

ROYAL CARIBBEAN CRUISES LTD  
Form 20-F  
March 15, 2004

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the year ended December 31, 2003**  
**OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 1-11884

**ROYAL CARIBBEAN CRUISES LTD.**

(Exact name of Registrant as specified in its charter)

**Republic of Liberia**

(Jurisdiction of incorporation or organization)

**1050 Caribbean Way, Miami, Florida 33132**

(Address of principal executive offices)

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

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2003, the Registrant had outstanding 196,106,658 shares of common

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stock, par value \$.01 per share.

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

Yes  No

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

Item 17  Item 18

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## ROYAL CARIBBEAN CRUISES LTD.

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**PART I**

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

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

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

The following selected financial data are for each of the years in the period 1999 through 2003 and as of the end of each such year. The financial information presented for years 2003, 2002 and 2001 and as of the end of years 2003 and 2002 is derived from our audited financial statements and should be read together with such financial statements and the related notes included elsewhere herein.

**Year Ended December 31,**

	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>(in thousands, except per share data)</b>					
<b>Operating Data:</b>					
Total revenues	\$ 3,784,249	\$ 3,434,347	\$ 3,145,250	\$ 2,865,846	\$ 2,546,152
Operating income	526,185	550,975	455,605	569,540	480,174
Net income	280,664	351,284	254,457	445,363	383,853
<b>Per Share Data Diluted:</b>					
Operating income	\$ 2.67	\$ 2.81	\$ 2.35	\$ 2.95	\$ 2.58
Net income	\$ 1.42	\$ 1.79	\$ 1.32	\$ 2.31	\$ 2.06
Weighted-average shares and potentially dilutive shares	197,341	195,731	193,481	192,935	186,456
Dividends declared per common share	\$ 0.52	\$ 0.52	\$ 0.52	\$ 0.48	\$ 0.40
<b>Balance Sheet Data:</b>					
Total assets	\$ 11,322,742	\$ 10,538,531	\$ 10,368,782	\$ 7,828,465	\$ 6,380,511
Total debt, including capital leases	5,835,804	5,444,838	5,646,112	3,410,096	2,342,177
Common stock	1,961	1,930	1,923	1,921	1,812

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Total shareholders' equity	4,262,897	4,034,694	3,756,584	3,615,915	3,261,156
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### Risk Factors

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

*We may lose business to competitors throughout the vacation market*

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

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

In April 2003, Carnival Corporation and P&O Princess Cruises plc combined their companies. The combined companies have a wide portfolio of cruise brands and could have stronger financial flexibility and greater access to capital markets than each previously had on an uncombined basis. The combined companies may also have better access to the travel agency distribution network and to berthing facilities in various ports throughout the world. These factors may make it more difficult for us to compete effectively within the cruise vacation market.

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

*Overcapacity within the cruise vacation industry, a reduction in demand or geo-political and economic uncertainties could have a negative impact on revenues, result in impairment of assets and may adversely affect profitability*

Cruising capacity has grown in recent years and we expect it to increase further as the major cruise vacation companies introduce new ships. Demand for cruises has been and is expected to continue to be dependent on the strength of the economies in the countries in which we market our products, the public's attitude towards the safety of travel and the geo-political climate. Economic or political changes may affect demand for cruise vacations and may lead to reduced occupancy and/or price discounting which, in turn, could adversely affect our results of operations and financial condition and could result in impairment of our asset values.

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

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

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

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

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

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

To fund our capital expenditures and scheduled debt payments, we rely on a combination of cash flows provided by operations, drawdowns under our available credit facilities, the incurrence of additional indebtedness and the sales of equity or debt securities in private or public securities markets. Our credit ratings impact our ability to obtain financing in financial markets and the terms of the financing. Any lowering of our credit ratings may have adverse consequences on our ability to access the financial markets and/or on our cost of financings. In addition, interest rates and our ability to obtain financing are dependent on many economic and political factors beyond our control. Accordingly, we cannot be sure that our cash flows from operations and additional financings will be available in accordance with our expectations.

