the Pullmantur fleet is most significant to the projected future cash flows. If the transfers do not occur, we will likely fail step one of the impairment test. We will continue to monitor these intangible assets for potential impairment and perform interim testing of our goodwill, trademarks or trade names if deemed necessary.

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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, 2013.

### 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 Australia, Latin America and Asia 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. Additionally, revenue related to Pullmantur's travel agency network, land-based tours and air charter business to third parties are included in onboard and other revenues through the date of the sale of Pullmantur's non-core businesses further discussed below.

Onboard and other revenues also include revenues we receive from independent third party concessionaires that pay us a percentage of their revenues in exchange for the right to provide selected goods and/or services onboard our ships.

#### 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;

- 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 and storage costs, including 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 operating lease costs, vessel related insurance and entertainment.

• Additionally, costs associated with Pullmantur's travel agency network, land-based tours and air charter business to third parties are included in other operating expenses through the date of the sale of Pullmantur's non-core businesses further discussed below.

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

### Selected Operational and Financial Metrics

We utilize a variety of operational and financial metrics which are defined below to evaluate our performance and financial condition. As discussed in more detail herein, certain of these metrics are non-GAAP financial measures, which we believe 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 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 restructuring charges, other costs related to our profitability initiatives and the estimated impact of the divested Pullmantur non-core businesses. The estimated impact of the divested Pullmantur non-core businesses was arrived at by adjusting the net income (loss) of these businesses for the ownership percentage we retained as well as for intercompany transactions that are no longer eliminated in our consolidated statements of comprehensive income (loss) subsequent to the sales transaction.

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. 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.

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. We have not provided a quantitative reconciliation of projected Gross Cruise Costs to projected Net Cruise Costs and projected Net Cruise Costs Excluding Fuel due to the significant uncertainty in projecting the costs deducted to arrive at these measures. Accordingly, we do not believe that reconciling information for such projected figures would be meaningful. For the periods prior to the sale of the Pullmantur non-core businesses, Net Cruise Costs excludes the estimated impact of these divested businesses. Net Cruise Costs also excludes initiative costs reported within Marketing, selling and administrative expenses.

Net Debt-to-Capital is a ratio which represents total long-term debt, including the current portion of long-term debt, less cash and cash equivalents (“Net Debt”) divided by the sum of Net Debt and total shareholders’ equity. We believe

Net Debt and Net Debt-to-Capital, along with total long-term debt and shareholders' equity are useful measures of our capital structure. A reconciliation of historical Debt-to-Capital to Net Debt-to-Capital is provided below under Results of Operations.

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). For the periods prior to the sale of the Pullmantur non-core businesses, we have presented Net Revenues excluding the estimated impact of these divested businesses in the financial tables under Results of Operations.

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 it is the most relevant measure of our pricing performance because it reflects 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. We have not provided a quantitative reconciliation of projected Gross Yields to projected Net Yields due to the significant uncertainty in projecting the costs deducted to arrive at this measure. Accordingly, we do not believe that reconciling information for such



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projected figures would be meaningful. For the periods prior to the sale of the Pullmantur non-core businesses, Net Yields excludes the estimated impact of these divested businesses.

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

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

We believe Net Yields, Net Cruise Costs and Net Cruise Costs Excluding Fuel are our most relevant non-GAAP financial measures. However, a significant portion of our revenue and expenses are denominated in currencies other than the United States dollar. Because our reporting currency is the United States dollar, the value of these revenues and expenses can be affected by changes in currency exchange rates. Although such changes in local currency prices is just one of many elements impacting our revenues and expenses, it 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. Over the longer term, changes in guest sourcing and shifting the amount of purchases between currencies can significantly 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, allow 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 United States 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.

## Results of Operations

### Summary

Our net income and Adjusted Net Income for the second quarter of 2014 was \$137.7 million and \$146.7 million or \$0.62 and \$0.66 per share on a diluted basis, respectively, as compared to net income and Adjusted Net Income of \$24.7 million and \$34.2 million or \$0.11 and \$0.15 per share on a diluted basis, respectively, for the second quarter of 2013.

Our net income and Adjusted Net Income for the six months ended June 30, 2014 was \$164.1 million and \$192.8 million or \$0.74 and \$0.86 per share on a diluted basis, respectively, as compared to net income and Adjusted Net Income of \$101.0 million and \$112.3 million or \$0.46 and \$0.51 per share on a diluted basis, respectively, for the six months ended June 30, 2013.

Significant items for the quarter and six months ended June 30, 2014 include:

Total revenues increased 5.2% and 1.9% for the quarter and six months ended June 30, 2014 as compared to the same period in 2013, respectively. These increases were primarily due to an increase in overall capacity and ticket prices for close-in European and Asian sailings, which was partially offset by a decrease in ticket prices for Caribbean sailings.

Cruise operating expenses increased 0.5% and 1.1% for the quarter and six months ended June 30, 2014 from the corresponding period in 2013, respectively. These increases were primarily due to an increase in capacity, partially offset by the elimination of operating expenses as a result of the sale of Pullmantur's non-core businesses.

Interest expense, net of interest capitalized, decreased 24.9% and 24.4% for the quarter and six months ended June 30, 2014 from the corresponding period in 2013, respectively. The decrease was primarily due to lower interest rates and, to a lesser extent, a lower average debt level.

During the six months ended June 30, 2014, we borrowed \$380.0 million under a previously committed unsecured term loan facility due August 2018 and repaid our €745.0 million 5.625% unsecured senior notes with proceeds from this term loan facility and our revolving credit facilities. Refer to Note 4. Long-Term Debt for further information.

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We reached a conditional agreement with STX France to build the fourth Oasis-class ship for Royal Caribbean International. The ship will have a capacity of approximately 5,450 berths and is expected to enter service in 2018. Refer to Note 6. Commitments and Contingencies for further information.

