ROYAL CARIBBEAN CRUISES LTD
Form 10-K
February 25, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

or

o **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	**98-0081645**
(State or other jurisdiction of incorporation or organization)	(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)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.01 per share	New York Stock Exchange

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

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

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

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 ý No o

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

The aggregate market value of the registrant's common stock at June 29, 2012 (based upon the closing sale price of the common stock on the New York Stock Exchange on June 29, 2012) held by those persons deemed by the registrant to be non-affiliates was approximately $4.5 billion. Shares of the registrant's common stock held by each executive officer and director and by each entity or person that, to the registrant's knowledge, owned 10% or more of the registrant's outstanding common stock as of June 29, 2012 have been excluded from this number in that these persons may be deemed affiliates of the registrant. This determination of possible affiliate status is not necessarily a conclusive determination for other purposes.

There were 219,168,946 shares of common stock outstanding as of February 13, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to its 2013 Annual Meeting of Shareholders are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

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PART I

As used in this Annual Report on Form 10-K, the terms "Royal Caribbean," the "Company," "we," "our" and "us" refer to Royal Caribbean Cruises Ltd. and, depending on the context, Royal Caribbean Cruises Ltd.'s consolidated subsidiaries and/or affiliates. The terms "Royal Caribbean International," "Celebrity Cruises," "Pullmantur," "Azamara Club Cruises," "CDF Croisières de France," and "TUI Cruises" refer to our cruise brands. However, 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 Annual Report on Form 10-K also includes trademarks, trade names and service marks of other companies. Use or display by us of other parties' trademarks, trade names or service marks is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, these other parties other than as described herein.

Item 1. Business

General

Royal Caribbean was founded in 1968 as a partnership. Its corporate structure evolved over the years and the current parent corporation, Royal Caribbean Cruises Ltd., was incorporated on July 23, 1985 in the Republic of Liberia under the Business Corporation Act of Liberia.

We are the world's second largest cruise company. We own Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Club Cruises and CDF Croisières de France, as well as TUI Cruises through a 50% joint venture. Together, these six brands operate a combined 41 ships in the cruise vacation industry with an aggregate capacity of approximately 98,650 berths as of December 31, 2012.

Our ships operate on a selection of worldwide itineraries that call on approximately 455 destinations on all seven continents. In addition to our headquarters in Miami, Florida, we have offices and a network of international representatives around the world which focus on our global guest sourcing.

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

We believe cruising continues to be a widely accepted vacation choice due to its inherent value, extensive itineraries and variety of shipboard and shoreside activities. In addition, we believe that our products appeal to a large consumer base and are not dependent on a single market or demographic.

Our Brands

Our global brands include Royal Caribbean International, Celebrity Cruises, and Azamara Club Cruises. These brands are complemented by our Pullmantur brand, which has been tailored to serve the cruise markets in Spain, Portugal and Latin America; our CDF Croisières de France brand, which provides us with a tailored product targeted at the French market; and our 50% joint venture TUI Cruises which is specifically tailored for the German market. The operating results of all of our brands are included in our consolidated results of operations, except for TUI Cruises, which is accounted for under the equity method of accounting. See Note 1. *General* and Note 6. *Other Assets* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further details.

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

Royal Caribbean International

We currently operate 22 ships with an aggregate capacity of approximately 62,000 berths under our Royal Caribbean International brand, offering cruise itineraries that range from two to 18 nights. As previously announced, we will redeploy *Monarch of the Seas* from Royal Caribbean International to Pullmantur in April 2013. In addition, we currently have three ships on order for our Royal Caribbean International brand with an aggregate capacity of approximately 13,600 berths which are expected to enter service in the fourth quarter of 2014, the second quarter of 2015 and the second quarter of 2016, respectively. This includes our recently ordered third Oasis-class ship. Royal Caribbean International offers a variety of itineraries to destinations worldwide, including Alaska, Asia, Australia, Bahamas, Bermuda, Canada, the Caribbean, Europe, the Middle East, the Panama Canal, South America, South Pacific and New Zealand.

Royal Caribbean International is positioned at the upper end of the contemporary segment of the cruise vacation industry, generally characterized by cruises that are seven nights or shorter and feature a casual ambiance as well as a variety of activities and entertainment venues. We believe that the quality of the Royal Caribbean International brand also enables it to attract guests from the premium segment, which is generally characterized by cruises that are seven to 14 nights and appeal to the more experienced guest who is usually more affluent. This allows Royal Caribbean International to achieve market coverage that is among the broadest of any of the major cruise brands in the cruise vacation industry.

Royal Caribbean International's strategy is to attract an array of vacationing guests by providing a wide variety of itineraries and cruise lengths with multiple innovative options for onboard dining, entertainment and other onboard activities. During 2011 Royal Caribbean International initiated a vessel revitalization program in order to incorporate some of the most popular features of our newer ships across the fleet. Nine ships were revitalized under this program during 2011 and 2012 and an additional three ships are scheduled for revitalization during 2013.

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 and innovative product offerings, we believe Royal Caribbean International is well positioned to attract new consumers to the cruise vacation industry and to continue to bring loyal repeat guests back for their next vacation.

Celebrity Cruises

We currently operate 11 ships with an aggregate capacity of approximately 24,800 berths under our Celebrity Cruises brand, offering cruise itineraries that range from two to 18 nights. Celebrity Cruises offers a global cruise experience by providing a variety of cruise lengths and itineraries to marquee destinations throughout the world, including Alaska, Asia, Australia, Bermuda, Canada, the Caribbean,

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Europe, Hawaii, New England, New Zealand, the Panama Canal, the US Pacific Coast and South America. Celebrity Cruises was the first major cruise line to operate a ship in the Galapagos Islands, *Celebrity Xpedition,* operating in this location since 2004. *Celebrity Xpedition* has 96 berths and provides this unique experience on seven day cruises that include pre-cruise tours in Ecuador.

Celebrity Cruises is positioned within the premium segment of the cruise vacation industry. Celebrity Cruises delivers a modern luxury cruise vacation experience that appeals to experienced cruisers, resulting in a strong base of loyal repeat guests. The brand also appeals to vacationers who have not yet cruised who seek to explore destinations throughout the world and would enjoy the high quality, service-focused and modern luxury experience the brand offers.

Celebrity Cruises' strategy is to deliver an intimate experience onboard upscale ships that offer luxurious accommodations, a high staff-to-guest ratio, fine dining, personalized service, extensive spa facilities, and unique onboard activities and entertainment. The brand began a revitalization program for all four Millennium-class ships in 2010 in order to incorporate well received concepts from the Solstice-class ships. The revitalization program is expected to be completed in 2013 when *Celebrity Constellation*, the final Millennium-class vessel to be revitalized, will undergo a second revitalization to incorporate additional amenities and staterooms.

Azamara Club Cruises

We currently operate two ships with an aggregate capacity of approximately 1,400 berths under our Azamara Club Cruises brand, offering cruise itineraries that range from four to 18 nights. Azamara Club Cruises is designed to serve the up-market segment of the North American, United Kingdom and Australian markets. The up-market segment incorporates elements of the premium segment and the luxury segment which is generally characterized by smaller ships, high standards of accommodation and service, higher prices and exotic itineraries to ports which are inaccessible to larger ships.

Azamara Club Cruises' strategy is to deliver distinctive destination experiences, featuring unique itineraries with more overnights and longer stays as well as thorough tours allowing guests to truly experience the destination. Azamara Club Cruises' focus is to attract experienced travelers who are looking for more in-depth destination experiences, and who seek a more intimate onboard experience and a high level of service. Azamara Club Cruises sails in Asia, Northern and Western Europe, the Mediterranean, South and Central America, the less-traveled islands of the Caribbean and North America.

Azamara Club Cruises offers a variety of onboard services, amenities and activities, including gaming facilities, fine dining, spa and wellness, butler service for suites, as well as entertainment venues. Azamara Club Cruises also includes as part of the base price of the cruise certain complimentary onboard services, amenities and activities which are not normally included in the base price of other cruise lines.

Pullmantur

We currently operate three ships with an aggregate capacity of approximately 5,300 berths under our Pullmantur brand, offering cruise itineraries that range from four to 12 nights. As previously announced, *Monarch of the Seas* will be redeployed from Royal Caribbean International to Pullmantur in April 2013.

Pullmantur serves the contemporary segment of the Spanish, Portuguese and Latin American cruise markets. Pullmantur also has land-based tour operations and owns a 49% interest in an air business that operates four Boeing 747 aircraft in support of its cruise and tour operations.

Pullmantur's strategy is to attract cruise guests by providing a variety of cruising options and land-based travel packages. Pullmantur offers a range of cruise itineraries to Brazil, the Caribbean and

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Europe. Pullmantur offers a wide array of onboard activities and services to guests, including exercise facilities, swimming pools, beauty salons, gaming facilities, shopping, dining, certain complimentary beverages, and entertainment venues. Pullmantur's tour operations sell land-based travel packages primarily to Spanish guests, including hotels and flights mainly to Caribbean resorts, and land-based tour packages to Europe primarily aimed at Latin American guests. In addition, Pullmantur owns a travel agency network that offers a wide array of travel related products to guests in Spain.

CDF Croisières de France

CDF Croisières de France currently operates the 1,350-berth *Horizon*. CDF Croisières de France is designed to serve the contemporary segment of the French cruise market by providing a brand tailored for French cruise guests. CDF Croisières de France offers seasonal itineraries to the Mediterranean and a variety of onboard services, amenities and activities, including entertainment venues, exercise and spa facilities, fine dining, and gaming facilities.

TUI Cruises

TUI Cruises is designed to serve the contemporary and premium segments of the German cruise market by offering tailored product for German guests. All onboard activities, services, shore excursions and menu offerings are designed to suit the preferences of this target market. TUI Cruises operates two ships, *Mein Schiff I* and *Mein Schiff II*, with an aggregate capacity of approximately 3,800 berths. In addition, TUI Cruises has two ships on order, each with a capacity of 2,500 berths, scheduled for delivery in the second quarter of 2014 and second quarter of 2015, respectively. TUI Cruises is a joint venture owned 50% by us and 50% by TUI AG, a German tourism and shipping company that also owns 51% of TUI Travel, a British tourism company.

Industry

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

We estimate that the global cruise industry carried 20.8 million cruise guests in 2012 compared to 20.2 million cruise guests carried in 2011 and 18.8 million cruise guests carried in 2010. We estimate that the global cruise fleet was served by approximately 432,000 berths on approximately 282 ships at the end of 2012. There are approximately 19 ships with an estimated 65,000 berths that are expected to be placed in service in the global cruise market between 2013 and 2017, although it is also possible that ships could be taken out of service during these periods. The majority of cruise guests have historically been sourced from North America and Europe.

North America

The North American cruise market has historically experienced significant growth. The compound annual growth rate in cruise guests for this market was approximately 4.5% from 2008 to 2012. We estimate that North America was served by 144 ships with approximately 212,000 berths at the beginning of 2008 and by 146 ships with approximately 258,000 berths at the end of 2012. There are approximately 10 ships with an estimated 40,000 berths that are expected to be placed in service in the North American cruise market between 2013 and 2017.

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Europe

As compared to North America, the European cruise market represents a smaller but even faster growing sector of the vacation industry. It has experienced a compound annual growth rate in cruise guests of approximately 7.6% from 2008 to 2012. This market has recently experienced a number of challenges as a result of the effects of the Costa Concordia incident and the continued instability in the European economic landscape. However, we continue to believe in the long term growth potential of this market. We estimate that Europe was served by 102 ships with approximately 108,000 berths at the beginning of 2008 and by 117 ships with approximately 156,000 berths at the end of 2012. There are approximately 9 ships with an estimated 25,000 berths that are expected to be placed in service in the European cruise market between 2013 and 2017.

The following table details the growth in the global, North American and European cruise markets in terms of cruise guests and estimated weighted-average berths over the past five years:

Year	Global Cruise Guests[(1)]	Weighted-Average Supply of Berths Marketed Globally[(1)]	North American Cruise Guests[(2)]	Weighted-Average Supply of Berths Marketed in North America[(1)]	European Cruise Guests	Weighted-Average Supply of Berths Marketed in Europe[(1)]
2008	17,184,000	347,000	10,093,000	219,000	4,500,000	120,000
2009	17,340,000	363,000	10,198,000	222,000	5,000,000	131,000
2010	18,800,000	391,000	10,781,000	232,000	5,540,000	143,000
2011	20,227,000	412,000	11,625,000	245,000	5,894,000	149,000
2012	20,823,000	425,000	12,044,000	254,000	6,040,000	152,000

(1) Source: Our estimates of the number of global cruise guests, and the weighted-average supply of berths marketed globally, in North America and Europe are based on a combination of data that we obtain from various publicly available cruise industry trade information sources including Seatrade Insider and Cruise Line International Association ("CLIA"). In addition, our estimates incorporate our own statistical analysis utilizing the same publicly available cruise industry data as a base.

(2) Source: Cruise Line International Association based on cruise guests carried for at least two consecutive nights for years 2008 through 2011. Year 2012 amounts represent our estimates (see number (1) above).

(3) Source: CLIA Europe, formerly European Cruise Council, for years 2008 through 2011. Year 2012 amounts represent our estimates (see number (1) above).

Other Markets

In addition to expected industry growth in North America and Europe as discussed above, we expect the Asia/Pacific region to demonstrate an even higher growth rate in the near term, although it will continue to represent a relatively small sector compared to North America and Europe.

Competition

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

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Operating Strategies

Our principal operating strategies are to:

- protect the health, safety and security of our guests and employees and protect the environment in which our vessels and organization operate,
- strengthen and support our human capital in order to better serve our global guest base and grow our business,
- further strengthen our consumer engagement in order to enhance our revenues,
- increase the awareness and market penetration of our brands globally,
- focus on cost efficiency, manage our operating expenditures and ensure adequate cash and liquidity, with the overall goal of maximizing our return on invested capital and long-term shareholder value,
- strategically invest in our fleet through the revitalization of existing ships and the transfer of key innovations across each brand, while prudently expanding our fleet with the new state-of-the-art cruise ships recently delivered and on order,
- capitalize on the portability and flexibility of our ships by deploying them into those markets and itineraries that provide opportunities to optimize returns, while continuing our focus on existing key markets,
- further enhance our technological capabilities to service customer preferences and expectations in an innovative manner, while supporting our strategic focus on profitability, and
- maintain strong relationships with travel agencies, which continue to be the principal industry distribution channel, while enhancing our consumer outreach programs.