*Conducting business internationally may result in increased costs*

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

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

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

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

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

*Unavailability of ports of call may adversely affect our profits*

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

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

We and a number of our subsidiaries are foreign corporations that derive income from a United States trade or business and/or from sources within the United States. Drinker Biddle & Reath LLP, our United States tax counsel, has delivered to us an opinion to the effect that this income, to the extent derived from or incidental to the international operation of a ship or ships, is exempt from United States income tax pursuant to Section 883 of the Internal Revenue Code. We believe that the bulk of our income (including that of our subsidiaries) is derived from or incidental to the international operation of a ship or ships. In 2003, final regulations under Section 883 were issued, which narrowed the scope of activities that are considered by the Internal Revenue Service to be incidental to the international operation of ships. Because the regulations are new, the scope of such income that will not qualify for exemption under Section 883 is not clear. (See *Outlook* under Item 5. *Operating and Financial Review and Prospects*.)

It should be noted that the provisions of Section 883 are subject to change at any time by legislation. Moreover, changes could occur in the future with respect to the identity, residence, or holdings of our direct or indirect shareholders that could affect our eligibility for the Section 883 exemption. Accordingly, there can be no assurance that we will continue to be exempt from United States income tax on United States source shipping income in the future. If we were not entitled to the benefit of Section 883, we and our subsidiaries would be subject to United States taxation on a portion of the income derived from or incidental to the international operation of our ships, which would reduce our net income. See *Taxation of the Company* within Item 4. for a discussion of such taxation in the absence of an exemption under Section 883.

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

As of February 27, 2004, A. Wilhelmsen AS., a Norwegian corporation indirectly owned by members of the Wilhelmsen family of Norway, owned approximately 21.7% of our common stock and Cruise Associates, a Bahamian general partnership indirectly owned by various trusts primarily for the benefit of certain members of the Pritzker family and various trusts primarily for the benefit of certain members of the Ofer family, owned approximately 24.4% of our common stock. A. Wilhelmsen AS. and Cruise Associates have the power to determine, among other things:

- our policies and the policies of our subsidiaries,
- the persons who will be our directors and officers, and
- actions requiring shareholder approval.

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

- four nominees of A. Wilhelmsen AS.,
- four nominees of Cruise Associates and
- our Chief Executive Officer.

During the term of the shareholders' agreement, certain corporate actions require the approval of at least one director nominated by A. Wilhelmsen AS. and one director nominated by Cruise Associates. Our principal shareholders are not prohibited from engaging in a business that may compete with our business, subject to certain exceptions. If A. Wilhelmsen AS. and Cruise Associates cease to own a specified percentage of our common stock, 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. If this were to occur, it could have an adverse impact on our operations and liquidity.

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

A substantial number of shares of our common stock were either issued by us in private transactions not involving a public offering and are therefore treated as restricted securities for purposes of Rule 144 under the Securities Act of 1933 (the

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Securities Act ) or are held by our affiliates and, therefore, treated as restricted securities . These shares include the 42,966,472 shares of our common stock held by A. Wilhelmsen AS. and the 48,281,900 held by Cruise Associates. No predictions can be made as to the effect, if any, that market sales of such shares, or the availability of such shares for future market sales, will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of our common stock, or the perceptions that such sales could occur, could materially adversely affect the prevailing market price for our common stock and could impair our ability to raise capital through an offering of equity securities. Each of A. Wilhelmsen AS. and Cruise Associates has the right, pursuant to a registration rights agreement, to require us, subject to certain qualifications, to effect the registration under the Securities Act of all or a part of their shares of common stock. (See *Share Ownership* under Item 6. and Item 7. *Major Shareholders and Related Party Transactions*.)

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

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

### **Item 4. Information on the Company**

#### **History and Development of the Company**

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

We are the world's second largest cruise company with 28 cruise ships with 58,448 berths.

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

#### **Business Overview**

##### *General*

We operate two brands, Royal Caribbean International and Celebrity Cruises. Our brands offer a wide array of onboard activities, services and amenities, including swimming pools, sun decks, beauty salons, exercise and spa facilities, ice skating rinks, in-line skating, basketball courts, rock climbing walls, miniature golf courses, gaming facilities, lounges, bars, Las Vegas-style entertainment, cinemas and Royal Promenades which include interior shopping, dining and an entertainment boulevard.