Other Items

On March 31, 2014, Pullmantur sold the majority of its interest in its non-core businesses. These non-core businesses included Pullmantur's land-based tour operations, travel agency and 49% interest in its air business. In connection with the sale agreement, we retained a 19% interest in each of the non-core businesses as well as 100% ownership of the aircraft which is being dry leased to Pullmantur Air. Consistent with our Pullmantur reporting two-month lag period, we have reported the impact of the sale in our second quarter of 2014, which resulted in a \$0.8 million gain, inclusive of the release of cumulative translation adjustment losses. In addition, we recognized loss reserves of \$2.9 million related to a loan facility extended to Nautalia Viajes, S.L. and debt guarantees maintained on behalf of the buyer. The net loss of the sale was classified within Other operating expenses in our consolidated statements of comprehensive income (loss). See Note 10. Restructuring Charges for further discussion on the sales transaction.

In May 2014, TUI Cruises, our 50% joint venture, took delivery of Mein Schiff 3.

Operating results for the quarter and six months ended June 30, 2014 compared to the same period in 2013 are shown in the following table (in thousands, except per share data):

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|  | Quarter Ended June 30,<br>2014 |                        |    | 2013        |                        |    | Six months ended June 30,<br>2014 |                        |    | 2013                   |         |    |
|--|--------------------------------|------------------------|----|-------------|------------------------|----|-----------------------------------|------------------------|----|------------------------|---------|----|
|  |                                | % of Total<br>Revenues |    |             | % of Total<br>Revenues |    |                                   | % of Total<br>Revenues |    | % of Total<br>Revenues |         |    |
| Passenger ticket revenues                      | \$1,455,099                    | 73.5                   | %  | \$1,366,713 | 72.6                   | %  | \$2,803,302                       | 72.5                   | %  | \$2,760,491            | 72.8    | %  |
| Onboard and other revenues                     | 524,944                        | 26.5                   | %  | 516,054     | 27.4                   | %  | 1,063,965                         | 27.5                   | %  | 1,033,496              | 27.2    | %  |
| Total revenues                                 | 1,980,043                      | 100.0                  | %  | 1,882,767   | 100.0                  | %  | 3,867,267                         | 100.0                  | %  | 3,793,987              | 100.0   | %  |
| Cruise operating expenses:                     |                                |                        |    |             |                        |    |                                   |                        |    |                        |         |    |
| Commissions, transportation and other          | 346,180                        | 17.5                   | %  | 316,506     | 16.8                   | %  | 672,045                           | 17.4                   | %  | 639,443                | 16.9    | %  |
| Onboard and other                              | 150,606                        | 7.6                    | %  | 140,710     | 7.5                    | %  | 273,638                           | 7.1                    | %  | 262,197                | 6.9     | %  |
| Payroll and related                            | 209,171                        | 10.6                   | %  | 208,975     | 11.1                   | %  | 419,972                           | 10.9                   | %  | 418,898                | 11.0    | %  |
| Food   | 119,184                        | 6.0                    | %  | 112,530     | 6.0                    | %  | 237,264                           | 6.1                    | %  | 232,013                | 6.1     | %  |
| Fuel   | 242,804                        | 12.3                   | %  | 232,471     | 12.3                   | %  | 487,263                           | 12.6                   | %  | 474,123                | 12.5    | %  |
| Other operating                                | 262,729                        | 13.3                   | %  | 312,427     | 16.6                   | %  | 544,472                           | 14.1                   | %  | 579,135                | 15.3    | %  |
| Total cruise operating expenses                | 1,330,674                      | 67.2                   | %  | 1,323,619   | 70.3                   | %  | 2,634,654                         | 68.1                   | %  | 2,605,809              | 68.7    | %  |
| Marketing, selling and administrative expenses | 260,988                        | 13.2                   | %  | 257,948     | 13.7                   | %  | 551,295                           | 14.3                   | %  | 531,982                | 14.0    | %  |
| Depreciation and amortization expenses         | 192,880                        | 9.7                    | %  | 186,184     | 9.9                    | %  | 386,615                           | 10.0                   | %  | 375,548                | 9.9     | %  |
| Restructuring charges                          | (86)                           | ) —                    | %  | 1,678       | —                      | %  | 1,650                             | —                      | %  | 1,678                  | —       | %  |
| Operating Income                               | 195,587                        | 9.9                    | %  | 113,338     | 6.0                    | %  | 293,053                           | 7.6                    | %  | 278,970                | 7.4     | %  |
| Other income (expense):                        |                                |                        |    |             |                        |    |                                   |                        |    |                        |         |    |
| Interest income                                | 2,630                          | 0.1                    | %  | 3,405       | 0.2                    | %  | 5,906                             | 0.2                    | %  | 7,152                  | 0.2     | %  |
| Interest expense, net of interest capitalized  | (65,260)                       | ) (3.3)                | )% | (86,877)    | ) (4.6)                | )% | (133,831)                         | ) (3.5)                | )% | (177,059)              | ) (4.7) | )% |
| Other expense                                  | 4,716                          | 0.2                    | %  | (5,119)     | ) (0.3)                | )% | (998)                             | ) —                    | %  | (8,090)                | ) (0.2) | )% |
|  | (57,914)                       | ) (2.9)                | )% | (88,591)    | ) (4.7)                | )% | (128,923)                         | ) (3.3)                | )% | (177,997)              | ) (4.7) | )% |
| Net Income                                     | \$137,673                      | 7.0                    | %  | \$24,747    | 1.3                    | %  | \$164,130                         | 4.2                    | %  | \$100,973              | 2.7     | %  |
| Diluted Earnings per                           | \$0.62                         |                        |    | \$0.11      |                        |    | \$0.74                            |                        |    | \$0.46                 |         |    |