Safety, Environment and Health policies

We are committed to protecting the safety, environment and health of our guests, employees and others working on our behalf. We are also committed to protecting the marine environment in which our ships sail and the communities in which we operate by reducing/mitigating adverse environmental consequences and using resources efficiently. As part of this commitment, we have established a Safety, Environment and Health Department to oversee our maritime safety, global security, environmental stewardship and medical/public health activities. We also have a Maritime Advisory Board of experts as well as the Safety, Environment and Health (SEH) Committee of our Board of Directors which oversees these important areas. In addition, we publish an annual Stewardship Report on our performance in these important areas, which can be accessed on our brand websites.

Following the Costa Concordia incident in early 2012, we and other cruise lines performed reviews of safety and emergency response procedures to identify lessons learned and best practices to further protect the safety of our guests and crew. During this process, we held regular meetings with other cruise companies to propose new industry-wide policies that we believe will further drive our Company's and the industry's safety performance. A number of these policies have already been implemented and/or publicly announced by the Cruise Lines International Association as well as shared with international regulators.

Strengthen and support our human capital

We believe that our employees, both shipboard and shoreside, are a critical success factor for our business. We strive to identify, hire, develop, motivate, and retain the best employees, with backgrounds and perspectives as diverse as our guest base. Attracting, engaging, and retaining key employees has been and will remain critical to our success.

We continue our focus on providing our employees with a competitive compensation structure, development and other personal and professional growth opportunities in order to strengthen and support our human capital. We also seek to select, develop and retain leaders to advance the enterprise now and in the future. To that end, we pay special attention to identifying high performing potential leaders and develop deep bench strength so these leaders can assume leadership roles throughout the organization. We strive to maintain a work environment that reinforces collaboration, motivation and innovation, and believe that maintaining our vibrant and distinctive culture is critical to the growth of our business.

Strengthen our consumer engagement

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

We interact with customers across all touch points and seek to identify underlying needs for which guests are willing to pay a premium. We rely on various programs prior to, during and after a cruise vacation aimed at increasing our ticket prices, onboard revenues and occupancy. In 2013, we will continue to strategically invest in a number of potential revenue enhancing projects, including the implementation of new onboard revenue initiatives. We believe these initiatives will provide opportunities for increased ticket and onboard revenues.

Global awareness and market penetration

We increase brand awareness and market penetration of our cruise brands in various ways, including by using communication strategies and marketing campaigns designed to emphasize the unique qualities of each brand and to broaden the awareness of the brand, especially among the brand target customer groups. Our marketing strategies include the use of traditional media, social media, brand websites and travel agencies. Our brands engage past and potential guests by collaborating with travel partners and through call centers, international offices and international representatives. In addition, Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises retain repeat guests with exclusive benefits offered through their respective loyalty programs.

We also increase brand awareness across all of our brands through travel agencies who generate the majority of our bookings. We are committed to further developing and strengthening this very important distribution channel by continuing to focus the travel agents on the unique qualities of each of our brands.

We sell and market our global brands, Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises, to guests outside of North America through our offices in the United Kingdom, France, Germany, Norway, Italy, Spain, Singapore, China, Brazil, Australia and Mexico. We believe that having a local presence in these markets provides us with the ability to react more quickly to local market conditions and better understand our consumer base in each market. We further extend our geographic reach with a network of 36 independent international representatives located throughout the world covering 111 countries. Historically, our focus has been to primarily source guests for our global brands from North America. Over the last several years, we have continued to expand our focus on selling and marketing our cruise brands to guests in countries outside of North America through fleet innovation and by responding to the itinerary preferences and cultural characteristics of our international guests. In 2013, we will continue to focus on the development of key markets in Asia and we will focus on sourcing guests and adding capacity to the markets where we expect significant growth and profitability, such as China and Australia.

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We are also focused on expanding our Pullmantur brand into Latin America, with particular emphasis in Brazil. We also look for opportunities to acquire or develop brands tailored to specific markets. TUI Cruises, our joint venture with TUI AG, is a cruise brand targeted at the cruise market in Germany. TUI Cruises complements our other tailored brands including Pullmantur and CDF Croisières de France.

Passenger ticket revenues generated by sales originating in countries outside of the United States were approximately 49% of total passenger ticket revenues in 2012 and 2011, and 45% in 2010. International guests have grown from approximately 1.3 million in 2008 to approximately 2.2 million in 2012.

Focus on cost efficiency, manage our operating expenditures and ensure adequate cash and liquidity

We are committed to our efforts to identify and implement cost containment initiatives, including a number of initiatives to reduce energy consumption and, by extension, fuel costs. These include the design of more fuel efficient ships as well as the implementation of more efficient hardware, including propulsion and cooling systems incorporating energy efficiencies. In addition, we are focused on maintaining a strong liquidity position, reducing our debt and improving our credit metrics. We are also continuing to pursue our long-term objective of returning our credit ratings to investment grade. We believe these strategies enhance our ability to achieve our overall goal of maximizing our return on invested capital and long-term shareholder value.

Fleet revitalization, maintenance and expansion

We place a strong focus on product innovation, which we seek to achieve by introducing new concepts on our new ships and continuously making improvements to our fleet. Several of these innovations have become signature elements of our brands, such as the "Royal Promenade" (a boulevard with shopping, dining and entertainment venues), ice skating rinks, rock climbing walls, miniature golf and full court basketball for the Royal Caribbean International brand, and the design of the ships, contemporary quality dining, spacious staterooms and suites with verandas, spa facilities and variety of bars and lounges for the Celebrity Cruises brand. In 2009 and 2010, Royal Caribbean International took delivery of sister ships, *Oasis of the Seas* and *Allure of the Seas,* which are the largest and most innovative cruise ships in the cruise industry. With the same focus on product innovation, Celebrity Cruises ordered a total of five Solstice-class ships, the last of which, *Celebrity Reflection*, was delivered in 2012. The Solstice-class ships incorporate many new and improved design features.

Our revitalization and maintenance programs enable us to incorporate our latest signature innovations and allow us to benefit from economies of scale by leveraging our suppliers. Ensuring consistency across our fleet provides us with the flexibility to redeploy our ships among our brand portfolio. As part of these efforts:

- Royal Caribbean International initiated a vessel revitalization program in 2011 in order to introduce some of the most popular features of the Oasis-class ships on certain Freedom-class, Radiance-class and Vision-class ships. *Liberty of the Seas*, *Freedom of the Seas*, *Radiance of the Seas* and *Splendour of the Seas* were revitalized in 2011 and *Rhapsody of the Seas*, *Mariner of the Seas*, *Grandeur of the Seas, Serenade of the Seas* and *Enchantment of the Seas* were revitalized in 2012 as part of this revitalization program. An additional three ships are scheduled for revitalization in 2013.

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Celebrity Cruises began investing in the revitalization of the Millennium-class ships in 2010 as *Celebrity Constellation* underwent a revitalization of its onboard amenities and public areas to incorporate certain Solstice-class features. In 2011 and the early part of 2012, *Celebrity Infinity, Celebrity Summit* and *Celebrity Millennium* added onboard amenities, public areas and new staterooms. In 2013, *Celebrity Constellation* will undergo a second revitalization to incorporate additional amenities and staterooms.

We are also committed to building state-of-the-art ships, and currently our brands, including our 50% joint venture TUI Cruises, have signed agreements for the construction of five new ships. These consist of our recently ordered third Oasis-class ship which is scheduled to enter service in the second quarter of 2016, two ships of a new generation of Royal Caribbean International cruise ships to be known as the Quantum-class which are scheduled to enter service in the fourth quarter of 2014 and second quarter of 2015, respectively, and two ships of a new generation for TUI Cruises, which are scheduled to enter service in the second quarter of 2014 and second quarter of 2015, respectively. These additions are expected to increase our passenger capacity by approximately 18,600 berths by December 31, 2016, or approximately 18.9%, as compared to our capacity as of December 31, 2012. We continuously evaluate opportunities to order new ships, purchase existing ships or sell ships in our current fleet.

In support of our maintenance programs, we own a 40% interest in a ship repair and maintenance facility, Grand Bahama Shipyard Ltd., which is the largest cruise ship dry-dock repair facility in the world and is located in Freeport, Grand Bahama. We utilize this facility, among other ship repair facilities, for our regularly scheduled drydocks and certain emergency repairs as may be required. In addition, the facility serves unaffiliated cruise and cargo ships, oil and gas tankers, and offshore units.

Markets and itineraries

In an effort to penetrate untapped markets, diversify our consumer base and respond to changing economic and geopolitical market conditions, we continue to seek opportunities to optimally deploy ships to new and stronger markets and itineraries throughout the world. The portability of our ships and our investment in infrastructure allows us to expand into new markets and helps us reduce our dependency on any one market by allowing us to create "home ports" around the world. In addition, it allows us to readily deploy our ships to meet demand within our existing cruise markets.

Our ships offer a wide selection of itineraries that call on approximately 455 ports in 95 countries, spanning all seven continents. We are focused on obtaining the best possible long-term shareholder returns by operating in established markets while growing our presence in developing markets. New capacity allows us to expand into new markets and itineraries. Our brands have expanded their mix of itineraries while strengthening our ability to penetrate the Asian, Caribbean, European, and Latin American markets further. In addition, in order to capitalize on the summer season in the Southern Hemisphere and mitigate the impact of the winter weather in the Northern Hemisphere, our brands have increased deployment to Australia and Latin America.

We continue to focus on the acceleration of Royal Caribbean International's, Celebrity Cruises' and Azamara Club Cruises' strategic positioning as global cruise brands. In 2012, Royal Caribbean International continued its global expansion by seasonally adding a second ship in Asia and a third ship in Australia, adding new departure ports in Southern Europe in order to target guests in key source markets in the region and increasing capacity in Northern Europe. The brand also modified certain of its itineraries for 2012 due to continuing geopolitical unrest in Northern Africa and Greece. In 2013, *Monarch of the Seas* will be redeployed to the Pullmantur fleet and Royal Caribbean International will decrease its European capacity by approximately 23% in order to mitigate its exposure to the uncertain outlook in the European market. Royal Caribbean International will continue to offer short Bahamas

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sailings, return to year-round southern Caribbean sailings and increase capacity in Asia and China with the repositioning of *Mariner of the Seas*.

In October 2012, Celebrity Cruises introduced *Celebrity Reflection*, the fifth and final Solstice-class ship, which offers sailings in Europe and the Caribbean. The addition of *Celebrity Reflection* allows Celebrity Cruises to introduce a Solstice-class ship in Alaska and Australia/New Zealand, offer a British Isles/Northern European program, and an Asia program for 2013. The added product offerings in Europe result in a 12% capacity increase for 2013. Celebrity Cruises is expanding its focus on destination by emphasizing exotic ports and calling on new destinations in Australia and New Zealand, Hawaii, the Panama Canal and Asia, with longer cruises in Southeast Asia, Indonesia, China and Japan.

In 2013, Azamara Club Cruises' voyages will be sailing to 184 ports in 60 countries around the globe with more than 50% of its ports-of-call featuring late night stays or overnights, allowing guests to experience the destination by day and by night. The Azamara Club Cruises 2013 deployment features South America, including Carnival in Rio de Janeiro, Antarctica, the West Indies, British Isles and Western Europe, Scandinavia and the Baltics, Eastern & Western Mediterranean, as well as the Indian Ocean and Asia. Also, Pullmantur and CDF Croisières de France will continue to offer itineraries in the Caribbean, Europe and South America with particular emphasis in Brazil.

In an effort to secure desirable berthing facilities for our ships, and to provide new or enhanced cruise destinations for our guests, we actively assist or invest in the development or enhancement of certain port facilities and infrastructure, including mixed-use commercial properties, located in strategic ports of call. Generally, we collaborate with local, private or governmental entities by providing management and/or financial assistance and often enter into long-term port usage arrangements. Our participation in these efforts is generally accomplished via investments with the relevant government authority and/or various other strategic partners established to develop and/or operate the port facilities, by providing direct development and management expertise or in certain limited circumstances, by providing direct or indirect financial support. In exchange for our involvement, we generally secure preferential berthing rights for our ships.

Enhance our technological capabilities

The need to develop and use innovative technology is increasingly important. To this end, technology is a pervasive part of virtually every business process we use in order to support our strategic focus and provide a quality experience to our customers before, during and after their cruise. Moreover, as the use of our various websites and social media platforms continue to increase along with the increasing use of technology onboard our ships by both our guests and crew, we continually need to upgrade our systems, infrastructure and technologies to facilitate this growth. To further our customer-centricity, during 2013, we intend to continue to improve our customer experiences online through the launch of a new digital platform which will include among other improvements, revamped websites, new vacation packaging capabilities, support of mobile applications and increased bandwidth onboard our ships helping our guests remain well-connected while at sea. Active engagement in social media channels is also an integral part of our marketing strategy and a part of our broader consumer engagement strategy and relationship management platform.

To support our strategic focus on improving revenue yields, during 2012, we began to implement new capabilities to improve our revenue management systems and decision support processes in advance of our WAVE season (traditionally the first two months of the year where cruise lines experience disproportionately higher volume cruise sales). In 2013, we will continue to build on this new platform and introduce new price optimization tools and promotion management capabilities in our reservations system.

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As part of the Royal Caribbean International and Celebrity Cruises revitalization programs, we have incorporated many of the technological innovations from the Oasis-class ships and Solstice-class ships, respectively, across our fleet. In addition, to position ourselves for the future, we have embarked on several multi-year information technology strategic initiatives to ensure that we can continue to innovate and respond to the ever increasing expectations of our guests in a scalable and cost effective manner.

Travel agency support and direct business

Travel agencies continue to be the primary source of ticket sales for our ships. We believe in the value of this distribution channel and invest heavily in maintaining strong relationships with our travel partners. To accomplish this goal, we seek to ensure that our commission rates and incentive structures remain competitive with the marketplace. We also provide brand dedicated sales representatives who assist our travel partners through a number of platforms, including trained customer service representatives, call centers and online training tools.

To support our direct sales initiatives, we have established a Consumer Outreach department which allows consumers 24 hour access to our certified vacation planners, group vacation planners and customer service agents in our call centers throughout the world. In addition, we maintain and invest in our websites, including mobile applications and mobile websites, which allow guests to directly plan, book and customize their cruise, as well as encourage guests to book their next cruise vacations onboard our ships.