Our ships operate on a selection of worldwide itineraries that call on approximately 160 destinations. We compete principally on the basis of quality of ships, quality of service, variety of itineraries and price.

*Royal Caribbean International Brand*

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Royal Caribbean International serves the volume cruise vacation sector, which we categorize as the contemporary and premium segments. The contemporary segment is served by cruises that are generally seven nights or shorter and feature a casual ambiance. The premium segment is served by cruises that are generally seven to 14 nights and appeal to the more experienced passenger who is usually more affluent. The brand operates 18 cruise ships with 41,994 berths, offering various cruise itineraries that range from two to 14 nights and call on destinations throughout the world.

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

### *Celebrity Cruises Brand*

Celebrity Cruises primarily serves the premium segment. Celebrity Cruises operates 10 cruise ships with 16,454 berths and offers various cruise itineraries that range from two to 16 nights.

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

### **Industry**

Since 1970, cruising has been one of the fastest growing sectors of the vacation market, as the number of North American passengers has grown to an estimated 8.2 million in 2003 from 0.5 million in 1970, a compound annual growth rate of approximately 9%. We have sought to capitalize on the increasing popularity of cruises through an extensive fleet expansion program.

According to our estimates, the North American market was served by an estimated 103 cruise ships with approximately 125,900 berths at the end of 1998. We estimate that this capacity has increased to approximately 195,700 berths on 131 ships by the end of 2003. The increase in capacity over the last five years is net of approximately 31 ships with approximately 26,000 berths that have either been retired or moved out of the North American market. There are a number of cruise ships on order with an estimated 35,900 berths which will be placed in service between 2004 and 2006.

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

<b>Year</b>	<b>North American Cruise Passengers (1)</b>	<b>Weighted-Average Supply of Berths Marketed in North America (2)</b>
1999	5,894,000	130,152
2000	6,886,000	144,499
2001	6,906,000	151,690
2002	7,640,000	163,187



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Year	North American Cruise Passengers (1)	Weighted-Average Supply of Berths Marketed in North America (2)
2003	8,195,000	182,698

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

(2) Source: Our estimates.

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

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

### Operating Strategies

Our principal operating strategies are to:

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

### Brand Awareness

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

We have positioned the Royal Caribbean International brand in the contemporary and premium segments of the cruise vacation sector. As such, Royal Caribbean International focuses on providing multiple choices to its passengers through a variety of itineraries, accommodations, dining options, ship activities and shore excursions. Hallmarks of the brand include friendly and engaging service, modern ships, family programs, entertainment, health and fitness and energizing onboard and shoreside activities designed for passengers of all ages. Royal Caribbean International was named Best Overall Cruise Line in the 2003 *Travel Weekly* First Annual Readers' Choice Awards which surveyed more than 2,200 travel professionals. The brand was also acclaimed for having the best large ship, onboard entertainment and food in *Recommend* magazine's Seventh Annual Readers' Choice Awards. In addition, *Porthole Cruise Magazine* named Royal Caribbean International as the leader in three categories in their Fifth Annual Readers' Choice Awards: Best Caribbean Itineraries, Best Eco-Friendly Cruise Line and Best

Computer Facilities.

We have positioned the Celebrity Cruises brand in the premium segment of the cruise vacation sector. The brand places emphasis on its gourmet dining, impeccable service, large staterooms, a high staff-to-passenger ratio and luxurious spa facilities offering a taste of luxury. Recently, the brand introduced the Celebrity ConciergeClass, an enhanced level of accommodations featuring new amenities and priority services. Celebrity Cruises has been honored in the annual *Condé Nast Traveler's* Best Cruise Ships in the World readers' poll for the large ship category, with *Constellation* receiving the top award. All of Celebrity Cruises' large ships, seven in total, ranked in the top 10. Furthermore, certain Celebrity Cruises' ships received the poll's highest rating in the service, design and food criteria. In addition, several of Celebrity Cruises' concierges have become the first hoteliers in the premium cruise sector to receive the prestigious Les Clefs D'Or, the crossed golden keys signifying a provider of extraordinary service.