Share

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

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|  | Quarter Ended June 30, |          | Six Months Ended June 30, |           |
|--|------------------------|----------|---------------------------|-----------|
|  | 2014                   | 2013     | 2014                      | 2013      |
| Net Income   | \$137,673              | \$24,747 | \$164,130                 | \$100,973 |
| Restructuring charges  | (86                    | ) 1,678  | 1,650                     | 1,678     |
| Other initiative costs   | 9,122                  | —        | 16,035                    | —         |
| Estimated impact of divested businesses prior to sales transaction | —                      | 7,772    | 11,013                    | 9,696     |
| Adjusted Net Income  | \$146,709              | \$34,197 | \$192,828                 | \$112,347 |
| Weighted-Average Shares Outstanding:                               |                        |          |                           |           |
| Basic  | 222,189                | 219,502  | 221,745                   | 219,301   |
| Diluted  | 223,381                | 220,648  | 223,055                   | 220,596   |
| Earnings per Share:  |                        |          |                           |           |
| Basic  | \$0.62                 | \$0.11   | \$0.74                    | \$0.46    |
| Diluted  | \$0.62                 | \$0.11   | \$0.74                    | \$0.46    |
| Adjusted Earnings per Share:                                       |                        |          |                           |           |
| Basic  | \$0.66                 | \$0.16   | \$0.87                    | \$0.51    |
| Diluted  | \$0.66                 | \$0.15   | \$0.86                    | \$0.51    |

Selected statistical information is shown in the following table:

|                       | Quarter Ended June 30, |           | Six Months Ended June 30, |            |   |
|-----------------------|------------------------|-----------|---------------------------|------------|---|
|                       | 2014                   | 2013      | 2014                      | 2013       |   |
| Passengers Carried    | 1,283,596              | 1,174,397 | 2,561,830                 | 2,435,689  |   |
| Passenger Cruise Days | 9,032,618              | 8,485,968 | 17,886,254                | 17,330,559 |   |
| APCD                  | 8,607,667              | 8,238,182 | 17,080,917                | 16,666,292 |   |
| Occupancy             | 104.9                  | % 103.0   | % 104.7                   | % 104.0    | % |

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

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|  | Quarter Ended June 30, |  |             | Six Months Ended June 30, |  |             |
|--|------------------------|--|-------------|---------------------------|--|-------------|
|  | 2014                   | 2014 On a<br>Constant<br>Currency<br>basis | 2013        | 2014                      | 2014 On a<br>Constant<br>Currency<br>basis | 2013        |
| Passenger ticket revenues  | \$1,455,099            | \$1,456,740                                | \$1,366,713 | \$2,803,302               | \$2,843,461                                | \$2,760,491 |
| Onboard and other revenues   | 524,944                | 523,820                                    | 516,054     | 1,063,965                 | 1,064,584                                  | 1,033,496   |
| Total revenues   | 1,980,043              | 1,980,560                                  | 1,882,767   | 3,867,267                 | 3,908,045                                  | 3,793,987   |
| Less:  |                        |  |             |                           |  |             |
| Commissions, transportation and other                                  | 346,180                | 345,544                                    | 316,506     | 672,045                   | 678,005                                    | 639,443     |
| Onboard and other  | 150,606                | 149,711                                    | 140,710     | 273,638                   | 273,798                                    | 262,197     |
| Net Revenues including divested businesses                             | 1,483,257              | 1,485,305                                  | 1,425,551   | \$2,921,584               | \$2,956,242                                | \$2,892,347 |
| Less:  |                        |  |             |                           |  |             |
| Net Revenues related to divested businesses prior to sales transaction | —                      | —  | 39,431      | \$35,656                  | \$34,403                                   | \$72,545    |
| Net Revenues   | \$1,483,257            | \$1,485,305                                | \$1,386,120 | \$2,885,928               | \$2,921,839                                | \$2,819,802 |
| APCD   | 8,607,667              | 8,607,667                                  | 8,238,182   | 17,080,917                | 17,080,917                                 | 16,666,292  |
| Gross Yields   | \$230.03               | \$230.09                                   | \$228.54    | \$226.41                  | \$228.80                                   | \$227.64    |
| Net Yields   | \$172.32               | \$172.56                                   | \$168.26    | \$168.96                  | \$171.06                                   | \$169.19    |

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

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|   | Quarter Ended June 30, |  |             | Six Months Ended June 30, |  |             |
|---|------------------------|--|-------------|---------------------------|--|-------------|
|   | 2014                   | 2014 On a<br>Constant<br>Currency<br>basis | 2013        | 2014                      | 2014 On a<br>Constant<br>Currency<br>basis | 2013        |
| Total cruise operating expenses   | \$1,330,674            | \$1,328,146                                | \$1,323,619 | \$2,634,654               | \$2,642,448                                | \$2,605,809 |
| Marketing, selling and administrative expenses  | 260,988                | 258,818                                    | 257,948     | 551,295                   | 548,640                                    | 531,982     |
| Gross Cruise Costs  | 1,591,662              | 1,586,964                                  | 1,581,567   | 3,185,949                 | 3,191,088                                  | 3,137,791   |
| Less:   |                        |  |             |                           |  |             |
| Commissions, transportation and other   | 346,180                | 345,544                                    | 316,506     | 672,045                   | 678,005                                    | 639,443     |
| Onboard and other   | 150,606                | 149,711                                    | 140,710     | 273,638                   | 273,798                                    | 262,197     |
| Net Cruise Costs including divested businesses  | 1,094,876              | 1,091,709                                  | 1,124,351   | 2,240,266                 | 2,239,285                                  | 2,236,151   |
| Less:   |                        |  |             |                           |  |             |
| Net Cruise Costs related to divested businesses prior to sales transaction  | —                      | —  | 49,196      | 47,854                    | 46,158                                     | 84,167      |
| Other initiative costs included within cruise operating expenses and marketing, selling and administrative expenses | 8,562                  | 8,472                                      | —           | 13,796                    | 12,796                                     | —           |
| Net Cruise Costs  | 1,086,314              | 1,083,237                                  | 1,075,155   | 2,178,616                 | 2,180,331                                  | 2,151,984   |
| Less:   |                        |  |             |                           |  |             |
| Fuel  | 242,804                | 243,770                                    | 232,471     | 487,263                   | 489,700                                    | 474,123     |
| Net Cruise Costs Excluding Fuel   | \$843,510              | \$839,467                                  | \$842,684   | \$1,691,353               | \$1,690,631                                | \$1,677,861 |
| APCD  | 8,607,667              | 8,607,667                                  | 8,238,182   | 17,080,917                | 17,080,917                                 | 16,666,292  |
| Gross Cruise Costs per APCD   | \$184.91               | \$184.37                                   | \$191.98    | \$186.52                  | \$186.82                                   | \$188.27    |
| Net Cruise Cost per APCD  | \$126.20               | \$125.85                                   | \$130.51    | \$127.55                  | \$127.65                                   | \$129.12    |
| Net Cruise Costs Excluding Fuel per APCD  | \$98.00                | \$97.53                                    | \$102.29    | \$99.02                   | \$98.98                                    | \$100.67    |