Guest Services

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

Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises offer rewards to their guests through their loyalty programs, Crown & Anchor Society, Captain's Club and Le Club Voyage, respectively, to encourage repeat business. Crown & Anchor Society has over 7.2 million members worldwide. Captain's Club and Le Club Voyage have 2.0 million members combined worldwide. Members are typically eligible to enroll in these complimentary programs after one sailing and earn increasing membership status by accumulating cruise points or credits, depending on the brand, which may be redeemed on future sailings. Members are awarded points or credits in proportion to the number of cruise days and stateroom category. The loyalty programs provide certain tiers of membership benefits which can be redeemed by guests after accumulating the number of cruise points or credits specified for each tier. In addition, upon achieving a certain level of cruise points or credits, members benefit from reciprocal membership benefits across all of our loyalty programs. Examples of the rewards available under our loyalty programs include, but are not limited to, priority ship embarkation, priority waitlist for shore excursions, complimentary laundry service, complimentary internet, booklets with onboard discount offers, upgraded bathroom amenities, private seating on the pool deck, ship tours and, in the case of our most loyal guests who have achieved the highest levels of cruise points or credits, complimentary cruises. We regularly work to enhance each of our loyalty programs by adding new features and amenities in order to reward our repeat guests.

Operations

Cruise Ships and Itineraries

As of December 31, 2012, our brands, including our 50% joint venture TUI Cruises, operate 41 ships with a selection of worldwide itineraries ranging from two to 18 nights that call on approximately 455 destinations.

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The following table presents summary information concerning the ships we will operate in 2013 under our six cruise brands, including our 50% joint venture TUI Cruises, and their geographic areas of operation based on 2013 itineraries (subject to change).

Ship[(1)]	**Year Ship Entered Service[(2)]**	**Approximate Berths**	**Primary Areas of Operation**
Royal Caribbean International			
Allure of the Seas	2010	5,400	Eastern/Western Caribbean
Oasis of the Seas	2009	5,400	Eastern/Western Caribbean
Independence of the Seas	2008	3,600	Europe, Eastern/Western Caribbean
Liberty of the Seas	2007	3,600	Europe, Short Caribbean
Freedom of the Seas	2006	3,600	Eastern/Western Caribbean
Jewel of the Seas	2004	2,100	Short Western Caribbean, South Caribbean
Mariner of the Seas	2003	3,100	Western Caribbean, Asia
Serenade of the Seas	2003	2,100	Western Caribbean, Europe, Middle East
Navigator of the Seas	2002	3,100	Western Caribbean, Europe
Brilliance of the Seas	2002	2,100	Europe, Western/Southern Caribbean, Canada
Adventure of the Seas	2001	3,100	Southern Caribbean, Europe
Radiance of the Seas	2001	2,100	Alaska, Australia/New Zealand/South Pacific
Explorer of the Seas	2000	3,100	Eastern/Southern Caribbean, Bermuda, Canada
Voyager of the Seas	1999	3,100	Asia, Australia/New Zealand
Vision of the Seas	1998	2,000	Europe, Southern/Eastern Caribbean, Panama Canal
Enchantment of the Seas	1997	2,250	Eastern/Western Caribbean, Bahamas
Rhapsody of the Seas	1997	2,000	Australia/New Zealand, Alaska
Grandeur of the Seas	1996	1,950	Southern/Eastern/Western Caribbean, Bermuda, Canada
Splendour of the Seas	1996	1,800	Europe, Brazil
Legend of the Seas	1995	1,800	Asia, Europe, Eastern/Southern Caribbean, Panama Canal
Majesty of the Seas	1992	2,350	Bahamas
Celebrity Cruises			
Celebrity Reflection	2012	3,000	Europe, Eastern Caribbean
Celebrity Silhouette	2011	2,850	Europe, Eastern / Western Caribbean
Celebrity Eclipse	2010	2,850	Europe, Southern Caribbean
Celebrity Equinox	2009	2,850	Europe, Long Caribbean
Celebrity Solstice	2008	2,850	Alaska, Australia/New Zealand
Celebrity Constellation	2002	2,050	Short Caribbean, Europe
Celebrity Summit	2001	2,150	Southern Caribbean, Bermuda, Canada/New England
Celebrity Infinity	2001	2,150	Europe, Panama Canal, South America
Celebrity Millennium	2000	2,150	Alaska, Asia, Panama Canal
Celebrity Century	1995	1,800	Alaska, Hawaii, Panama Canal, Pacific Coastal
Celebrity Xpedition[(3)]	2004	96	Galapagos Islands

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Ship(1)	Year Ship Entered Service(2)	Approximate Berths	Primary Areas of Operation
Azamara Club Cruises			
Azamara Journey(4)	2004	700	Europe, Asia
Azamara Quest(5)	2006	700	Europe, South/Central America, Panama Canal
Pullmantur			
Zenith	1992	1,400	Europe, Brazil
Empress	1990	1,600	Europe, Brazil
Sovereign	1988	2,300	Europe, Brazil
Monarch of the Seas(6)	1991	2,350	Southern Caribbean, South America
CDF Croisières de France			
Horizon(7)	1990	1,350	Europe, Southern Caribbean
TUI Cruises(8)			
Mein Schiff 1(9)	2009	1,900	Europe, Southern Caribbean
Mein Schiff 2(10)	2011	1,900	Europe, Middle East, Southern Caribbean
Total		98,646	

(1) It does not include Pullmantur's *Atlantic Star* which has been out of operation since 2009 and will be transferred to an affiliate of STX France as part of the consideration for building the third Oasis-class ship if the agreement becomes effective. Additionally, in April 2012, we delivered *Ocean Dream*, previously operated by Pullmantur, to an unrelated third party as part of a six year bareboat charter agreement. The charter agreement provides a renewal option exercisable by the unrelated third party for an additional four years.

(2) The year a ship entered service refers to the year in which the ship commenced cruise revenue operations for the Company, which is the same as the year the ship was built, unless otherwise noted.

(3) *Celebrity Xpedition* was built in 2001.

(4) *Azamara Journey* (formerly *Blue Dream*) was built in 2000.

(5) *Azamara Quest* (formerly *Blue Moon*) was built in 2000.

(6) *Monarch of the Seas* will be redeployed from Royal Caribbean International to Pullmantur in April 2013.

(7) *Horizon* was built in 1990.

(8) TUI Cruises refers to our 50% joint venture.

(9) *Mein Schiff 1* (formerly *Galaxy*) was built in 1996.

(10) *Mein Schiff 2* (formerly *Mercury*) was built in 1997.

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Our brands, including our 50% joint venture TUI Cruises, have five ships on order. Two ships on order are being built in Germany by Meyer Werft GmbH, two are being built in Finland by STX Finland and one will be built in France by STX France. 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	4,100
Anthem of the Seas	2nd Quarter 2015	4,100
Oasis-class(1):		
Unnamed	2nd Quarter 2016	5,400
TUI Cruises		
Mein Schiff 3	2nd Quarter 2014	2,500
Mein Schiff 4	2nd Quarter 2015	2,500
Total Berths		18,600

(1) In December 2012, we ordered a third Oasis-class ship through a conditional agreement. The agreement is subject to certain closing conditions and is expected to become effective in the first quarter of 2013.

Seasonality

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

Passengers and Capacity

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

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Passengers Carried	4,852,079	4,850,010	4,585,920	3,970,278	4,017,554
Passenger Cruise Days	35,197,783	34,818,335	32,251,217	28,503,046	27,657,578
Available Passenger Cruise Days (APCD)	33,705,584	33,235,508	30,911,073	27,821,224	26,463,637
Occupancy	104.4%	104.8%	104.3%	102.5%	104.5%

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Cruise Pricing

Our cruise ticket prices include accommodations and a wide variety of activities and amenities, including meals and entertainment. Prices vary depending on the destination, cruise length, stateroom category selected and the time of year the cruise takes place. Although we grant credit terms to certain travel agencies and tour operators in select markets outside of the United States, our payment terms generally require an upfront deposit to confirm a reservation, with the balance due prior to the sailing. During the selling period of a cruise, we continually monitor and adjust our cruise ticket prices for available guest staterooms based on demand, with the objective of maximizing net yields. In 2013, we plan to use new optimization tools to set pricing and leverage enhancements for the web and our reservation systems. Historically, we have opened cruises for sale at least one year in advance and often as much as two years in advance. Additionally, we offer air transportation as a service for guests that elect to utilize our transportation program. Our air transportation program is available in major cities around the world and prices vary by gateway and destination. Generally, air tickets are sold to guests at prices close to cost. Passenger ticket revenues accounted for approximately 73% of total revenues in 2012, 2011 and 2010.

From time to time, we have introduced temporary fuel supplements to partially offset a portion of fuel costs, which result in an additional fee being charged to the guests. While none of our brands are currently charging fuel supplements, we reserve the right to reinstate our fuel supplements for one or more of our brands and will continue to monitor our markets and review our position based upon the appropriate facts and circumstances.

Onboard Activities and Other Revenues

Our cruise brands offer modern fleets with a wide array of onboard services, amenities and activities which vary by brand and ship. While many onboard activities are included in the base price of a cruise, we realize additional revenues from, among other things, gaming, the sale of alcoholic and other beverages, gift shop items, shore excursions, photography, spa/salon and fitness services, art auctions, catalogue gifts for guests and a wide variety of specialty restaurants and dining options. Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises offer functionality on their respective internet sites for selecting shore excursions, specialty dining and amenities prior to embarkation.

In conjunction with our cruise vacations, we offer pre- and post-cruise hotel packages to our Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises guests. Pullmantur offers land-based travel packages to European vacation travelers including hotels and flights to Caribbean resorts and sells land based tour packages to Europe aimed at Latin American guests. Pullmantur also owns a 49% interest in an air business that operates four Boeing 747 aircraft in support of its cruise and tour operations. In addition, we sell cruise vacation protection coverage, which provides guests with coverage for trip cancellation, medical protection and baggage protection. We expect to offer these programs more globally in 2013. Onboard and other revenues accounted for approximately 27% of total revenues in 2012, 2011 and 2010.

Segment Reporting

We operate five wholly-owned cruise brands, Royal Caribbean International, Celebrity Cruises, Azamara Club Cruises, Pullmantur and CDF Croisières de France. In addition, we have a 50% investment in a joint venture with TUI AG which operates the brand TUI Cruises. We believe our global brands possess the versatility to enter multiple cruise market segments within the cruise vacation industry. Although each of our brands has its own marketing style as well as ships and crews of various sizes, the nature of the products sold and services delivered by our brands share a common base (i.e. the sale and provision of cruise vacations). Our brands also have similar itineraries as well as

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similar cost and revenue components. In addition, our brands source passengers from similar markets around the world and operate in similar economic environments with a significant degree of commercial overlap. As a result, our brands (including TUI Cruises) have been aggregated as a single reportable segment based on the similarity of their economic characteristics, types of consumers, regulatory environment, maintenance requirements, supporting systems and processes as well as products and services provided. Our Chairman and Chief Executive Officer has been identified as the chief operating decision-maker and all significant operating decisions including the allocation of resources are based upon the analyses of the Company as one segment. (For financial information see Item 8. *Financial Statements and Supplementary Data*.)

Employees

As of December 31, 2012, we employed approximately 62,000 employees, including 55,000 shipboard employees as well as 6,200 full-time and 750 part-time employees in our shoreside operations. As of December 31, 2012, approximately 80% of our shipboard employees were covered by collective bargaining agreements. Based on employee survey results, we believe our employees' satisfaction level with our organization is strong.

Insurance

We maintain insurance on the hull and machinery of our ships, which includes additional coverage for disbursements, earnings and increased value, which are maintained in amounts related to the value of each ship. The coverage for each of the hull policies is maintained with syndicates of insurance underwriters from the British, Scandinavian, French, United States and other international insurance markets.

We maintain liability protection and indemnity insurance for each of our ships through either the United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited, the Steamship Mutual Underwriting Association (Bermuda) Limited or the Assuranceforeningen SKULD (Gjensidig). Our protection and indemnity liability insurance is done on a mutual basis and we are subject to additional premium calls in amounts based on claim records of all members of the mutual protection and indemnity association. We are also subject to additional premium calls based on investment shortfalls experienced by the insurer.

We maintain war risk insurance which covers damage due to acts of war, including invasion, insurrection, terrorism, rebellion, piracy and hijacking, on each ship, through a Norwegian war risk insurance organization. This coverage includes coverage for physical damage to the ship which is not covered under the hull policies as a result of war exclusion clauses in such hull policies. We also maintain protection and indemnity war risk coverage for risks that would be excluded by the rules of the indemnity insurance organizations, subject to certain limitations. Consistent with most marine war risk policies, under the terms of our war risk insurance coverage, underwriters can give seven days notice to us that the policy will be canceled and reinstated at higher premium rates.

Insurance coverage for shoreside property, shipboard inventory, and general liability risks are maintained with insurance underwriters in the United States and the United Kingdom.

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

All insurance coverage is subject to certain limitations, exclusions and deductible levels. In addition, in certain circumstances, we either self-insure or co-insure a portion of these risks. Premiums charged by insurance carriers, including carriers in the maritime insurance industry, increase or decrease from time to time and tend to be cyclical in nature. These cycles are impacted both by our

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own loss experience and by losses incurred in direct and reinsurance markets. We historically have been able to obtain insurance coverage in amounts and at premiums we have deemed to be commercially acceptable. No assurance can be given that affordable and secure insurance markets will be available to us in the future, particularly for war risk insurance.

The Athens Convention relating to the Carriage of Passengers and their Luggage by Sea (1974) and the 1976 Protocol to the Athens Convention are generally applicable to passenger ships. The United States has not ratified the Athens Convention; however, with limited exceptions, the 1976 Athens Convention Protocol may be contractually enforced with respect to those of our cruises that do not call at a United States port. The International Maritime Organization Diplomatic Conference agreed upon a new Protocol to the Athens Convention on November 1, 2002. The 2002 Protocol, which is not yet in force pending ratification by the requisite number of countries, substantially increases the level of compulsory insurance which must be maintained by passenger ship operators. In an attempt to expedite implementation, the European Union adopted the European Union Regulation 392/2009 ("EU Passenger Liability Regulation") on the liability of carriers of passengers by sea, which became effective on December 31, 2012. This regulation incorporates the 2002 Protocol in many ways. Compliance with the EU Passenger Liability Regulation does not have a material impact on operating costs.