In January 2004, Celebrity Cruises launched Celebrity Xpeditions, a series of unique, upscale experiences designed to differentiate and elevate the Celebrity Cruises brand within the premium cruise segment. A Celebrity Xpedition may be experienced as part of the cruise vacation or as a separate itinerary. The first of these limited-capacity experiences offers itineraries to the Galapagos Islands, aboard a 100-berth ship named *Xpedition*.

Royal Celebrity Tours completed its third year of operations offering fully escorted, premium land tour packages in Alaska, British Columbia and Europe. Tour itineraries include travel by deluxe motorcoach and/or Wilderness Express traincars.

*Fleet Expansion*

We believe our combined fleet is one of the youngest of any major cruise company. Based on the ships currently on order, our December 31, 2004 capacity is expected to increase to 60,560 berths. We have increased our average ship size and number of available berths, which has enabled us to achieve certain economies of scale. Larger ships allow us to

transport more passengers than smaller ships without a corresponding increase in certain operating expenses. This increase in fleet size also provides a larger revenue base to absorb our marketing, selling and administrative expenses.

*Royal Caribbean International.* Founded in 1968, Royal Caribbean International was the first cruise line to design ships especially for warm water year-round cruising. Royal Caribbean International operated a modern fleet in the 1970's and early 1980's, establishing a reputation for high quality. Between 1988 and 1992, the brand tripled its capacity by embarking on its first major capital expansion program. Royal Caribbean International completed its second capital expansion program by taking delivery of six Vision-class ships, ranging in size from 1,804 to 2,000 berths, from 1995 through 1998. During this same period, Royal Caribbean International sold four of its original ships because these ships were older in age and design and no longer consistent with its image and marketing strategy.

Royal Caribbean International began its third capital expansion program with orders for five Voyager-class ships and four Radiance-class ships. The Voyager-class ships, *Voyager of the Seas*, *Explorer of the Seas*, *Adventure of the Seas*, *Navigator of the Seas* and *Mariner of the Seas*, were placed in service from 1999 through 2003. Each ship is approximately 140,000 gross tons with 3,114 berths. This class of ships is designed to provide more diverse vacation options for families and for those seeking active sports and entertainment alternatives during their vacation experience. Each Voyager-class ship has a variety of unique features: the cruise industry's first horizontal atrium, the Royal Promenade (which is four decks tall, longer than a football field and provides entertainment, shopping and dining experiences), recreational activities such as ice skating, in-line skating, rock climbing, miniature golf and full court basketball, enhanced staterooms, expanded dining options and a variety of intimate spaces.

Royal Caribbean International will complete its third capital expansion program with the delivery of its last Radiance-class ship, *Jewel of the Seas*, in the second quarter of 2004. The brand introduced its other three Radiance-class ships, *Radiance of the Seas*, *Brilliance of the Seas* and *Serenade of the Seas*, in 2001, 2002 and 2003, respectively. The Radiance-class ships (approximately 90,000 gross tons each) are a progression from the brand's Vision-class ships and have approximately 2,100 berths each. The Radiance-class ships incorporate many of the dining and entertainment options of the Voyager-class ships, as well as offer a wide array of unique features. These features include panoramic glass elevators facing outward to the sea, floor to ceiling glass windows offering spectacular sea views and a billiards club featuring gyroscopic billiard tables.

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Building on the success of our Voyager-class ships, in September 2003, we entered into an agreement with a shipyard to purchase an Ultra-Voyager ship designated for the Royal Caribbean International fleet. The Ultra-Voyager will be approximately 15% larger than the Voyager-class with approximately 3,600 berths. The Ultra-Voyager is scheduled for delivery in the second quarter of 2006. We also have an option, exercisable through August 2004, to purchase an additional Ultra-Voyager ship for delivery, subject to certain conditions, in 2007.

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

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

### *Fleet Innovation*

We place a strong focus on product innovation, not only for stimulating repeat business, but also for driving new demand for our products. The Voyager, Radiance and Millennium-class ships introduced several product innovations to the marketplace, and our brands have begun to adopt these innovations as signature elements. For example, rock climbing walls reflect Royal Caribbean International's focus on active vacationers, while world class spa facilities reflect Celebrity Cruises' focus on savvy, discerning travelers. In order to offer passengers a wider range of activities and amenities and to ensure consistency across our fleets, we have embarked on a program of revitalizing our older ships to update and refresh their interiors and to incorporate signature brand elements. We revitalized *Monarch of the Seas* in 2003 by upgrading passenger staterooms and public areas and by adding new dining venues and a rock climbing wall. We announced in February 2004 that *Empress of the Seas* would undergo renovations during 2004.