Net Debt-to-Capital was calculated as follows (in thousands):

|  | As of<br>June 30,<br>2014 | December 31,<br>2013 |   |
|--|---------------------------|----------------------|---|
| Long-term debt, net of current portion | \$7,099,269               | \$6,511,426          |   |
| Current portion of long-term debt      | 494,579                   | 1,563,378            |   |
| Total debt                             | 7,593,848                 | 8,074,804            |   |
| Less: Cash and cash equivalents        | 185,262                   | 204,687              |   |
| Net Debt                               | \$7,408,586               | \$7,870,117          |   |
| Total shareholders' equity             | \$8,849,240               | \$8,808,265          |   |
| Total debt                             | 7,593,848                 | 8,074,804            |   |
| Total debt and shareholders' equity    | \$16,443,088              | \$16,883,069         |   |
| Debt-to-Capital                        | 46.2                      | % 47.8               | % |
| Net Debt                               | \$7,408,586               | \$7,870,117          |   |



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|                                   |               |               |
|-----------------------------------|---------------|---------------|
| Net Debt and shareholders' equity | \$ 16,257,826 | \$ 16,678,382 |
| Net Debt-to-Capital               | 45.6          | % 47.2 %      |

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## Outlook

The Company provided the following guidance for the full year and third quarter 2014:

## Full Year 2014

|   | As Reported            | Constant Currency     |
|---|------------------------|-----------------------|
| Net Yields                                | 2% to 3%               | 2% to 3%              |
| Net Cruise Costs per APCD                 | Flat to up 1%          | Flat to up 1%         |
| Net Cruise Costs per APCD, excluding Fuel | Approx. Flat           | Flat to slightly down |
| Capacity Increase                         | 1.7%                   |                       |
| Depreciation and Amortization             | \$775 to \$785 million |                       |
| Interest Expense, net                     | \$250 to \$255 million |                       |
| Fuel Consumption (metric tons)            | 1,345,000              |                       |
| Fuel Expenses                             | \$949 million          |                       |
| Percent Hedged (fwd consumption)          | 55%                    |                       |
| Impact of 10% change in fuel prices       | \$20.8 million         |                       |
| Adjusted Earnings per Share-Diluted       | \$3.40 to \$3.50       |                       |

## Third Quarter 2014

|   | As Reported            | Constant Currency |
|---|------------------------|-------------------|
| Net Yields                                | 5% to 6%               | Approx. 4%        |
| Net Cruise Costs per APCD                 | Approx. 2%             | 1.5% to 2.0%      |
| Net Cruise Costs per APCD, excluding Fuel | Approx. 1%             | Flat to up 1%     |
| Capacity Increase                         | 0.3%                   |                   |
| Depreciation and Amortization             | \$190 to \$200 million |                   |
| Interest Expense, net                     | \$55 to \$60 million   |                   |
| Fuel Consumption (metric tons)            | 325,000                |                   |
| Fuel Expenses                             | \$231 million          |                   |
| Percent Hedged (fwd consumption)          | 57%                    |                   |
| Impact of 10% change in fuel prices       | \$9.8 million          |                   |
| Adjusted Earnings per Share-Diluted       | Approx. \$2.20         |                   |

In recent years, the Company has focused heavily on improving investment returns with moderate capacity growth. In keeping with this approach, we introduced our Double-Double Program which is designed to achieve two important objectives by 2017:

• increasing Return on Invested Capital (ROIC)\* to double digits; and

• doubling 2014 Adjusted Earnings per Share.

We believe that establishing and articulating these long-term objectives helps guide internal decision-making and better informs investors of the path of the business.

We have historically used ROIC as one of our key financial measures in our executive compensation programs. For \* a definition of our ROIC metric, refer to our most recent Definitive Proxy Statement on Schedule 14A filed with the Commission on April 1, 2014.

Quarter Ended June 30, 2014 Compared to Quarter Ended June 30, 2013

In this section, references to 2014 refer to the quarter ended June 30, 2014 and references to 2013 refer to the quarter ended June 30, 2013.

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### Revenues

Total revenues for 2014 increased \$97.3 million, or 5.2%, to \$2.0 billion in 2014 from \$1.9 billion in 2013.

Passenger ticket revenues comprised 73.5% of our 2014 total revenues. Passenger ticket revenues increased by \$88.4 million, or 6.5%, to \$1.5 billion in 2014 from \$1.4 billion in 2013. The increase was primarily due to:

- a 4.5% increase in capacity, which increased Passenger ticket revenues by \$61.3 million; and

an increase in ticket prices driven by greater demand for close-in European and Asian sailings, which was partially offset by a decrease in ticket prices for Caribbean sailings, all of which contributed to a \$28.7 million increase in passenger ticket revenues.