Trademarks

We own a number of registered trademarks related to the Royal Caribbean International, Celebrity Cruises, Azamara Club Cruises, Pullmantur and CDF Croisières de France cruise brands. The registered trademarks include the name "Royal Caribbean International" and its crown and anchor logo, the name "Celebrity Cruises" and its "X" logo, the name "Azamara Club Cruises" and its logo, the names "Pullmantur Cruises" and "Pullmantur" and their logos, the name "CDF Croisières de France" and its logo, and the names of various cruise ships. We believe our trademarks are widely recognized throughout the world and have considerable value.

Regulation

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

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

Safety and Security Regulations

Our ships are required to comply with international safety standards defined in the International Convention for Safety of Life at Sea ("SOLAS"), which among other things, establishes requirements

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for ship design, structural features, materials, construction, life saving equipment and safe management and operation of ships to ensure guest and crew safety. The SOLAS standards are revised from time to time and the most recent modifications were phased in through 2010. Compliance with these modified standards did not have a material effect on our operating costs. SOLAS incorporates the International Safety Management Code ("ISM Code"), which provides an international standard for the safe management and operation of ships and for pollution prevention. The ISM Code is mandatory for all vessels, including passenger vessel operators. All of our operations and ships are regularly audited by national authorities and maintain the required certificates of compliance with the ISM Code. It is possible that the Costa Concordia incident could lead to new safety legislation and/or regulations. Although it is too early to assess the impact of any such legislation or regulation, we already equal or exceed most of the new safety measures under discussion and, accordingly, do not expect that we would be required to incur additional material compliance costs.

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

In July 2010, the U.S. adopted the Cruise Vessel Security and Safety Act of 2010, which applies to passenger vessels which embark or include port stops within the United States. This act requires the implementation of certain safety design features as well the establishment of practices for the reporting of and dealing with allegations of crime. In 2013, the U.S. Coast Guard is expected to issue regulations governing implementation of certain provisions of the act. We already exceed most of the requirements of the act and do not expect any costs that would be material to us to be required due to these likely regulations.

Environmental Regulations

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

Our ships are subject to the International Maritime Organization's ("IMO") regulations under the International Convention for the Prevention of Pollution from Ships (the "MARPOL Regulations"), which includes requirements designed to prevent and minimize pollution by oil, sewage, garbage and air emissions. We have obtained the relevant international compliance certificates relating to oil, sewage and air pollution prevention for all of our ships.

The MARPOL Regulations impose global limitations on the sulfur content of fuel used by ships operating worldwide. Permitted sulfur content was reduced from 4.5% to 3.5% on January 1, 2012. This reduction has not had a material effect on our fuel and operating costs. These regulations will also require the worldwide limitations on sulfur content of fuel to be reduced to 0.5% by January 1, 2020, subject to a feasibility review to be completed by IMO no later than 2018. If such a reduced limitation is implemented worldwide in 2020, our fuel costs could increase significantly.

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In addition to the global limitations, the MARPOL Regulations establish special Emission Control Areas ("ECAs") with stringent limitations on sulfur and nitrogen oxide emissions in these areas. As of July 1, 2010, ships operating in designated ECAs are required to operate on fuel with a sulfur content of 1.0%. Under these regulations, ships operating in ECAs will be required to further reduce their fuel sulfur content to 0.1% beginning on January 1, 2015.

As of February 2013, there are three established ECAs: the Baltic Sea, the North Sea/English Channel and certain of the waters surrounding the North American coast. In addition, in July 2011, the IMO accepted and adopted the application by the United States to designate the waters surrounding Puerto Rico and the US Virgin Islands as an ECA. This designation will be effective as of January 2014.

As of the date hereof, the sulfur content reductions in the existing ECAs has not had a material impact on our operations and we do not expect the initial sulfur content reductions in the Puerto Rico/US Virgin Islands ECA will have a material effect on our fuel and operating costs. However, the additional reduction to 0.1% as of January 1, 2015 will increase our fuel costs after this date. Based on 2013 itineraries and projected fuel consumption inside these ECAs, as well as current fuel prices and technologies, we estimate that implementation of the 0.1% low sulfur content requirement in all four currently designated ECAs would increase our 2013 fuel costs by approximately $65.0 million to $70.0 million. These costs may be reduced by possible mitigating factors, such as decreases in fuel prices, changes in the future supply and demand for fuel, the development of emissions abatement technologies, including new engine designs or exhaust gas treatment systems, the acceptance of alternative compliance methods, the cost migration effects of equivalent compliance initiatives and new fuel conservation initiatives.

In July 2011, new MARPOL Regulations introduced mandatory measures to reduce greenhouse gas emissions. These include the utilization of an energy efficiency design index (EEDI) for new ships as well as the establishment of an energy efficient management plan for all ships. The EEDI is a performance-based mechanism that requires a certain minimum energy efficiency in new ships. These regulations became effective on January 1, 2013. We do not anticipate that compliance with these regulations will have a material effect on our operating costs.

We are required to obtain certificates from the United States Coast Guard relating to our ability to satisfy liability in cases of water pollution. Pursuant to United States Coast Guard regulations, we arrange through our insurers for the provision of guarantees aggregating $349.4 million as a condition to obtaining the required certificates. The cost of obtaining these guarantees does not have a material effect on our operating costs.

Labor Regulations

The International Labour Organization, an agency of the United Nations that develops worldwide employment standards, has adopted a new Consolidated Maritime Labour Convention (the "Convention"). The Convention, which will be effective starting in August 2013, reflects a broad range of standards and conditions to govern all aspects of crew management for ships in international commerce, including additional requirements not previously in effect relating to the health, safety, repatriation, entitlements and status of crewmembers and crew recruitment practices. Each of our Flag States will be required to enact legislation prior to August 2013 that includes standards at least as stringent as those set forth in the Convention. As of the date of this report, this legislation has not been finalized. Assuming that the Flag States do not impose regulations that materially differ from the Convention requirements, we do no anticipate that our compliance costs will be material. There can be no assurances, however, that the Flag States will not seek to adopt additional requirements that could require us to incur unanticipated material expenses.

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Consumer Financial Responsibility Regulations

We are required to obtain certificates from the United States Federal Maritime Commission relating to our ability to satisfy liability in cases of non-performance of obligations to guests, as well as casualty and personal injury. Pursuant to the United States Federal Maritime Commission regulations, we arrange through our insurers for the provision of guarantees in the amount of $15.0 million for each of our two U.S. ship-operating companies, Royal Caribbean Cruises Ltd. and Celebrity Cruises Inc. and a bond in the amount of $15.0 million for one of our U.K. ship operating companies, as a condition to obtaining the required certificates. In February 2013, the United States Federal Maritime Commission approved amendments to the performance bond requirements that will increase the required guarantees to $30.0 million per operator ($90.0 million in the aggregate) over a two-year phase-in period. Once phased-in, the guarantee requirements will be subject to additional consumer price index based adjustments. The new rules will become effective in the first quarter of 2014. We do not anticipate that compliance with the new rules will have a material effect on our costs.

We are also required by the United Kingdom, Norway, Finland, and the Baltics to establish our financial responsibility for any liability resulting from the non-performance of our obligations to guests from these jurisdictions. In the United Kingdom we are currently required by the Association of British Travel Agents to provide performance bonds totaling approximately £32.1 million. The Norwegian Travel Guarantee Fund requires us to maintain performance bonds in varying amounts during the course of the year to cover our financial responsibility in Norway, Finland and the Baltics. These amounts ranged from $4.9 million to $18.8 million during 2012. We are also required to pay to the United Kingdom Civil Aviation Authority a non-refundable levy of £2.50 per guest where we arrange a flight as part of the cruise vacation.

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

Regulations Regarding Protection of Disabled Persons

In 2010, the United States Department of Transportation issued regulations (the "New ADA Regulations") addressing various issues applicable to passenger vessels under the American with Disabilities Act (the "ADA"). Part I of the New ADA Regulations, which include required reservation policies for disabled guests and requirements for aids and services to disabled passengers, became effective in January 2011. We believe we are in compliance with Part I of the New ADA Regulations and did not need to make any material expenditures to comply. Part II, when issued, is expected to address physical accessibility standards. While we believe our vessels have been designed and outfitted to meet the needs of our disabled guests, we cannot at this time accurately predict whether we will be required to make material modifications or incur significant additional expenses in response to Part II of the New ADA Regulations.

Taxation of the Company

The following is a summary of our principal taxes, exemptions and special regimes. In addition to or instead of income taxation, virtually all jurisdictions where our ships call impose some tax or fee, or both, based on guest headcount, tonnage or some other measure.

We are primarily foreign corporations engaged in the owning and operating of passenger cruise ships in international transportation. During 2012, we also operated other businesses primarily consisting of the land-tour operation in Alaska and the Pullmantur land-tour and air business.

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United States Income Taxation

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

Application of Section 883 of the Internal Revenue Code

We and Celebrity Cruises, Inc. are engaged in a trade or business in the United States, and many of our ship-owning subsidiaries, depending upon the itineraries of their ships, receive income from sources within the United States. Additionally, our United Kingdom tonnage tax company, owned by us and Celebrity Cruises, Inc., is a ship-operating company classified as a partnership for United States federal income tax purposes that may earn United States source income. Under Section 883 of the Internal Revenue Code, certain foreign corporations are not subject to United States federal income or branch profits tax on United States source income derived from or incidental to the international operation of a ship or ships, including income from the leasing of such ships.

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

We believe that most of our income and the income of our ship-owning subsidiaries is derived from or incidental to the international operation of a ship or ships and, therefore, is exempt from taxation under Section 883. Additionally, income earned through a partnership will qualify as income derived from or incidental to the international operation of a ship or ships to the same extent as the income would so qualify if earned directly by the partners. Thus, we believe that United States source income derived from or incidental to the international operation of a ship or ships earned by the United Kingdom tonnage tax company will qualify for exemption under Section 883 to the same extent as if it were earned directly by the owners of the United Kingdom tonnage tax company.

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

Taxation in the Absence of an Exemption under Section 883

If we, the operator of our vessels, Celebrity Cruises Inc., or our ship-owning subsidiaries were to fail to meet the requirements of Section 883 of the Internal Revenue Code, or if the provision was

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repealed, then, as explained below, such companies would be subject to United States income taxation on a portion of their income derived from or incidental to the international operation of our ships.

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

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

Other United States Taxation

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

State Taxation

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

Maltese and Spanish Income Tax

Our Pullmantur ship owner-operator subsidiaries, which include the owner-operator of CDF Croisières de France's ship, qualify as licensed shipping organizations in Malta. No Maltese income tax is charged on the income derived from shipping activities of a licensed shipping organization. Instead, a licensed shipping organization is liable to pay a tonnage tax based on the net tonnage of the ship or ships registered under the relevant provisions of the Merchant Shipping Act. A company qualifies as a shipping organization if it engages in qualifying activities and it obtains a license from the Registrar-General to enable it to carry on such activities. Qualifying activities include, but are not limited to, the ownership, operation (under charter or otherwise), administration and management of a ship or ships registered as a Maltese ship in terms of the Merchant Shipping Act and the carrying on of all ancillary financial, security and commercial activities in connection therewith.

Our Maltese operations that do not qualify as licensed shipping organizations, which are not considered significant, remain subject to normal Maltese corporate income tax.

Pullmantur has sales and marketing functions, land-based tour operations and air business in Spain. These activities are subject to Spanish taxation. The tax from these operations is not considered significant to our operations.

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United Kingdom Income Tax

We operate thirteen ships under companies which have elected to be subject to the United Kingdom tonnage tax regime ("U.K. tonnage tax").

Companies subject to U.K. tonnage tax pay a corporate tax on a notional profit determined with reference to the net tonnage of qualifying vessels. Normal United Kingdom corporate income tax is not chargeable on the relevant shipping profits of a qualifying U.K. tonnage tax company. The requirements for a company to qualify for the U.K. tonnage tax regime include being subject to United Kingdom corporate income tax, operating qualifying ships, which are strategically and commercially managed in the United Kingdom, and fulfilling a seafarer training requirement. Failure to meet any of these requirements could cause us to lose the benefit of the tonnage tax regime which will have a material effect on our results of operations.

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

Brazilian Income Tax

Pullmantur and our U.K. tonnage tax company charters certain ships to Brazilian companies for operations in Brazil from November to May. Some of these charters are with unrelated third parties and others are with a Brazilian affiliate. The Brazilian affiliate's earnings are subject to Brazilian taxation which is not considered significant. The charter payments made to the U.K. tonnage tax company and to Pullmantur are exempt from Brazilian income tax under current Brazilian domestic law.

Other Taxation

We and certain of our subsidiaries are subject to income tax in other jurisdictions on income that does not qualify for exemption or tonnage tax regimes. The tax on such income was not material to our results of operations for all years presented. Our U.K. tonnage tax company is exempt from some taxation in certain jurisdictions where those companies have business operations under relevant United Kingdom tax treaties. CDF Croisières de France's operations within France are minimal and therefore, its French income taxes are minimal.

Website Access to Reports

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

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Executive Officers of the Company

As of February 25, 2013, our executive officers are:

Name	Age	Position
Richard D. Fain	65	Chairman, Chief Executive Officer and Director
Adam M. Goldstein	53	President and Chief Executive Officer, Royal Caribbean International
Michael W. Bayley	54	President and Chief Executive Officer, Celebrity Cruises
Gonzalo Chico Barbier	52	President and Chief Executive Officer, Pullmantur
Lawrence Pimentel	61	President and Chief Executive Officer, Azamara Club Cruises
Brian J. Rice	54	Vice Chairman and Chief Financial Officer
Harri U. Kulovaara	60	Executive Vice President, Maritime
Lisa Bauer-Rudzki	49	Executive Vice President, Global Sales & Marketing, Royal Caribbean International
Lisa Lutoff-Perlo	55	Executive Vice President, Operations, Royal Caribbean International

Richard D. Fain has served as a director since 1979 and as our Chairman and Chief Executive Officer since 1988. Mr. Fain has been involved in the shipping industry for over 35 years.