### *New Markets and Itineraries*

Our ships operate worldwide with a selection of itineraries that call on approximately 160 ports. New ships allow us to expand into new destinations, itineraries and markets. Both Royal Caribbean International and Celebrity Cruises have added new itineraries departing from major United States drive markets. Both brands have expanded their mix of itineraries in Alaska and Europe and are now offering a wide variety of cruise tours from these destinations in order to provide vacationers with a much broader range of product options. Recently, we launched Celebrity Xpeditions with sailings to the Galapagos Islands.

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

### *International Passengers*

Although the majority of our passengers continue to originate from the United States, international passengers represent an important segment of our business. We sell and market the Royal Caribbean International and Celebrity Cruises brands to international passengers through our offices in London, Frankfurt, Oslo and Genoa and through a network of 42 independent international representatives located throughout the world. In order to accommodate the needs of international passengers, we have made selected adjustments to our onboard product and service, including the use of multi-lingual service staff on ships with a high mix of international passengers. International passengers have grown from approximately 213,000 in 1998 to approximately 455,000 in 2003. See Note 2. of the *Notes to the Consolidated Financial Statements* for additional information.

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on total revenues by geographic area for each of the last three years.

In connection with our international strategy, we have a multi-faceted strategic alliance with First Choice Holidays PLC ( First Choice ), one of the United Kingdom s largest integrated tour operators. First Choice now provides both brands with a significantly larger distribution base in the United Kingdom and access to First Choice s significant retail outlets. Separately, we are party to a joint venture with First Choice which operates a cruise brand, Island Cruises, that offers itineraries designed to attract international passengers. Island Cruises operates a 1,512-berth ship sailing under the name *Island Escape*.

### *Revenue Management*

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

### *Technological Development*

We continue to invest in information technology to support our corporate infrastructure and passenger and travel trade relations. Both Royal Caribbean International and Celebrity Cruises have extensive websites that are world-class marketing portals with consumer booking engines, providing access to millions of Internet users throughout the world. We have streamlined our documentation process by providing cruise-only passengers with electronic documents accessible online. We also offer passengers the ability to complete their embarkation forms online prior to the embarkation date and have automated our pierside embarkation process. To further enhance our customer service, we have provided online access so passengers can book shore excursions via our websites. We recently launched a new website for Royal Caribbean International, which dramatically improves the ease of use and distribution of multimedia marketing information to our current and potential customers. Additionally, we have implemented a customer relationship management tool, which further improves our ability to respond to passenger and travel agent inquiries in a timely and accurate manner. Other innovations include *Royal Caribbean online*(SM) and *online@celebritycruises*(SM), which allow passengers access to the Internet while onboard our ships. We have installed interactive televisions in passenger staterooms on most ships, enabling passengers to shop for shore excursions, select a dinner wine and monitor their onboard accounts. In addition, we introduced automation in the management of dining, which integrates passenger dining preferences from the booking process to the onboard delivery experience. For the trade, we have *cruisingpower.com*, a website dedicated to Internet communications with the travel community, which enables fast access to online tools. These online tools include *CruiseMatch® Online*, an Internet browser-based booking system, *CruisePay*(SM), an online payment service, *Insight*, a booking summary report and *Cruise Writer*(SM), which provides the capability to customize brochures and flyers.