The remaining 26.5% of 2014 total revenues was comprised of onboard and other revenues, which increased \$8.9 million, or 1.7%, to \$524.9 million in 2014 from \$516.1 million in 2013. The increase was primarily due to:

- a \$20.9 million increase attributable to the 4.5% increase in capacity noted above;

- a \$17.6 million increase in other revenue primarily attributable to an out-of-period adjustment of approximately \$15.2 million that was recorded in 2013 to correct the calculation of our liability for our credit card rewards program; and

- a \$10.2 million increase in onboard revenue attributable to higher spending on a per passenger basis primarily due to the addition and promotion of specialty restaurants, the increased revenue associated with Internet and other telecommunication services and other onboard activities, as a result of our ship revitalization projects and other revenue enhancing initiatives. Onboard and other revenues included concession revenues of \$77.4 million in 2014 and \$72.0 million in 2013.

The increase in onboard and other revenues was partially offset by a \$39.3 million decrease in revenues related to Pullmantur's non-core businesses that were sold in 2014 as noted above.

### Cruise Operating Expenses

Total cruise operating expenses increased \$7.1 million, or 0.5%, to \$1.3 billion. The increase was primarily due to a \$57.3 million increase attributable to the 4.5% increase in capacity noted above.

The increase was partially offset by:

- a \$37.3 million decrease in expenses related to Pullmantur's non-core businesses that were sold in 2014 as noted above;

- a \$7.6 million decrease in commissions expense attributable to shifts in our distribution channels; and

- a \$7.5 million decrease attributable to vessel maintenance due to the timing of scheduled drydocks.

### Marketing, Selling and Administrative Expenses

Marketing, selling and administrative expenses for 2014 of \$261.0 million was comparable to \$257.9 million for the same period in 2013.

### Depreciation and Amortization Expenses

Depreciation and amortization expenses for 2014 increased \$6.7 million, or 3.6%, to \$192.9 million from \$186.2 million in 2013. The increase was driven by new shipboard additions associated with our ship revitalization projects, the addition of our new reservations pricing engine in December of 2013 and to a lesser extent, the accelerated depreciation on leasehold improvements associated with our restructuring initiatives.

### Restructuring charges

We incurred restructuring charges of approximately \$(0.1) million in 2014 compared to \$1.7 million in 2013. Refer to Note 10. Restructuring Charges to our consolidated financial statements for further information on our restructuring activities.

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Other Income (Expense)

Interest expense, net of interest capitalized for 2014 decreased \$21.6 million, or 24.9%, to \$65.3 million from \$86.9 million in 2013. The decrease was primarily due to lower interest rates and, to a lesser extent, a lower average debt level.

Other income for 2014 increased \$9.8 million or 192.1% to \$4.7 million from a loss of \$5.1 million in 2013. The increase was primarily due to the ineffectiveness of our fuel and interest rate swap agreements.

Net Yields

Net Yields increased 2.4% in 2014 compared to 2013 primarily due to the increase in passenger ticket revenues noted above. Net Yields increased 2.6% in 2014 compared to 2013 on a Constant Currency basis.

Net Cruise Costs

Net Cruise Costs increased 1.0% in 2014 compared to 2013 primarily due to the increase in capacity. Net Cruise Costs per APCD decreased 3.3% in 2014 compared to 2013 and decreased 3.6% in 2014 compared to 2013 on a Constant Currency basis primarily due to the decrease in commissions expense and vessel maintenance as noted above.

Net Cruise Costs Excluding Fuel

Net Cruise Costs Excluding Fuel per APCD decreased 4.2% in 2014 compared to 2013 and decreased 4.7% in 2014 compared to 2013 on a Constant Currency basis.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

In this section, references to 2014 refer to the six months ended June 30, 2014 and references to 2013 refer to the six months ended June 30, 2013.

Revenues

Total revenues for 2014 increased \$73.3 million, or 1.9%, to \$3.9 billion from 2013.

Passenger ticket revenues comprised 72.5% of our 2014 total revenues. Passenger ticket revenues increased by \$42.8 million, or 1.6%, to \$2.8 billion. The increase was primarily due to:

• a 2.5% increase in capacity, which increased Passenger ticket revenues by \$68.7 million; and

• an increase in ticket prices driven by greater demand for close-in European and Asian sailings, which was partially offset by a decrease in ticket prices for Caribbean sailings, all of which contributed to a \$14.3 million increase in Passenger ticket revenues.

The increase was partially offset by the unfavorable effect of changes in foreign currency exchange rates related to our passenger ticket revenue transactions denominated in currencies other than the United States dollar of approximately \$40.2 million.

The remaining 27.5% of 2014 total revenues was comprised of onboard and other revenues, which increased \$30.5 million, or 2.9%, to \$1.1 billion in 2014 from \$1.0 billion in 2013. The increase was primarily due to:

a \$23.3 million increase attributable to the 2.5% increase in capacity noted above;

a \$24.4 million increase in other revenue primarily attributable to an out-of-period adjustment of approximately \$13.9 million that was recorded in 2013 to correct the calculation of our liability for our credit card rewards program; and

an \$18.3 million increase in onboard revenue attributable to higher spending on a per passenger basis primarily due to the addition and promotion of specialty restaurants, the increased revenue associated with Internet and other telecommunication services and other onboard activities, as a result of our ship revitalization projects and other revenue enhancing initiatives. Onboard and other revenues included concession revenues of \$154.7 million in 2014 and \$151.7 million in 2013.

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The increase in onboard and other revenues was partially offset by a \$35.8 million decrease in revenues related to Pullmantur's non-core businesses that were sold in 2014 as noted above.

### Cruise Operating Expenses

Total cruise operating expenses increased \$28.8 million, or 1.1%, to \$2.6 billion. The increase was primarily due to:

- a \$62.8 million increase attributable to a 2.5% increase in capacity; and
- a \$14.1 million increase in air expense.