Adam M. Goldstein has served as President of Royal Caribbean International since February 2005 and as its President and Chief Executive Officer since September 2007. Mr. Goldstein has been employed with Royal Caribbean since 1988 in a variety of positions, including Executive Vice President, Brand Operations of Royal Caribbean International, Senior Vice President, Total Guest Satisfaction and Senior Vice President, Marketing. Mr. Goldstein served as National Chair of the United States Travel Association (formerly, Travel Industry Association of America) in 2001.

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

Gonzalo Chico Barbier has served as President and Chief Executive Officer of Pullmantur since June 2008. From 1995 to June 2008, Mr. Chico served as Executive President of TNT Spain, a division of TNT, a global distribution, logistics and international mail service company. From 1986 until 1995, Mr. Chico was employed in a variety of positions with Ford Motor Company in Spain and in the United Kingdom, including Pan-European Fleet Business Manager of Ford of Europe, Ltd.

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

Brian J. Rice has served as Vice Chairman and Chief Financial Officer since September 2012. Mr. Rice previously served as Executive Vice President and Chief Financial Officer from November 2006 through September 2012. Mr. Rice has been employed with Royal Caribbean since 1989 in a variety of positions including Executive Vice President, Revenue Performance. In such capacity, Mr. Rice was responsible for revenue management, air/sea, groups, international operations, decision support, reservations and customer service for both Royal Caribbean International and Celebrity Cruises.

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

Lisa Bauer-Rudzki has served as Executive Vice President of Global Sales & Marketing for Royal Caribbean International since September 2012. Since joining the company in 2002, Mrs. Bauer-Rudzki has held various key roles within Royal Caribbean International, including, serving as Senior Vice President, Global Sales & Marketing from February 2012 to September 2012 and serving as Senior Vice President, Hotel Operations from November 2007 to February 2012. As Executive Vice President of Global Sales & Marketing, Ms. Bauer-Rudzki is responsible for Royal Caribbean International's worldwide marketing and revenue management as well as for the corporation's international sales and marketing offices.

Lisa Lutoff-Perlo has served as Executive Vice President, Operations for Royal Caribbean International since September 2012 after serving as Senior Vice President, Operations for Royal Caribbean International from August 2012 to September 2012. Mrs. Lutoff-Perlo has been employed with the Company since 1985 in a variety of positions within both Celebrity Cruises and Royal Caribbean International. She started at Royal Caribbean International as District Sales Manager for New England and more recently, from August 2008 to August 2012, she was responsible for Celebrity Cruises' entire hotel operation. In her role as Executive Vice President of Operations, Ms. Lutoff-Perlo is responsible for all of Royal Caribbean International's hotel, marine and port operations.

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Item 1A. Risk Factors

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

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

The demand for cruises is affected by international, national and local economic and geopolitical conditions. The slow pace of the economic recovery coupled with continued instability in the global economic landscape has had and continues to have an adverse effect on vacationers' discretionary income and consumer confidence. This, in turn, has resulted in cruise booking slowdowns, decreased cruise prices and lower onboard revenues for us and for others in the cruise industry as compared to more robust economic times. Although the cruise industry continued to recover in 2012, recovery has been slow and has been hindered by ongoing economic instability, including the continuing European sovereign debt crisis and financial market volatility. In addition, certain countries have been more severely impacted by recent economic conditions than other economies including, for example, Spain where we operate our Pullmantur brand. We cannot predict with any certainty whether demand for cruises will continue to improve or the rate of such improvement. Stagnant or worsening global economic conditions could result in a prolonged period of booking slowdowns, depressed cruise prices and reduced onboard revenues.

Demand for our cruises is also influenced by geopolitical events. Unfavorable conditions, such as cross-border conflicts, civil unrest and governmental changes, especially in regions with popular ports of call, can undermine consumer demand and/or pricing for itineraries featuring these ports.

Continued unrest and economic instability could materially adversely impact our operating results, cash flows and financial condition including potentially impairing the value of our ships, goodwill and other assets. During 2012, we recognized total impairment related charges of $413.9 million associated with our Pullmantur brand. See "*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*." Despite the Pullmantur related impairment charges, if the Spanish economy weakens further or recovers more slowly than contemplated or if the economies of other markets (e.g. France, Brazil, Latin America) perform worse than contemplated in our discounted cash flow model, or if there are material changes to the projected future cash flows used in the impairment analyses, especially in Net Yields, an additional impairment charge of the Pullmantur reporting unit's goodwill and trademarks and trade names may be required.

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

To fund our capital expenditures and scheduled debt payments, we have historically relied on a combination of cash flows provided by operations, drawdowns under available credit facilities, the incurrence of additional indebtedness and the sale of equity or debt securities in private or public securities markets. The decrease in consumer cruise spending as a result of the Costa Concordia incident and the economic uncertainty in Europe had an adverse impact on our cash flows from operations in 2012. See " *Adverse worldwide economic, geopolitical or other conditions....*" and " *Incidents or adverse publicity concerning the cruise vacation industry...."* for more information. If worldwide economic conditions worsen or there is another significant incident impacting the cruise industry, our operational cash flows could be negatively affected.

Although we believe we can access sufficient liquidity to fund our operations and obligations as expected, there can be no assurances to that effect. During 2013, we anticipate raising additional funds in the capital or credit markets as part of our refinancing strategy for our upcoming 2013 and 2014 maturities. Our ability to access additional funding as and when needed, our ability to timely refinance and/or replace our outstanding debt securities and credit facilities on acceptable terms and, our cost of funding will depend upon numerous factors including but not limited to the vibrancy of the financial markets, our financial performance and credit ratings and the performance of our industry in general. See *"Item 7. Management's Discussion & Analysis of Financial Condition and Results of Operations Funding Needs and Sources"* for more information.

Our inability to satisfy the covenants required by our credit facilities could adversely impact our liquidity.

Our debt agreements contain covenants, including covenants restricting our ability to take certain actions and financial covenants that require us to maintain minimum net worth and fixed charge coverage ratios and limit our net debt-to-capital ratio. Our ability to comply with the terms of our outstanding facilities may be affected by general economic conditions, industry conditions and other events, some of which may be beyond our control. In addition, our ability to make borrowings under our available credit facilities is subject to the absence of material adverse changes in our business. Our ability to maintain our credit facilities may also be impacted by changes in our ownership base. More specifically, we may be required to prepay a majority of our debt facilities 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. 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.

Our failure to comply with the terms of our debt facilities could result in an event of default. Generally, if an event of default under any debt agreement occurs, then pursuant to cross default acceleration clauses, our outstanding debt and derivative contract payables could become due and/or terminated. We cannot provide assurances that we would have sufficient liquidity to repay or refinance the borrowings under any of the credit facilities or settle other outstanding contracts if such amounts were accelerated upon an event of default.

In addition, under several of our agreements with credit card processors that accept credit cards for the sale of cruises and other services, the credit card processor may hold back a reserve from our credit card receivables following the occurrence of certain events, including a default under our major credit facilities. As of December 31, 2012, we were not required to maintain any reserve under such agreements.

Incidents or adverse publicity concerning the cruise vacation industry, unusual weather conditions and other natural disasters or disruptions could affect our reputation as well as impact our sales and results of operations.

The operation of cruise ships, airplanes, land tours, port facilities and shore excursions involves the risk of accidents, illnesses, environmental incidents and other incidents which may bring into question guest safety, health, security and vacation satisfaction which could negatively impact our reputation. Incidents involving cruise ships, and, in particular the safety and security of guests and crew, such as the Costa Concordia incident, media coverage thereof, as well as adverse media publicity concerning

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the cruise vacation industry or unusual weather patterns or natural disasters or disruptions, such as hurricanes and earthquakes, and the collateral impact thereof could impact demand for our cruises. The considerable expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by those incidents. If any such incident occurs during a time of high seasonal demand, the effect could disproportionately impact our results of operations for the year. In addition, any events which impact the travel industry more generally may negatively impact our ability to deliver guests to our cruises and/or interrupt our ability to obtain services and goods from key vendors in our supply chain. Any of the foregoing could have an adverse impact on our results of operations and on industry performance.

The impact of disruptions in the global financial markets may affect the ability of our counterparties and others to perform their obligations to us.

The financial crisis of 2008, including failures of financial service companies and the related liquidity crisis, disrupted the capital and credit markets and additional economic concerns from some of the countries in the European Union continue to strain the financial markets both in the US and internationally. A recurrence of these disruptions could cause our counterparties and others to breach their obligations to us under our contracts with them. This could include failures of banks or other financial service companies to fund required borrowings under our loan agreements or to pay us amounts that may become due under our derivative contracts for hedging of fuel prices, interest rates and foreign currencies or other agreements. If any of the foregoing occurs it may have a negative impact on our cash flows, including our ability to meet our obligations, our results of operations and our financial condition.

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

Although our ships can be redeployed, cruise sales and/or pricing may be impacted both by the introduction of new ships into the marketplace and by deployment decisions of ourselves and our competitors. A total of 19 new ships with approximately 65,000 berths are on order for delivery through 2017 in the cruise industry. The further growth in capacity from these new ships and future orders, without an increase in the cruise industry's share of the vacation market, could depress cruise prices and impede our ability to achieve yield improvement. In addition, to the extent that we or our competitors deploy ships to a particular itinerary and the resulting capacity in that region exceeds the demand, we may lower pricing and profitability may be lower than anticipated. Any of the foregoing could have an adverse impact on our results of operations, cash flows and financial condition including potentially impairing the value of our ships, goodwill and other assets.

If we are unable to appropriately balance our cost management strategy with our goal of satisfying guest expectations it may adversely impact our business success.

Our goals call for us to provide high quality products and deliver high quality services. There can be no assurances that we can successfully balance these goals with our cost containment efforts.

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 on the basis of cruise pricing, travel agent preference and also in terms of the nature of ships and services we offer to guests. Our principal competitors within the cruise vacation industry include Carnival Corporation & plc, which owns, among others, Aida Cruises, Carnival Cruise Lines, Costa Cruises, Cunard Line, Holland America Line, Iberocruceros, P&O Cruises and Princess Cruises; Disney Cruise Line; MSC Cruises; Norwegian Cruise Line and Oceania Cruises.

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

Fears of terrorist and pirate attacks, war, and other hostilities and the spread of contagious diseases could have a negative impact on our results of operations.

Events such as terrorist and pirate attacks, war, and other hostilities and the resulting political instability, travel restrictions, the spread of contagious diseases and concerns over safety, health and security aspects of traveling or the fear of any of the foregoing have had, and could have in the future, a significant adverse impact on demand and pricing in the travel and vacation industry. As we continue to globalize our operations, we become susceptible to a wider range of adverse events.

Fluctuations in foreign currency exchange rates could affect our financial results.

We earn revenues, pay expenses, recognize assets and incur liabilities in currencies other than the U.S. dollar, including, among others, the British pound sterling, the Canadian dollar, the euro, the Australian dollar and the Brazilian real. In 2012, we derived approximately 49% of revenues from operations outside the United States. Because our consolidated financial statements are presented in U.S. dollars, we must convert revenues, income and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, absent offsetting changes in other foreign currencies, increases or decreases in the value of the U.S. dollar against other major currencies will affect our revenues, operating income and the value of balance sheet items denominated in foreign currencies. We use derivative financial instruments to mitigate our net balance sheet exposure to currency exchange rate fluctuations. However, there can be no assurances that fluctuations in foreign currency exchange rates, particularly the strengthening of the U.S. dollar against major currencies, would not materially affect our financial results.

In addition, we have ship construction contracts which are denominated in euros. While we have entered into euro-denominated forward contracts and collar options to manage a portion of the currency risk associated with these ship construction contracts, we are exposed to fluctuations in the euro exchange rate for the portion of the ship construction contracts that has not been hedged. Additionally, if the shipyard is unable to perform under the related ship construction contract, any foreign currency hedges that were entered into to manage the currency risk would need to be terminated. Termination of these contracts could result in a significant loss.

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

The United States and various state and foreign government or regulatory agencies have enacted or are considering new environmental regulations or policies, such as requiring the use of low sulfur fuels, increasing fuel efficiency requirements, further restricting emissions, or other initiatives to limit greenhouse gas emissions that could increase our cost for fuel, cause us to incur significant expenses to purchase and/or develop new equipment and adversely impact the cruise vacation industry. Some environmental groups have also lobbied for more stringent regulation of cruise ships and have generated negative publicity about the cruise vacation industry and its environmental impact. See "Item 1. Business Regulation Environmental Regulations." An increase in fuel prices not only impacts our fuel costs, but also some of our other expenses, such as crew travel, freight and commodity prices.

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

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

We operate our business globally and plan to continue to develop our international presence. Operating internationally exposes us to a number of risks, including unstable local economic conditions, volatile local political conditions, potential changes in duties and taxes, including changing interpretations of existing tax laws and regulations, required compliance with additional laws and policies affecting cruising, vacation or maritime businesses or governing the operations of foreign-based companies, currency fluctuations, interest rate movements, difficulties in operating under local business environments, U.S. and global anti-bribery laws or regulations, imposition of trade barriers and restrictions on repatriation of earnings. In addition, if a country where we have significant operations or obligations leaves the euro currency system, our financial condition may be adversely impacted. If we are unable to address these risks adequately, our financial position and results of operations could be adversely affected, including potentially impairing the value of our ships, goodwill and other assets.

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

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

While our historical focus has been to serve the North American cruise market, we have expanded our focus to increase our international guest sourcing, including sourcing from the Brazilian, Asian and Australian markets. Expansion into new markets requires significant levels of investment. There can be no assurance that these markets will develop as anticipated or that we will have success in these markets, and if we do not, we may be unable to recover our investment, which could adversely impact our business, financial condition and results of operations.

Ship construction, repair or revitalization delays or mechanical faults may result in cancellation of cruises or unscheduled drydocks and repairs and thus adversely affect our results of operations.

We depend on shipyards to construct, repair and revitalize our cruise ships on a timely basis and in good working order. The sophisticated nature of building a ship involves risks. Delays or mechanical faults in ship construction or revitalization have in the past and may in the future result in delays or cancellation of cruises or necessitate unscheduled drydocks and repairs of ships. These events and any related adverse publicity could result in lost revenue, increased operating expenses, or both, and thus adversely affect our results of operations.

