

ROYAL CARIBBEAN CRUISES LTD

Form 10-Q

August 01, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 1-11884

ROYAL CARIBBEAN CRUISES LTD.

(Exact name of registrant as specified in its charter)

Republic of Liberia

(State or other jurisdiction of incorporation or organization)

98-0081645

(I.R.S. Employer Identification No.)

1050 Caribbean Way, Miami, Florida 33132

(Address of principal executive offices) (zip code)

(305) 539-6000

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

There were 215,110,988 shares of common stock outstanding as of July 27, 2017.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROYAL CARIBBEAN CRUISES LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited; in thousands, except per share data)

| | Quarter Ended June 30, | |
|--|------------------------|-------------|
| | 2017 | 2016 |
| Passenger ticket revenues | \$1,581,385 | \$1,516,530 |
| Onboard and other revenues | 613,889 | 588,732 |
| Total revenues | 2,195,274 | 2,105,262 |
| Cruise operating expenses: | | |
| Commissions, transportation and other | 340,331 | 334,568 |
| Onboard and other | 132,437 | 136,198 |
| Payroll and related | 210,362 | 230,433 |
| Food | 121,764 | 124,517 |
| Fuel | 170,748 | 176,649 |
| Other operating | 281,143 | 308,222 |
| Total cruise operating expenses | 1,256,785 | 1,310,587 |
| Marketing, selling and administrative expenses | 283,855 | 290,782 |
| Depreciation and amortization expenses | 234,937 | 221,620 |
| Operating Income | 419,697 | 282,273 |
| Other income (expense): | | |
| Interest income | 5,811 | 5,683 |
| Interest expense, net of interest capitalized | (76,632) | (78,747) |
| Equity investment income | 23,359 | 27,268 |
| Other expense | (2,709) | (6,572) |
| | (50,171) | (52,368) |
| Net Income | \$369,526 | \$229,905 |
| Earnings per Share: | | |
| Basic | \$1.72 | \$1.07 |
| Diluted | \$1.71 | \$1.06 |
| Weighted-Average Shares Outstanding: | | |
| Basic | 215,085 | 215,265 |
| Diluted | 216,062 | 216,131 |
| Comprehensive Income | | |
| Net Income | \$369,526 | \$229,905 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 5,979 | (2,268) |
| Change in defined benefit plans | (3,649) | (3,585) |
| Gain on cash flow derivative hedges | 128,954 | 156,351 |
| Total other comprehensive income | 131,284 | 150,498 |
| Comprehensive Income | \$500,810 | \$380,403 |

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

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

| | Six Months Ended June 30, | |
|---|------------------------------|-------------|
| | 2017 | 2016 |
| Passenger ticket revenues | \$2,999,608 | \$2,894,697 |
| Onboard and other revenues | 1,204,226 | 1,128,360 |
| Total revenues | 4,203,834 | 4,023,057 |
| Cruise operating expenses: | | |
| Commissions, transportation and other | 650,579 | 659,458 |
| Onboard and other | 238,431 | 239,852 |
| Payroll and related | 426,097 | 457,874 |
| Food | 242,975 | 246,027 |
| Fuel | 348,162 | 352,511 |
| Other operating | 526,365 | 596,443 |
| Total cruise operating expenses | 2,432,609 | 2,552,165 |
| Marketing, selling and administrative expenses | 601,320 | 593,108 |
| Depreciation and amortization expenses | 470,686 | 432,384 |
| Operating Income | 699,219 | 445,400 |
| Other income (expense): | | |
| Interest income | 12,063 | 8,403 |
| Interest expense, net of interest capitalized | (156,949) | (144,193) |
| Equity investment income | 35,239 | 48,292 |
| Other expense (including a \$21.7 million loss related to the 2016 elimination of the Pullmantur reporting lag) | (5,320) | (28,857) |
| | (114,967) | (116,355) |
| Net Income | \$584,252 | \$329,045 |
| Earnings per Share: | | |
| Basic | \$2.72 | \$1.52 |
| Diluted | \$2.71 | \$1.52 |
| Weighted-Average Shares Outstanding: | | |
| Basic | 214,978 | 216,089 |
| Diluted | 215,944 | 217,040 |
| Comprehensive Income | | |
| Net Income | \$584,252 | \$329,045 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | 8,321 | 4,380 |
| Change in defined benefit plans | (4,290) | (7,097) |
| Gain on cash flow derivative hedges | 151,415 | 159,088 |
| Total other comprehensive income | 155,446 | 156,371 |
| Comprehensive Income | \$739,698 | \$485,416 |