The increase was partially offset by:

- a \$29.0 million decrease in expenses related to Pullmantur's non-core businesses that were sold in 2014 as noted above; and
- a \$14.4 million decrease in commissions expense attributable to shifts in our distribution channels.

### Marketing, Selling and Administrative Expenses

Marketing, selling and administrative expenses increased \$19.3 million, or 3.6%, to \$551.3 million from \$532.0 million in 2013. The increase was primarily due to other costs associated with our restructuring activities.

### Depreciation and Amortization Expenses

Depreciation and amortization expenses for 2014 increased \$11.1 million, or 2.9%, to \$386.6 million from \$375.5 million in 2013. The increase was driven by new shipboard additions associated with our ship revitalization projects, the addition of our new reservations pricing engine in December of 2013 and the accelerated depreciation on leasehold improvements associated with our restructuring initiatives.

### Restructuring charges

Restructuring charges for 2014 and 2013 were \$1.7 million. Refer to Note 10. Restructuring Charges to our consolidated financial statements for further information on our restructuring activities.

### Other Income (Expense)

Interest expense, net of interest capitalized for 2014 decreased \$43.2 million, or 24.4%, to \$133.8 million from \$177.1 million in 2013. The decrease was primarily due to lower interest rates and, to a lesser extent, a lower average debt level.

Other expense for 2014 decreased \$7.1 million or 87.7% to a loss of \$1.0 million from a loss of \$8.1 million in 2013. The decrease was primarily due to the ineffectiveness of our interest rate swap agreements.

### Net Yields

Net Yields for 2014 was comparable to the same period in 2013. Net Yields increased 1.1% in 2014 compared to 2013 on a Constant Currency basis primarily due to the increase in passenger ticket revenues noted above.



Net Cruise Costs

Net Cruise Costs increased 1.2% in 2014 compared to 2013 primarily due to the increase in capacity noted above. Net Cruise Costs per APCD decreased 1.2% in 2014 compared to 2013 and decreased 1.1% in 2014 compared to 2013 on a Constant Currency basis primarily due to the decrease in commissions expense noted above.

Net Cruise Costs Excluding Fuel

Net Cruise Costs Excluding Fuel per APCD decreased 1.6% in 2014 compared to 2013 and decreased 1.7% in 2014 compared to 2013 on a Constant Currency basis.

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## 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 \$208.1 million to \$880.9 million for the first six months of 2014 compared to \$672.8 million for the same period in 2013. The change in cash provided by operating activities was primarily attributable to a \$138.0 million increase in cash receipts from customer deposits and the timing of payments to vendors in 2014 as compared to 2013.

Net cash used in investing activities was \$325.8 million for the first six months of 2014 compared to \$444.9 million for the same period in 2013. During the first six months of 2014, our use of cash was primarily related to capital expenditures of \$342.5 million compared to \$396.1 million for the same period in 2013, contributing to a \$53.6 million decrease. The decrease was also attributable to cash received from loan to an unconsolidated affiliate of \$66.1 million in 2014 compared to receipts of \$12.0 million in 2013 and cash received on settlement of derivative financial instruments of \$18.1 million in 2014 compared to cash paid of \$25.8 million in 2013. The decreases were primarily offset by an increase in investments in unconsolidated affiliates of \$33.1 million.

Net cash used in financing activities was \$575.0 million for the first six months of 2014 compared to \$217.8 million for the same period in 2013. This change was primarily due to an increase of \$664.1 million in repayments of debt and an increase of dividends paid of \$77.8 million, partially offset by a \$326.7 million increase in debt proceeds and a \$48.0 million increase in the proceeds from the exercise of common stock options. The increase in repayments of debt and proceeds from issuance of debt was primarily due to the payment at maturity of our €745.0 million 5.625% unsecured senior notes with proceeds from our revolving credit facilities and drawing in full on our \$380.0 million unsecured term loan facility during the six months of 2014.

## Future Capital Commitments

## Capital Expenditures

Our brands, including our 50% joint venture, TUI Cruises, have five ships on order. As of June 30, 2014, the expected dates that our ships on order will enter service and their approximate berths are as follows:

| Ship   | Expected to Enter Service | Approximate Berths |
|--|---------------------------|--------------------|
| Royal Caribbean International —                |                           |                    |
| Quantum-class:                                 |                           |                    |
| Quantum of the Seas                            | 4th Quarter 2014          | 4,150              |
| Anthem of the Seas                             | 2nd Quarter 2015          | 4,150              |
| Unnamed  | 2nd Quarter 2016          | 4,150              |
| Oasis-class:                                   |                           |                    |
| Unnamed  | 2nd Quarter 2016          | 5,450              |
| TUI Cruises (50% joint venture) <sup>(1)</sup> |                           |                    |
| Mein Schiff 4                                  | 2nd Quarter 2015          | 2,500              |
|  | Total Berths              | 20,400             |

(1) Mein Schiff 3 was placed into service during the second quarter of 2014.

Our future capital commitments consist primarily of new ship orders. As of June 30, 2014, we had three Quantum-class ships and one Oasis-class ships on order for our Royal Caribbean International brand with an aggregate capacity of approximately 17,900 berths. During the second quarter of 2014, we reached a conditional agreement with STX France to build the fourth Oasis-class ship for Royal Caribbean International. This agreement is subject to certain conditions to effectiveness expected to occur in the third quarter of 2014.

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As of June 30, 2014, the aggregate cost of our four ships on order (excluding TUI Cruises' Mein Schiff 4) was approximately \$4.8 billion, of which we had deposited \$525.4 million as of such date. Approximately 16.3% of the aggregate cost was exposed to fluctuations in the Euro exchange rate at June 30, 2014. (See Note 6. Commitments and Contingencies and Note 9. Fair Value Measurements and Derivative Instruments to our consolidated financial statements under Item 1. Financial Statements).