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Shipyards and their subcontractors may experience financial difficulties which could cause or result in delay, ship cancellations, our inability to procure new capacity in a timely fashion or increases in shipbuilding costs that could adversely affect our results of operations.

We rely on shipyards to construct, repair and revitalize our vessels. Financial difficulties, liquidations or closures suffered by these shipyards and/or their subcontractors may impact the timely delivery or costs of new ships or the ability of shipyards to repair and revitalize our fleet in accordance with our needs or expectations. The shipyard that is building the two newbuilds for our TUI Cruises joint venture is currently experiencing financial difficulties. We have engaged in discussions with the shipyard to assess the impact on the ships they are building for TUI Cruises. This situation could have a material impact on the ability of the shipyard to deliver these ships in accordance with the terms of the contract, the costs borne by TUI Cruises associated with these ships and/or the financial support that we may need to provide (e.g. parent guarantees, additional equity contributions) to seek to ensure timely completion.

In addition, there are a limited number of shipyards with the capability and capacity to build our new vessels and, accordingly, closures or consolidation in the cruise shipyard industry could impact our ability to construct new vessels when and as planned and/or could result in stronger bargaining power on the part of the shipyards and thus higher prices for our future ship orders. Delivery delays and cancelled deliveries can adversely affect our results of operations, as can any constraints on our ability to build, repair and maintain our ships on a timely basis.

Our operating costs, especially fuel expenditures, could increase due to market forces and economic or geopolitical factors beyond our control.

Expenditures for fuel represent a significant cost of operating our business. If fuel prices rise significantly in a short period of time, we may be unable to increase fares or other fees sufficiently to offset fully our increased fuel costs. We routinely hedge a portion of our future fuel requirements to protect against rising fuel costs. However, there can be no assurance that our hedge contracts will provide a sufficient level of protection against increased fuel costs or that our counterparties will be able to perform under our hedge contracts, such as in the case of a counterparty's bankruptcy. Further volatility in fuel prices or disruptions in fuel supplies could have a material adverse effect on our results of operations, financial condition and liquidity.

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

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

We believe that port destinations are a major reason why guests choose to go on a particular cruise or on a cruise vacation. The availability of ports is affected by a number of factors, including existing capacity constraints, constraints related to the size of certain ships, security concerns, adverse weather conditions and natural disasters, financial limitations on port development, exclusivity arrangements that ports may have with our competitors, local governmental regulations and local community concerns about port development and other adverse impacts on their communities from additional tourists. Any limitations on the availability of our ports of call or on the availability of shore excursion and other service providers at such ports could adversely affect our results of operations.

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

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

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

Because we rely on travel agencies to generate the majority of bookings for our ships, we must ensure that our commission rates and incentive structures remain competitive. If we fail to offer competitive compensation packages, these agencies may be incentivized to sell cruises offered by our competitors to our detriment, which could adversely impact our operating results. In addition, the travel agent industry is sensitive to economic conditions that impact discretionary income. Significant disruptions, especially disruptions impacting those agencies that sell a high volume of our business, or contractions in the industry could reduce the number of travel agencies available for us to market and sell our cruises, which could have an adverse impact on our financial condition and results of operations.

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

Our principal executive office and principal shoreside operations are located at the Port of Miami, Florida and we have call centers for reservations throughout the world. Although we have developed disaster recovery and similar contingency plans, actual or threatened natural disasters (e.g. hurricanes, earthquakes, tornados, fires, floods) or similar events in these locations may have a material impact on our business continuity, reputation and results of operations. In addition, substantial or repeated information systems failures, computer viruses, cyber-attacks impacting our shoreside or shipboard operations could adversely impact our business. We do not carry business interruption insurance for the majority of our shoreside operations or our information systems. As such, any losses or damages incurred by us could have an adverse impact on our results of operations.

Failure to develop the value of our brands and differentiate our products could adversely affect our results of operations.

Our success depends on the strength and continued development of our cruise brands and on the effectiveness of our brand strategies. Failure to protect and differentiate our brands from competitors throughout the vacation market could adversely affect our results of operations.

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

Our success depends, in large part, on the skills and contributions of key executives and other employees, and on our ability to recruit and retain high quality employees. We must continue to recruit, retain and motivate management and other employees sufficient to maintain our current business and support our projected growth. Furthermore, as of December 31, 2012, 80% of our shipboard employees were covered by collective bargaining agreements. A dispute under our collective bargaining agreements could result in a work stoppage of those employees covered by the agreements. A loss of key employees or disruptions among our personnel could adversely affect our results of operations.

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

Partnerships, joint ventures, and other business structures involving our co-investment with third parties, such as our joint venture to operate TUI Cruises, generally include some form of shared control over the operations of the business and create additional risks, including the possibility that other investors in such ventures could become bankrupt or otherwise lack the financial resources to meet their obligations, or could have or develop business interests, policies or objectives that are inconsistent with ours. In addition, actions by another investor may present additional risks of operational difficulties or reputational or legal concerns.

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

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

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

We and a number of our subsidiaries are foreign corporations that derive income from a 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, based on certain representations and assumptions set forth in it, to the effect that this income, to the extent derived from or incidental to the international operation of a ship or ships, is exempt from United States federal income tax pursuant to Section 883 of the Internal Revenue Code. We believe that most of our income (including that of our subsidiaries) is derived from or incidental to the international operation of a ship or ships.

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, trading volume or trading frequency of our shares, or relevant foreign tax laws of Liberia or Malta such that they no longer qualify as equivalent exemption jurisdictions, that could affect our eligibility for the Section 883 exemption. Accordingly, there can be no assurance that we will continue to be exempt from 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.

Additionally, portions of our business are operated by companies that are within tonnage tax regimes of the U.K. and Malta. Further, some of the operations of these companies are conducted in jurisdictions where we rely on tax treaties to provide exemption from taxation. To the extent the tonnage tax laws of these countries change or we do not continue to meet the applicable qualification requirements or if tax treaties are changed or revoked, we may be required to pay higher income tax in these jurisdictions, resulting in lower net income.

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

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

Our corporate affairs are governed by our Articles of Incorporation and By-Laws and by the Business Corporation Act of Liberia. The provisions of the Business Corporation Act of Liberia resemble provisions of the corporation laws of a number of states in the United States. However, while most states have a fairly well developed body of case law interpreting their respective corporate statutes, there are very few judicial cases in Liberia interpreting the Business Corporation Act of Liberia. As such, the rights and fiduciary responsibilities of directors under Liberian law are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. For example, the right of shareholders to bring a derivative action in Liberian courts may be more limited than in United States jurisdictions. There may also be practical difficulties for shareholders attempting to bring suit in Liberia and Liberian courts may or may not recognize and enforce foreign judgments. Thus, our public shareholders may have more difficulty in protecting their interests with respect to actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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Our principal executive office and principal shoreside operations are located at the Port of Miami, Florida where we lease three office buildings totaling approximately 361,800 square feet from Miami-Dade County, Florida, under long-term leases with current terms expiring in 2021. We lease two office buildings in the United Kingdom totaling approximately 57,000 square feet used to conduct our operations in the United Kingdom. We also lease a number of international offices throughout Europe, Asia, Mexico, South America and Australia to administer our brand operations globally.

We lease an office building in Springfield, Oregon totaling approximately 163,000 square feet, which is used as a call center for reservations. In addition, we own two office buildings totaling approximately 95,000 square feet in Wichita, Kansas, which are used as call centers for reservations and customer service. We lease two buildings in Miramar, Florida totaling approximately 178,000 square feet. One building is used primarily as office space and the other building is used as a call center for reservations. We also lease our logistics center in Weston, Florida totaling approximately 267,000 square feet.

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

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

Item 3. Legal Proceedings

Between August 1, 2011 and September 8, 2011, three similar purported class action lawsuits were filed against us and certain of our current and former officers in the U.S. District Court of the Southern District of Florida. The cases have since been consolidated and a consolidated amended complaint was filed on February 17, 2012. The consolidated amended complaint was filed on behalf of a purported class of purchasers of our common stock during the period from October 26, 2010 through July 27, 2011 and names the Company, our Chairman and CEO, our CFO, the President and CEO of our Royal Caribbean International brand and the former President and CEO of our Celebrity Cruises brand as defendants. The consolidated amended complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 as well as, in the case of the individual defendants, the control person provisions of the Securities Exchange Act. The complaint principally alleges that the defendants knowingly made incorrect statements concerning the Company's outlook for 2011 by not taking into proper account lagging European and Mediterranean bookings. The consolidated amended complaint seeks unspecified damages, interest, and attorneys' fees. We filed a motion to dismiss the complaint on April 9, 2012. Briefing on that motion was completed on August 2, 2012. The motion is currently pending. We believe the claims made against us are without merit and we intend to vigorously defend ourselves against them.

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 alleging that they were required to pay other crew members to help with their duties in violation of the U.S. Seaman's Wage Act. The lawsuit also alleges that certain stateroom attendants were required to work back of house assignments without the ability to earn gratuities in violation of the U.S. Seaman's Wage Act. Plaintiffs seek judgment 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. Plaintiff's appeal of this decision was dismissed for lack of jurisdiction by the United States Court of Appeals, 11th Circuit. Plaintiffs are seeking to renew their appeal. We believe the appeal is without merit as are the underlying claims made against us and we intend to vigorously defend ourselves against them.

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Because of the inherent uncertainty as to the outcome of the proceedings described above, we are unable at this time to estimate the possible impact of these matters 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.

Item 4. Mine Safety Disclosures

None.

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PART II

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

Market Information

Our common stock is listed on the New York Stock Exchange ("NYSE") and the Oslo Stock Exchange ("OSE") under the symbol "RCL". The table below sets forth the high and low sales prices of our common stock as reported by the NYSE and the OSE for the two most recent years by quarter:

	NYSE Common Stock		OSE Common Stock(1)	
	High	**Low**	**High**	**Low**
2012				
Fourth Quarter	$ 36.18	$ 30.26	202.50	169.70
Third Quarter	31.97	22.45	182.90	134.50
Second Quarter	29.45	22.12	167.60	134.60
First Quarter	31.96	25.40	183.70	149.30
2011				
Fourth Quarter	$ 30.99	$ 18.70	168.00	111.60
Third Quarter	39.43	21.50	214.30	121.10
Second Quarter	42.30	32.68	232.60	180.00
First Quarter	49.99	40.26	293.10	226.30

(1) Denominated in Norwegian kroner, as listed in the price history database available at www.oslobors.no.

Holders

As of February 13, 2013 there were 1,128 record holders of our common stock. Since certain of our shares are held by brokers and other institutions on behalf of shareholders, the foregoing number is not representative of the number of beneficial owners.

Dividends

In July 2011, our Board of Directors reinstated our quarterly dividend, which had been discontinued in the fourth quarter of 2008. We subsequently declared cash dividends on our common stock of $0.10 per share during the third and fourth quarters of 2011 and the first and second quarters of 2012. We increased the dividend amount to $0.12 per share for the dividends declared in the third and fourth quarters of 2012.

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

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

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The declaration of dividends shall at all times be subject to the final determination of our Board of Directors that a dividend is prudent at that time in consideration of the needs of the business.

Performance Graph

The following graph compares the total return, assuming reinvestment of dividends, on an investment in the Company, based on performance of the Company's common stock, with the total return of the Standard & Poor's 500 Composite Stock Index and the Dow Jones United States Travel and Leisure Index for a five year period by measuring the changes in common stock prices from December 31, 2007 to December 31, 2012.

	12/07	12/08	12/09	12/10	12/11	12/12
Royal Caribbean Cruises Ltd.	**100.00**	**32.89**	**60.47**	**112.43**	**59.75**	**83.26**
S&P 500	**100.00**	**63.00**	**79.67**	**91.67**	**93.61**	**108.59**
Dow Jones US Travel & Leisure	**100.00**	**64.87**	**84.97**	**120.13**	**128.17**	**145.26**

The stock performance graph assumes for comparison that the value of the Company's common stock and of each index was $100 on December 31, 2007 and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

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Item 6. Selected Financial Data

The selected consolidated financial data presented below for the years 2008 through 2012 and as of the end of each such year are derived from our audited consolidated financial statements and should be read in conjunction with those financial statements and the related notes as well as in conjunction with Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share data)				
Operating Data:					
Total revenues	$ 7,688,024	$ 7,537,263	$ 6,752,504	$ 5,889,826	$ 6,532,525
Operating income(1)	403,110	931,628	802,633	488,511	831,984
Net income(1)(2)	18,287	607,421	515,653	152,485	573,722
Per Share Data Basic:					
Net income	$ 0.08	$ 2.80	$ 2.40	$ 0.71	$ 2.69
Weighted-average shares	217,930	216,983	215,026	213,809	213,477
Per Share Data Diluted:					
Net income	$ 0.08	$ 2.77	$ 2.37	$ 0.71	$ 2.68
Weighted-average shares and potentially dilutive shares	219,457	219,229	217,711	215,295	214,195
Dividends declared per common share	$ 0.44	$ 0.20	$ 0.00	$ 0.00	$ 0.45
Balance Sheet Data:					
Total assets	$ 19,827,930	$ 19,804,405	$ 19,653,829	$ 18,224,425	$ 16,463,310
Total debt, including capital leases	8,489,947	8,495,853	9,150,116	8,419,770	7,011,403
Common stock	2,291	2,276	2,262	2,243	2,239
Total shareholders' equity	8,308,749	8,407,823	7,900,752	7,489,781	6,803,012

(1) Amounts for 2012 include an impairment charge of $385.4 million to write down Pullmantur's goodwill to its implied fair value and to write down trademarks and trade names and certain long-lived assets, consisting of three aircraft owned and operated by Pullmantur Air, to their fair value. (See *Valuation of Goodwill, Indefinite-Lived Intangible Assets and Long-Lived Assets* under Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* for more information regarding the impairment of these assets).

(2) Amounts for 2012 include a $33.7 million charge to record a 100% valuation allowance related to our deferred tax assets for Pullmantur. In addition, we reduced the deferred tax liability related to Pullmantur's trademarks and trade names by $5.2 million. These adjustments resulted in an increase of $28.5 million to *other (expense) income*. (See *Valuation of Goodwill, Indefinite-Lived Intangible Assets and Long-Lived Assets* under Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* for more information regarding these transactions).