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### *Travel Agency Support*

Independent travel agencies generate the majority of the bookings for our ships and we are committed to further developing and strengthening this very important distribution channel. Royal Caribbean International and Celebrity Cruises continue to have a large sales force, the majority of which is dual branded, that focuses on assisting travel agencies in growing and developing their business. Both brands provide cooperative marketing support to agencies, as well as strong training programs. New channel management programs have been instituted to increase focus and support all high growth areas such as homebased, Internet, corporate and incentive agencies. For our key accounts, we have moved from a sales force representing both Royal Caribbean International and Celebrity Cruises to separate brand champions dedicated to each brand. We offer an automated reservations system, *CruiseMatch® Online*, which allows travel agents direct access to our computer reservation system for bookings with both brands. We have customer service representatives that are trained to assist travel agents in providing a higher level of service and *Insight*, the first Internet service tool of its kind in the industry, which assists agencies with productivity and enhances customer service. We operate two reservation call centers, one in Miami, Florida and the other in Wichita, Kansas, thereby offering flexibility and extended hours of operations.

### **Sales, Marketing and Passenger Services**

Royal Caribbean International has a comprehensive marketing program which positions the brand as providing high quality, excellent value cruise vacations. Royal Caribbean International s marketing strategies focus on active adults and

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families who are vacation enthusiasts interested in exploring new destinations, seeking new experiences and having a real "lust for life". The Crown & Anchor Society loyalty program includes such benefits as the award-winning *Crown & Anchor* magazine, special cruise offers and onboard amenities.

Celebrity Cruises has enhanced its brand image with a series of cutting-edge, fully integrated consumer campaigns designed to build awareness and bookings. Marketing strategies deliver the brand message to experienced travelers who appreciate quality and value in the ultimate premium cruise experience, with a taste of luxury. The Captain's Club loyalty program has been enhanced to reward the most loyal Celebrity Cruises passengers by offering special services and amenities. Membership in the Captain's Club has doubled over the past year and continues to be a marketing focus as these passengers are far more likely to cruise again with Celebrity Cruises than non-members.

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

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### Operations

#### *Cruise Ships and Itineraries*

We operate 28 ships, under two brands, on a selection of worldwide itineraries ranging from two to 16 nights that call on approximately 160 destinations. The following table represents summary information concerning our ships and their areas of operation based on 2004 itineraries (subject to change):

Ship	Year Ship Entered Service	Berths	Primary Areas of Operation
<b>Royal Caribbean International</b>			
<i>Jewel of the Seas</i> (1)	2004	2,112	Eastern/Western Caribbean, Canada/New England, Europe
<i>Mariner of the Seas</i>	2003	3,114	Eastern/Western Caribbean
<i>Serenade of the Seas</i>	2003	2,112	Alaska, Southern Caribbean, Panama Canal, Hawaii
<i>Navigator of the Seas</i>	2002	3,114	Eastern/Western Caribbean
<i>Brilliance of the Seas</i>	2002	2,110	Caribbean, Europe, Panama Canal
<i>Adventure of the Seas</i>	2001	3,114	Southern Caribbean
<i>Radiance of the Seas</i>	2001	2,110	Eastern/Western Caribbean, Pacific Northwest, Alaska, Hawaii, Panama Canal
<i>Explorer of the Seas</i>	2000	3,114	Eastern/Western Caribbean
<i>Voyager of the Seas</i>	1999	3,114	Eastern/Western Caribbean, Canada
<i>Vision of the Seas</i>	1998	2,000	Hawaii, Alaska, Mexican Riviera, Pacific Northwest

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<i>Enchantment of the Seas</i>	1997	1,950	Western Caribbean
<i>Rhapsody of the Seas</i>	1997	2,000	Western Caribbean
<i>Grandeur of the Seas</i>	1996	1,950	Caribbean, Bahamas, Canada/NewEngland
<i>Splendour of the Seas</i>	1996	1,804	Caribbean, Panama Canal, Europe
<i>Legend of the Seas</i>	1995	1,804	Hawaii, Mexican Riviera, Panama Canal
<i>Majesty of the Seas</i>	1992	2,354	Bahamas
<i>Monarch of the Seas</i>	1991	2,354	Baja Mexico
<i>Empress of the Seas(2)</i>	1990	1,600	Western/Southern Caribbean, Bermuda
<i>Sovereign of the Seas</i>	1988	2,276	Bahamas
<b>Celebrity Cruises</b>			
<i>Constellation</i>	2002	2,034	Southern Caribbean, Europe, Canada/New England
<i>Summit</i>	2001	2,034	Caribbean, Alaska, Panama Canal, Pacific Coastal