As of June 30, 2014, we anticipate overall full year capital expenditures will be approximately \$1.4 billion for 2014, \$1.4 billion for 2015, \$2.2 billion for 2016, \$0.3 billion for 2017 and \$1.5 billion for 2018, taking into account our conditional agreement for the construction of the fourth Oasis-class ship for Royal Caribbean International.

## Contractual Obligations

As of June 30, 2014, 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)(2)</sup> | \$436,964              | \$40,433            | \$73,263     | \$65,327     | \$257,941            |
| Interest on long-term debt <sup>(3)</sup>     | 1,063,695              | 229,947             | 320,598      | 190,901      | 322,249              |
| Other <sup>(4)</sup>                          | 859,529                | 189,782             | 276,163      | 206,537      | 187,047              |
| Investing Activities:                         | 0                      |                     |              |              |                      |
| Ship purchase obligations <sup>(5)</sup>      | 3,618,736              | 1,709,726           | 1,909,010    | —            | —                    |
| Other <sup>(6)</sup>                          | 80,229                 | 80,229              | —            | —            | —                    |
| Financing Activities:                         | 0                      |                     |              |              |                      |
| Long-term debt obligations <sup>(7)</sup>     | 7,538,280              | 485,894             | 2,503,770    | 2,258,318    | 2,290,298            |
| Capital lease obligations <sup>(8)</sup>      | 55,568                 | 8,685               | 12,238       | 6,832        | 27,813               |
| Other <sup>(9)</sup>                          | 98,712                 | 26,160              | 40,157       | 22,692       | 9,703                |
| Total   | \$13,751,713           | \$2,770,856         | \$5,135,199  | \$2,750,607  | \$3,095,051          |

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

(2) Under the Brilliance of the Seas lease agreement, we may be required to make a termination payment of approximately £62.6 million, or approximately \$107.1 million based on the exchange rate at June 30, 2014, if the lease is canceled in 2020. This amount is included in the more than 5 years column. Interest on the Brilliance of the Seas lease agreement is calculated based on the applicable variable interest rate at June 30, 2014.

(3) Long-term debt obligations mature at various dates through fiscal year 2027 and bear interest at fixed and variable rates. Interest on variable-rate debt is calculated based on forecasted debt balances, including interest swapped using the applicable rate at June 30, 2014. Debt denominated in other currencies is calculated based on the applicable exchange rate at June 30, 2014.

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

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

(6) Amount represents unused commitment on loan to unconsolidated affiliate.

(7) Amounts represent debt obligations with initial terms in excess of one year.

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

(9) 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.

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,

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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

In July 2002, we entered into an operating lease denominated in British pound sterling for the Brilliance of the Seas. The lease payments vary based on sterling LIBOR and are included in other operating expenses in our consolidated statements of comprehensive income (loss). Brilliance of the Seas lease expense amounts were approximately £3.1 million and £3.1 million, or approximately \$5.3 million and \$4.8 million, for the quarters ended June 30, 2014 and June 30, 2013, respectively, and were approximately £6.2 million and £6.1 million, or approximately \$10.4 million and \$9.3 million for the six months ended June 30, 2014 and June 30, 2013, respectively. The lease has a contractual life of 25 years; however, both the lessor and we have certain rights to cancel the lease at year 18 (i.e. 2020) upon advance notice given approximately one year prior to cancellation. In the event of early termination at year 18, we have the option to cause the sale of the vessel at its fair value and to use the proceeds towards the applicable termination payment. Alternatively, we could opt at such time to make a termination payment of approximately £62.6 million, or approximately \$107.1 million based on the exchange rate at June 30, 2014 and relinquish our right to cause the sale of the vessel. Under current circumstances we do not believe early termination of this lease is probable.

Under the Brilliance of the Seas operating lease, we have agreed to indemnify the lessor to the extent its after-tax return is negatively impacted by unfavorable changes in corporate tax rates, capital allowance deductions and certain unfavorable determinations which may be made by United Kingdom tax authorities. These indemnifications could result in an increase in our lease payments. We are unable to estimate the maximum potential increase in our lease payments due to the various circumstances, timing or a combination of events that could trigger such indemnifications. The United Kingdom tax authorities are disputing the lessor's accounting treatment of the lease and the lessor and tax authorities are in discussions on the matter. If the characterization of the lease is ultimately determined to be incorrect, we could be required to indemnify the lessor under certain circumstances. The lessor has advised us that they believe their characterization of the lease is correct. Based on the foregoing and our review of available information, we do not believe an indemnification payment is probable. However, if the lessor loses its dispute and we are required to indemnify the lessor, we cannot at this time predict the impact that such an occurrence would have on our financial condition and results of operations.

In connection with the sale of Celebrity Mercury in February 2011, we and TUI AG have each guaranteed repayment of 50% of an €180.0 million amortizing bank loan provided to TUI Cruises which is due 2016. As of June 30, 2014, €126.0 million, or approximately \$172.5 million based on the exchange rate at June 30, 2014, remains outstanding. Based on current facts and circumstances, we do not believe potential obligations under this guarantee are probable.

TUI Cruises entered into a construction agreement with STX Finland that includes certain restrictions on each of our and TUI AG's ability to reduce our current ownership interest in TUI Cruises below 37.5% through the construction period for the second TUI newbuild vessel. In addition, the credit agreements for the financing of TUI's first and second newbuilds extend this restriction through 2019.

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.