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

Cautionary Note Concerning Forward-Looking Statements

The discussion under this caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this document, including, for example, under the "Risk Factors" and "Business" captions, includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance (including our expectations for the first quarter and full year of 2013 set forth under the heading "Outlook" below), business and industry prospects or future results of operations or financial position, made in this Annual Report on Form 10-K are forward-looking. Words such as "anticipate," "believe," "could," "estimate," "expect," "goal," "intend," "may," "plan," "project," "seek," "should," "will," 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, the following:

- the impact of the worldwide economic and geopolitical environment or other conditions on the demand for cruises;
- the impact of the worldwide economic environment on our ability to generate cash flows from operations, satisfy the financial covenants required by our credit facilities, or obtain new borrowings from the credit or capital markets;
- the impact of disruptions in the global financial markets on the ability of our counterparties and others to perform their obligations to us including those associated with our loan agreements and derivative contracts;
- negative incidents concerning the Company and the cruise vacation industry, or adverse publicity, including those involving the health, safety and security of guests, accidents, unusual weather conditions or natural disasters or disruptions;
- our ability to appropriately balance our cost management strategy with our goal of satisfying guest expectations;
- failure to keep pace with developments in technology which could impair our operations or competitive position;
- the uncertainties of conducting business globally and our ability to realize the intended benefits of our investments in new markets;
- changes in operating and financing costs, including changes in foreign exchange rates, interest rates, fuel, food, payroll, airfare, insurance and security costs;
- vacation industry competition and industry overcapacity in certain markets;
- the cost of or changes in tax, environmental, labor, health, safety, security and other laws and regulations affecting our business;
- pending or threatened litigation, enforcement actions, fines or penalties;
- emergency ship repairs, including the related lost revenue;

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- the impact of ship construction, repair or refurbishment delays, ship cancellations or ship construction price increases brought about by construction faults, mechanical problems or financial difficulties encountered by shipyards or their subcontractors;
- the global political climate, fears of terrorist and pirate attacks, armed conflict, the unavailability or cost of air service and the resulting concerns over safety and security aspects of traveling;
- the spread of contagious diseases;
- disruptions to our shoreside business related to actual or threatened natural disasters, information systems failure or similar events;
- our ability to differentiate our products;
- our ability to manage our business activities that involve our co-investment with third parties;
- our inability to adequately incentivize our travel agents or changes and/or disruptions to the travel agency industry;
- the loss of key personnel, strained employee relations and/or our inability to retain or recruit qualified personnel;
- changes in our principal shareholders;
- uncertainties of a foreign legal system as we are not incorporated in the United States;
- the unavailability of ports of call; and
- weather.

The above examples are not exhaustive and, in addition, new risks emerge from time to time. All forward-looking statements made in this Annual Report on Form 10-K speak only as of the date of this document. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should consider the areas of risk described above, as well as those set forth under the heading "Risk Factors" in Part I, Item 1A. in this Annual Report on Form 10-K, when considering any forward-looking statements that may be made by us and our business generally.

Overview

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

- a review of our critical accounting policies and 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 year ended December 31, 2012 compared to the same period in 2011 and the year ended December 31, 2011 compared to the same period in 2010;

a discussion of our business outlook, including our expectations for selected financial items for the first quarter and full year of 2013; and

a discussion of our liquidity and capital resources, including our future capital and contractual commitments and potential funding sources.

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Critical Accounting Policies

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

Ship Accounting

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

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

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We use judgment when estimating the period between drydocks, which can result in adjustments to the estimated amortization of drydock costs. If the vessel is disposed of before the next drydock, the remaining balance in deferred drydock is written-off to the gain or loss upon disposal of vessel in the period in which the sale takes place. We also use judgment when identifying costs incurred during a drydock which are necessary to maintain the vessel's Class certification as compared to those costs attributable to repairs and maintenance which are expensed as incurred. (See Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data*).

We believe we have made reasonable estimates for ship accounting purposes. However, should certain factors or circumstances cause us to revise our estimates of ship useful lives or projected residual values, depreciation expense could be materially higher or lower. If circumstances cause us to change our assumptions in making determinations as to whether ship improvements should be capitalized, the amounts we expense each year as repairs and maintenance costs could increase, partially offset by a decrease in depreciation expense. If we had reduced our estimated average 30-year ship useful life by one year, depreciation expense for 2012 would have increased by approximately $40.4 million. If our ships were estimated to have no residual value, depreciation expense for 2012 would have increased by approximately $166.7 million.

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

We review goodwill, trademarks and trade names, which are our most significant indefinite-lived intangible assets, for impairment at the reporting unit level annually or, when events or circumstances dictate, more frequently. The impairment review for goodwill consists of a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying amount, and if necessary, a two-step goodwill impairment test. Factors to consider when performing the qualitative assessment include general economic conditions, limitations on accessing capital, changes in forecasted operating results, changes in fuel prices and fluctuations in foreign exchange rates. If the qualitative assessment demonstrates that it is more-likely-than-not that the estimated fair value of the reporting unit exceeds its carrying value, it is not necessary to perform the two-step goodwill impairment test. We may elect to bypass the qualitative assessment and proceed directly to step one, for any reporting unit, in any period. We can resume the qualitative assessment for any reporting unit in any subsequent period.

When performing the two-step goodwill impairment test, the fair value of the reporting unit is determined and compared to the carrying value of the net assets allocated to the reporting unit. We estimate the fair value of our reporting units using a probability-weighted discounted cash flow model. The estimation of fair value utilizing discounted expected future cash flows includes numerous uncertainties which require our significant judgment when making assumptions of expected revenues, operating costs, marketing, selling and administrative expenses, interest rates, ship additions and retirements as well as assumptions regarding the cruise vacation industry's competitive environment and general economic and business conditions, among other factors. The principal assumptions used in the discounted cash flow model are projected operating results, weighted-average cost of capital, and terminal value. The discounted cash flow model uses our 2013 projected operating results as a base. To that base we add future years' cash flows assuming multiple revenue and expense scenarios that reflect the impact of different global economic environments beyond 2013 on the reporting unit. We discount the projected cash flows using rates specific to the reporting unit based on its weighted-average cost of capital. If the fair value of the reporting unit exceeds its carrying value, no further analysis or write-down of goodwill is required. If the fair value of the reporting unit is less than the carrying value of its net assets, the implied fair value of the reporting unit is allocated to all its underlying assets and liabilities, including both recognized and unrecognized tangible and intangible assets, based on their fair value. If necessary, goodwill is then written down to its implied fair value.

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The impairment review for indefinite-life intangible assets consists of a comparison of the fair value of the asset with its carrying amount. We estimate the fair value of our indefinite-life intangible assets, which consist of trademarks and trade names related to Pullmantur, using a discounted cash flow model and the relief-from-royalty method. The royalty rate used is based on comparable royalty agreements in the tourism and hospitality industry. The discount rate used is comparable to the rate used in valuing the Pullmantur reporting unit in our goodwill impairment test. If the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. If the fair value exceeds its carrying amount, the indefinite-life intangible asset is not considered impaired. Other intangible assets assigned finite useful lives are amortized on a straight-line basis over their estimated useful lives.

The factors influencing expected future cash flows for purposes of goodwill impairment testing discussed above also affect the assessment of recoverability of Pullmantur's deferred tax assets. Pullmantur's deferred tax assets principally result from net operating loss carryforwards. We regularly review deferred tax assets for recoverability based on our history of earnings, expectations of future earnings, and tax planning strategies. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income to support the amount of deferred tax assets. A valuation allowance is recorded in those circumstances in which we conclude it is not more-likely-than-not we will recover the deferred tax assets prior to their expiration.

We review our ships, aircraft and other long-lived assets for impairment whenever events or changes in circumstances indicate, based on estimated undiscounted future cash flows, that the carrying amount of these assets may not be fully recoverable. We evaluate asset impairment at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The lowest level for which we maintain identifiable cash flows that are independent of the cash flows of other assets and liabilities is at the ship level for our ships and at the aggregated asset group level for our aircraft. (See Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data*). If estimated future cash flows are less than the carrying value of an asset, an impairment charge is recognized for the difference between the asset's estimated fair value and its carrying value.

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

Impairment of Pullmantur related assets

During the fourth quarter of 2012, we performed our annual impairment review of goodwill for Pullmantur's reporting unit. We did not perform a qualitative assessment but instead proceeded directly to the two-step goodwill impairment test. Pullmantur is a brand targeted primarily at the Spanish, Portuguese and Latin American markets and although Pullmantur has diversified its passenger sourcing over the past few years, Spain still represents Pullmantur's largest market. As previously disclosed, European economies continued to demonstrate instability in light of heightened concerns over sovereign debt issues as well as the impact of proposed austerity measures on certain markets. The Spanish economy was more severely impacted than many other economies and there is significant uncertainty as to when it will recover. In addition, the impact of the Costa Concordia incident has had a more lingering effect than expected and the impact in future years is uncertain. These factors were identified in the past as significant risks which could lead to the impairment of Pullmantur's goodwill.

The Spanish economy has progressively worsened and forecasts suggest the challenging operating environment will continue for an extended period of time. The unemployment rate in Spain reached

26% during the fourth quarter of 2012 and is expected to rise further in 2013. The International Monetary Fund, which had projected GDP growth of 1.8% a year ago, revised its 2013 GDP projections downward for Spain to a contraction of 1.3% during the fourth quarter of 2012 and further reduced it to a contraction of 1.5% in January of 2013. During the latter half of 2012 new austerity measures, such as increases to the Value Added Tax, cuts to benefits, the phasing out of exemptions and the suspension of government bonuses, were implemented by the Spanish government. We believe these austerity measures are having a larger impact on consumer confidence and discretionary spending than previously anticipated. As a result, there has been a significant deterioration in bookings from guests sourced from Spain during the 2013 WAVE season. The combination of all of these factors has caused us to negatively adjust our cash flow projections, especially our closer-in Net Yield assumptions and the expectations regarding future capacity growth for the brand.

Based on our updated cash flow projections, we determined the implied fair value of goodwill was $145.5 million and recognized an impairment charge of $319.2 million. Similarly, we determined that the fair value of Pullmantur's trademarks and trade names no longer exceeded their carrying value. Accordingly, we recognized an impairment charge of approximately $17.4 million to write down trademarks and trade names to their fair value of $204.9 million.

As part of step two of our goodwill impairment analysis, we identified that the estimated fair values of certain long-lived assets, consisting of three aircraft owned and operated by Pullmantur Air, were less than their carrying values. As a result, we proceeded to our long-lived asset impairment test. Pullmantur's strategy to further diversify its passenger sourcing and reduce its reliance on the Spanish market has led us to reduce the expected years in which we will use these aircraft when performing the undiscounted cash flow test. The undiscounted cash flows for Pullmantur's aircraft were determined to be less than their carrying value and an impairment charge of $48.9 million was required.

The combined impairment charge of $385.4 million related to Pullmantur's goodwill, trademarks and trade names and aircraft was recognized in earnings during the quarter ended December 31, 2012 and is reported within *Impairment of Pullmantur related assets* within our consolidated statements of comprehensive income (loss).

The factors influencing the Spanish economy and Pullmantur's operating cash flows discussed above also affect the recoverability of Pullmantur's deferred tax assets. During the fourth quarter of 2012, we updated our deferred tax asset recoverability analysis for projections included within the goodwill valuation model discussed above. These projections, including the impact of recently enacted laws regarding net operating loss utilization, and the review of our tax planning strategies show that it is no longer more-likely-than-not that we will recover the deferred tax assets prior to their expiration. As such, we have determined that a 100% valuation allowance of our deferred tax assets was required resulting in a deferred income tax expense of $33.7 million. In addition, Pullmantur has a deferred tax liability that was recorded at the time of acquisition. This liability represents the tax effect of the basis difference between the tax and book values of the trademarks and trade names that were acquired at the time of the acquisition. Due to the impairment charge related to these intangible assets, we reduced the deferred tax liability by $5.2 million. The net $28.5 million impact of these adjustments was recognized in earnings during the fourth quarter of 2012 and is reported within *Other (expense) income* in our statements of comprehensive income (loss).

If the Spanish economy weakens further or recovers more slowly than contemplated or if the economies of other markets (e.g. France, Brazil, Latin America) perform worse than contemplated in our discounted cash flow model, or if there are material changes to our projected future cash flows used in the impairment analyses, especially in Net Yields, an additional impairment charge of the Pullmantur reporting unit's goodwill, trademarks, trade names and long-lived assets may be required.

Royal Caribbean International

During the fourth quarter of 2012, we performed a qualitative assessment of the Royal Caribbean International reporting unit. Based on our qualitative assessment, we concluded that it was more-likely-than-not that the estimated fair value of the Royal Caribbean International reporting unit exceeded its carrying value as of December 31, 2012 and thus, did not proceed to the two-step goodwill impairment test. No indicators of impairment exist primarily because the reporting unit's fair value has consistently exceeded its carrying value by a significant margin, its financial performance has been solid in the face of mixed economic environments and forecasts of operating results generated by the reporting unit appear sufficient to support its carrying value.

Derivative Instruments

We enter into various forward, swap and option contracts to manage our interest rate exposure and to limit our exposure to fluctuations in foreign currency exchange rates and fuel prices. These instruments are recorded on the balance sheet at their fair value and the vast majority are designated as hedges. We also have non-derivative financial instruments designated as hedges of our net investment in our foreign operations and investments. The fuel options we have entered into represent economic hedges which are not designated as hedging instruments for accounting purposes and thus, changes in their fair value are immediately recognized in earnings. Although certain of our derivative financial instruments do not qualify or are not accounted for under hedge accounting, our derivative instruments are not held for trading or speculative purposes. We account for derivative financial instruments in accordance with authoritative guidance. Refer to Note 2. *Summary of Significant Accounting Policies* and Note 13. *Fair Value Measurements and Derivative Instruments* to our consolidated financial statements for more information on related authoritative guidance, the Company's hedging programs and derivative financial instruments.

We enter into foreign currency forward contracts and collars, interest rate, cross-currency and fuel swaps and options with third party institutions in over-the-counter markets. We estimate the fair value of our foreign currency forward contracts and interest rate and cross-currency swaps using expected future cash flows based on the instruments' contract terms and published forward curves for foreign currency exchange and interest rates. We apply present value techniques and LIBOR-based discount rates to convert the expected future cash flows to the current fair value of the instruments.

We estimate the fair value of our foreign currency collars 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.