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, 2014, we have approximately \$2.8 billion in contractual obligations due through June 30, 2015 of which approximately \$485.9 million relates to debt maturities and \$1.7 billion relates to the acquisition of Quantum of the Seas and Anthem of the Seas along with progress payments on our other ship purchases. We have historically relied on a combination of cash flows provided by operations, drawdowns under our available credit facilities,

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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 \$2.6 billion as of June 30, 2014 as compared to a working capital deficit of \$3.3 billion as of December 31, 2013. Included within our working capital deficit is \$494.6 million and \$1.6 billion of current portion of long-term debt, including capital leases, as of June 30, 2014 and December 31, 2013, respectively. The decrease in working capital deficit was primarily due to the decrease in current maturities of long-term debt. 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, 2014, we have on order three Quantum-class ships and one Oasis-class ship each of which has committed unsecured bank financing arrangements which include sovereign financing guarantees. In addition, we have a conditional agreement to build the fourth Oasis-class ship where we are negotiating bank financing arrangements. Refer to Note 6. Commitments and Contingencies for further information.

In January 2014, we repaid our €745.0 million 5.625% unsecured senior notes with proceeds from our \$380.0 million unsecured term loan facility and our revolving credit facilities. Additionally, in March 2014, we amended our unsecured term loans for Oasis of the Seas and Allure of the Seas primarily to reduce the margins on those facilities and eliminate the lenders option to exit those facilities in 2015 and 2017, respectively. Refer to Note 4. Long-Term Debt for further information.

As of June 30, 2014, our liquidity was \$1.1 billion, consisting of approximately \$185.3 million in cash and cash equivalents and \$873.8 million 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.

We continue our implementation of a broad profitability improvement program with initiatives aimed at improving our returns on invested capital. One of those initiatives, commenced in the third quarter of 2013, relates to realizing economies of scale and improving service delivery to our travel partners and guests by restructuring and consolidating our global sales, marketing and general and administrative structure. A second initiative, commenced in the fourth quarter of 2013, relates to Pullmantur's focus on its cruise business and expansion in Latin America. We expect to incur an estimated remaining amount of \$15 million of cash outlays, mostly through the end of 2014, to complete these initiatives. We believe the cash outlays will be offset by increased cash inflows from the expected cost savings.

We also continue to implement a number of initiatives to reduce energy consumption and, by extension, fuel costs. These include the design of more fuel efficient ships and the implementation of other hardware and energy efficiencies.

If (i) any person other than A. Wilhelmsen AS. and Cruise Associates and their respective affiliates (the "Applicable Group") acquires ownership of more than 33% of our common stock and the Applicable Group owns less of our



common stock than such person, or (ii) subject to certain exceptions, during any 24-month period, a majority of the Board is no longer comprised of individuals who were members of the Board on the first day of such period, we may be obligated to prepay indebtedness outstanding under the majority of our credit facilities, which we may be unable to replace on similar terms. Certain of our outstanding debt securities also contain change of control provisions that would be triggered by the acquisition of greater than 50% of our common stock by a person other than a member of the Applicable Group 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 \$5.9 billion, a fixed charge coverage ratio of at least 1.25x and limit our net debt-to-capital ratio to no more than 62.5%. The fixed charge coverage ratio is calculated by dividing net cash from operations for the past four quarters by the sum of dividend payments plus scheduled principal debt payments in excess of any new financings for the past four quarters. Our minimum net

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worth and maximum net debt-to-capital calculations exclude the impact of Accumulated other comprehensive (loss) income on total shareholders' equity. We are well in excess of all debt covenant requirements as of June 30, 2014. 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.

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, 2013. 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 Senior Vice President, 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 Senior Vice President, 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 Senior Vice President, 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.

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 paragraph (d) of Exchange Act Rule 13a-15 during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2013, a class action complaint was filed in June 2011 against Royal Caribbean Cruises Ltd. in the United States District Court for the Southern District of Florida on behalf of a purported class of stateroom attendants employed onboard Royal Caribbean International cruise vessels. The complaint alleges that the stateroom attendants were required to pay other crew members to help with their duties and that certain stateroom attendants were required to work back of house assignments without the ability to earn gratuities, in each case in violation of the U.S. Seaman's Wage Act. Plaintiffs seek judgments for damages, wage penalties and interest in an indeterminate amount. In May 2012, the Court granted our motion to dismiss the complaint on the basis that the applicable collective bargaining agreement requires any such claims to be arbitrated. The United States Court of Appeals, 11th Circuit affirmed the Court's dismissal and denied Plaintiff's petition for re-hearing and re-hearing en banc. We believe the underlying claims made against us are without merit, and we intend to vigorously defend ourselves against them. Because of the inherent uncertainty as to the outcome of this proceeding, we are unable at this time to estimate the possible impact of this matter on us.

We are also routinely involved in other 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 that affect our business and financial results are discussed in "Item 1A. Risk Factors" in the 2013 Annual Report on Form 10-K and there has been no material change to these risk factors since previously disclosed. We wish to caution the reader that the risk factors discussed in "Item 1A. Risk Factors" in our 2013 Annual Report on Form 10-K, and those described elsewhere in this report or other Securities and Exchange Commission filings, could cause future results to differ materially from those stated in any forward-looking statements.

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Item 6. Exhibits

- 10.1 Royal Caribbean Cruises Ltd. Executive Short-Term Bonus Plan dated as of September 12, 2008, as amended.\*
- 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 Senior Vice President, 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 Senior Vice President, 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\*\*

\* Filed herewith

\*\* Furnished herewith

Interactive Data File

101 The following financial statements from Royal Caribbean Cruises Ltd.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, as filed with the SEC on July 24, 2014, formatted in XBRL, as follows:

- (i) the Consolidated Statements of Comprehensive Income (Loss) for the quarter ended June 30, 2014 and 2013;
- (ii) the Consolidated Statements of Comprehensive Income (Loss) for the six months ended June 30, 2014 and 2013;
- (iii) the Consolidated Balance Sheets at June 30, 2014 and December 31, 2013;
- (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013; and
- (v) 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  
Senior Vice President,  
Chief Financial Officer  
(Principal Financial Officer and duly authorized  
signatory)

Date: July 24, 2014