We estimate the fair value of our fuel swaps using expected future cash flows based on the swaps' contract terms and forward prices. We derive forward prices from forward fuel curves based on pricing inputs provided by third-party institutions that transact in the fuel indices we hedge. We validate these pricing inputs against actual market transactions and published price quotes for similar assets. We apply present value techniques and LIBOR-based discount rates to convert the expected future cash flows to the current fair value of the instruments. We also corroborate our fair value estimates using valuations provided by our counterparties.

We estimate the fair value for our fuel call options based on the prevailing market price for the instruments consisting of published price quotes for similar assets based on recent transactions in an active market.

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

We believe it is unlikely that materially different estimates for the fair value of our foreign currency forward contracts and interest rate, cross-currency and fuel swaps and options would be

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derived from other appropriate valuation models using similar assumptions, inputs or conditions suggested by actual historical experience.

Contingencies Litigation

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

Seasonality

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

Financial Presentation

Description of Certain Line Items

Revenues

Our revenues are comprised of the following:

- *Passenger ticket revenues*, which consist of revenue recognized from the sale of passenger tickets and the sale of air transportation to and from our ships; and

- *Onboard and other revenues*, which consist primarily of revenues from the sale of goods and/or services onboard our ships not included in passenger ticket prices, cancellation fees, sales of vacation protection insurance, pre- and post-cruise tours, Pullmantur's land-based tours and hotel and air packages including Pullmantur Air's charter business to third parties.

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;

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- *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, costs associated with Pullmantur's land-based tours and Pullmantur Air's charter business to third parties, vessel related insurance and entertainment.

We do not allocate payroll and related costs, food costs, fuel costs or other operating costs 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.

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.

Net Debt-to-Capital is a ratio which represents total long-term debt, including 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.*

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

Net Yields represent Net Revenues per APCD. We utilize Net Revenues and Net Yields to manage our business on a day-to-day basis as we believe that 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 projected figures would be meaningful.

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 that the impairment charges recognized in 2012 related to Pullmantur's goodwill, trademarks, trade names and long-lived assets and the charges related to the adjustments to Pullmantur's deferred tax assets and deferred tax liability ("the impairment related charges") are not an indication of our future earnings performance. As such, we believe it is more meaningful for the impairment related charges to be excluded from our net income and earnings per share, and accordingly, we have elected to also present non-GAAP net income and non-GAAP EPS excluding these impairment related charges for the year ended December 31, 2012.

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.

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Executive Overview

We believe our results of operations for 2012 demonstrate the strength and resiliency of our brands and the value proposition of a cruise vacation. Despite the slow pace of the economic recovery and the continued instability in the global economic landscape, especially in Europe, our net income for 2012, before the impairment related charges, was $432.2 million and our Net Yields increased 1.5%. During the fourth quarter of 2012, we recognized an impairment charge of $385.4 million to write down Pullmantur's goodwill to its implied fair value and to write down trademarks and trade names and certain long-lived assets, consisting of three aircraft owned and operated by Pullmantur Air, to their fair value. In addition, we recognized a $33.7 million charge to record a 100% valuation allowance related to our deferred tax assets for Pullmantur and we reduced the deferred tax liability related to Pullmantur's trademarks and trade names by $5.2 million. As a result, our net income for 2012 was $18.3 million as compared to $607.4 million for 2011, which was not impacted by the impairment related charges.

Our results of operations for the year ended December 31, 2012 were also negatively impacted by the effect of the Costa Concordia incident on booking patterns throughout the industry. These effects were magnified by the timing of the incident, which occurred in early 2012 during WAVE season (traditionally the first two months of the year where cruise lines experience disproportionately higher volume cruise sales). We continue to believe the impact of the Costa Concordia incident will not have a significant long term impact on our business.

Our results of operations were also influenced by changes to our international distribution system mainly in Brazil implemented in late 2011 pursuant to which we began directly distributing certain of our cruises rather than indirectly distributing them through charter arrangements. In addition, our results were impacted by certain deployment initiatives including, but not limited to, increased deployment in Australia and China.

Our continued focus on cost control has helped us to maintain our profitability despite a tough operating environment with upward pressure on costs. We intend to continue these efforts during 2013. In addition, during 2013 we will continue to strengthen our revenue enhancement opportunities by strategically investing in a number of projects, including the introduction of beverage packages fleet wide, retail and casino enhancements, the continuation of our vessel revitalization program, the introduction of new onboard revenue initiatives and various information technology infrastructure investments. We also intend to enhance our focus on identifying the needs of our guests and creating product features that our customers value. We are focused on targeting high-value guests by better understanding consumer data and insights and creating communication strategies that best resonate with our target audiences. In 2013, we will continue to focus on the development of key markets in Asia and we will focus on sourcing guests and adding capacity to other markets where we expect significant growth and profitability, such as Australia. We believe these initiatives will provide opportunities for increased ticket and onboard revenues with the ultimate goal of maximizing our long-term return on invested capital and shareholder value.

During 2012, we took delivery of *Celebrity Reflection,* the fifth and final Solstice-class ship, and ordered a third Oasis-class ship through a conditional agreement. The agreement is subject to certain closing conditions and is expected to become effective in the first quarter of 2013. The ship is scheduled for delivery in the second quarter of 2016. We also have two Quantum-class ships on order for Royal Caribbean International which are expected to enter service in the third quarter of 2014 and in the second quarter of 2015, respectively, and two ships on order for our joint venture TUI Cruises which are scheduled for delivery in the second quarter of 2014 and second quarter of 2015, respectively. As part of our vessel revitalization program, five ships were revitalized for the Royal Caribbean International brand during 2012. By the end of 2013, we expect that all of the Vision-class and Freedom-class ships and all but one of the Radiance-class ships will have been revitalized. For the

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Celebrity Cruises brand, two ships underwent revitalization during 2012 to incorporate certain Solstice-class features. By the end of 2013, the Millennium-class revitalization program will be complete as the final ship is scheduled to be revitalized during the course of 2013.

As of December 31, 2012, our liquidity position remained strong at $2.2 billion, consisting of approximately $194.9 million in cash and cash equivalents and $2.0 billion available under our unsecured credit facilities. In addition, we continue to be focused on our goal of returning to an investment grade credit rating. We have already made strides in this direction and further improvements are anticipated through increasing operating cash flow, a moderate capital expenditure program, retiring of debt and favorable financing programs.

In 2012, we implemented a number of actions in furtherance of our refinancing strategy for our maturities in 2013 and 2014. These actions, which enabled us to refinance a portion of our outstanding indebtedness with later maturity debt without increasing our total level of indebtedness included:

- obtaining funds through the incurrence of $940.0 million of new debt obligations, including $650.0 million of 5.25% unsecured senior notes due November 2022 and a $290.0 million unsecured term loan due February 2016. With these funds we were able to repay amounts outstanding under our revolving credit facilities and repurchase €255.0 million, or approximately $328.0 million, in aggregate principal amount of our €1.0 billion 5.625% unsecured senior notes due 2014, and

- our establishment of new borrowing capacity, including €365.0 million in available capacity under a Euro-denominated unsecured term loan due July 2017 to be drawn at any time on or prior to June 30, 2013 and $233.0 million of additional revolving credit capacity utilizing the accordion feature on our revolving facility due July 2016.

During 2013, it is likely we will secure additional liquidity in the capital and/or credit markets as part of our refinancing strategy for our upcoming 2013 and 2014 maturities. We anticipate funding these maturities and other obligations in 2013 through a combination of currently available and anticipated new credit facilities and other financing arrangements and operating cash flows.

Results of Operations

In addition to the items discussed above under "Executive Overview", significant items for 2012 include:

- Total revenues increased 2.0% to $7.7 billion from $7.5 billion in 2011 partially due to a 1.5% increase in Net Yields and a 1.4% increase in capacity (measured by APCD for such period).

- Cruise operating expenses increased 4.3% to $5.2 billion from $4.9 billion in 2011 partially due to an increase in fuel expenses and the 1.4% increase in capacity noted above.

- We recognized an impairment charge of $385.4 million to write down Pullmantur's goodwill to its implied fair value and to write down trademarks and trade names and certain long-lived assets, consisting of three aircraft owned and operated by Pullmantur Air, to their fair value. In addition, we recognized a $33.7 million charge to record a 100% valuation allowance related to our deferred tax assets for Pullmantur and we reduced the deferred tax liability related to Pullmantur's trademarks and trade names by $5.2 million. As a result, our net income for 2012 was $18.3 million as compared to $607.4 million for 2011.

- We took delivery of *Celebrity Reflection*. To finance the purchase we borrowed $673.5 million under our previously committed 12-year unsecured term loan which is 95% guaranteed by Hermes. See Note 7. *Long-Term Debt* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information.

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We exercised our option under our agreement with Meyer Werft to construct *Anthem of the Seas*, the second Quantum-class ship for Royal Caribbean International with approximately 4,100 berths which is expected to enter service in the second quarter of 2015. We have a committed bank financing agreement to finance the purchase of the ship which includes a sovereign financing guarantee. See Note 14. *Commitments and Contingencies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information.

We reached a conditional agreement with STX France to build the third Oasis-class ship for Royal Caribbean International. The agreement is subject to certain closing conditions and is expected to become effective in the first quarter of 2013. The ship will have a capacity of approximately 5,400 berths and is expected to enter service in the second quarter of 2016. If the agreement becomes effective, Pullmantur's *Atlantic Star,* which has been out of operation since 2009, will be transferred to an affiliate of STX France as part of the consideration. The transfer is not expected to result in a gain or a loss. See Note 5. *Property and Equipment* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further information.

Other Items:

TUI Cruises, our 50% joint venture, entered into an 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 providing financing for up to 80% of the contract price of the ship.

We reported historical total revenues, operating income, net income, non-GAAP net income (excluding the impairment related charges), earnings per share and non-GAAP earnings per share (excluding the impairment related charges) as shown in the following table (in thousands, except per share data):

	Year Ended December 31,		
	2012	**2011**	**2010**
Total revenues	$ 7,688,024	$ 7,537,263	$ 6,752,504
Operating income	$ 403,110	$ 931,628	$ 802,633
Net income	$ 18,287	$ 607,421	$ 515,653
Pullmantur impairment related charges	413,932		
Non-GAAP Net income	$ 432,219	$ 607,421	$ 515,653
Basic earnings per share:			
Net income	$ 0.08	$ 2.80	$ 2.40
Non-GAAP Net income	$ 1.98	$ 2.80	$ 2.40
Diluted earnings per share:			
Net income	$ 0.08	$ 2.77	$ 2.37
Non-GAAP Net income	$ 1.97	$ 2.77	$ 2.37

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

	Year Ended December 31,		
	2012	2011	2010
Passenger ticket revenues	72.8%	73.3%	72.7%
Onboard and other revenues	27.2	26.7	27.3
Total revenues	100.0%	100.0%	100.0%
Cruise operating expenses:			
Commissions, transportation and other	16.8%	17.2%	17.4%
Onboard and other	6.9	7.1	7.1
Payroll and related	10.8	11.0	11.4
Food	5.8	5.6	5.7
Fuel	11.8	10.1	9.6
Other operating	15.0	14.5	14.8
Total cruise operating expenses	67.1	65.6	66.0
Marketing, selling and administrative expenses	13.2	12.7	12.6
Depreciation and amortization expenses	9.5	9.3	9.5
Impairment of Pullmantur related assets	5.0		
Operating income	5.2	12.4	11.9
Other expense	(5.0)	(4.3)	(4.2)
Net income	0.2%	8.1%	7.6%

Selected historical statistical information is shown in the following table:

	Year Ended December 31,		
	2012	2011	2010
Passengers Carried	4,852,079	4,850,010	4,585,920
Passenger Cruise Days	35,197,783	34,818,335	32,251,217
APCD	33,705,584	33,235,508	30,911,073
Occupancy	104.4%	104.8%	104.3%

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

	Year Ended December 31,			
	2012	2012 On a Constant Currency basis	2011	2010
Passenger ticket revenues	$ 5,594,595	$ 5,698,635	$ 5,525,904	$ 4,908,644
Onboard and other revenues	2,093,429	2,116,296	2,011,359	1,843,860
Total revenues	7,688,024	7,814,931	7,537,263	6,752,504
Less:				
Commissions, transportation and other	1,289,255	1,317,028	1,299,713	1,175,522
Onboard and other	529,453	540,011	535,501	480,564
Net revenues	$ 5,869,316	$ 5,957,892	$ 5,702,049	$ 5,096,418
APCD	33,705,584	33,705,584	33,235,508	30,911,073
Gross Yields	$ 228.09	$ 231.86	$ 226.78	$ 218.45
Net Yields	$ 174.13	$ 176.76	$ 171.56	$ 164.87

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

	Year Ended December 31,			
	2012	2012 On a Constant Currency basis	2011	2010
Total cruise operating expenses	$ 5,157,434	$ 5,231,963	$ 4,942,607	$ 4,458,076
Marketing, selling and administrative expenses	1,011,543	1,029,564	960,602	848,079
Gross Cruise Costs	6,168,977	6,261,527	5,903,209	5,306,155
Less:				
Commissions, transportation and other	1,289,255	1,317,028	1,299,713	1,175,522
Onboard and other	529,453	540,011	535,501	480,564
Net Cruise Costs	$ 4,350,269	$ 4,404,488	$ 4,067,995	$ 3,650,069
Less:				
Fuel	909,691	914,444	764,758	646,998
Net Cruise Costs Excluding Fuel	$ 3,440,578	$ 3,490,044	$ 3,303,237	$ 3,003,071
APCD	33,705,584	33,705,584	33,235,508	30,911,073
Gross Cruise Costs per APCD	$ 183.03	$ 185.77	$ 177.62	$ 171.66
Net Cruise Costs per APCD	$ 129.07	$ 130.68	$ 122.40	$ 118.08
Net Cruise Cost Excluding Fuel per APCD	$ 102.08	$ 103.54	$ 99.39	$ 97.15

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

	As of December 31,	
	2012	**2011**
Long-term debt, net of current portion	$ 6,970,464	$ 7,856,962
Current portion of long-term debt	1,519,483	638,891
Total debt	8,489,947	8,495,853
Less: Cash and cash equivalents	194,855	262,186
Net Debt	$ 8,295,092	$ 8,233,667
Total shareholders' equity	$ 8,308,749	$ 8,407,823
Total debt	8,489,947	8,495,853