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

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

| | As of June 30, 2017 (unaudited) | December 31, 2016 |
|--|--|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 130,477 | \$ 132,603 |
| Trade and other receivables, net | 263,992 | 291,899 |
| Inventories | 109,136 | 114,087 |
| Prepaid expenses and other assets | 264,036 | 209,716 |
| Total current assets | 767,641 | 748,305 |
| Property and equipment, net | 19,798,542 | 20,161,427 |
| Goodwill | 288,479 | 288,386 |
| Other assets | 1,169,506 | 1,112,206 |
| | \$22,024,168 | \$22,310,324 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Current portion of long-term debt | \$ 1,541,519 | \$ 1,285,735 |
| Accounts payable | 376,508 | 305,313 |
| Accrued interest | 51,652 | 46,166 |
| Accrued expenses and other liabilities | 655,480 | 692,322 |
| Derivative financial instruments | 128,101 | 146,592 |
| Customer deposits | 2,532,693 | 1,965,473 |
| Total current liabilities | 5,285,953 | 4,441,601 |
| Long-term debt | 6,478,806 | 8,101,701 |
| Other long-term liabilities | 576,001 | 645,610 |
| Commitments and contingencies (Note 6) | | |
| Shareholders' equity | | |
| Preferred stock (\$0.01 par value; 20,000,000 shares authorized; none outstanding) | — | — |
| Common stock (\$0.01 par value; 500,000,000 shares authorized; 235,115,867 and 234,613,486 shares issued, June 30, 2017 and December 31, 2016, respectively) | 2,351 | 2,346 |
| Paid-in capital | 3,357,348 | 3,328,517 |
| Retained earnings | 8,238,055 | 7,860,341 |
| Accumulated other comprehensive loss | (761,038) | (916,484) |
| Treasury stock (20,019,237 common shares at cost at June 30, 2017 and December 31, 2016) | (1,153,308) | (1,153,308) |
| Total shareholders' equity | 9,683,408 | 9,121,412 |
| | \$22,024,168 | \$22,310,324 |

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

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

| | Six Months Ended | |
|--|------------------|-------------|
| | June 30, | |
| | 2017 | 2016 |
| Operating Activities | | |
| Net income | \$584,252 | \$329,045 |
| Adjustments: | | |
| Depreciation and amortization | 470,686 | 432,384 |
| Net deferred income tax expense | 1,084 | 348 |
| (Gain) loss on derivative instruments not designated as hedges | (34,988) | 3,979 |
| Share-based compensation expense | 35,379 | 13,330 |
| Equity investment income | (35,239) | (48,292) |
| Amortization of debt issuance costs | 26,035 | 25,847 |
| Gain on sale of property and equipment | (30,902) | — |
| Changes in operating assets and liabilities: | | |
| Decrease in trade and other receivables, net | 33,045 | 33,929 |
| Decrease in inventories | 4,682 | 1,394 |
| Increase in prepaid expenses and other assets | (36,931) | (54,725) |
| Increase in accounts payable | 69,634 | 41,173 |
| Increase in accrued interest | 5,486 | 9,090 |
| (Decrease) increase in accrued expenses and other liabilities | (47,189) | 18,321 |
| Increase in customer deposits | 563,546 | 467,539 |
| Dividends received from unconsolidated affiliates | 57,402 | 23,878 |
| Other, net | (6,702) | (26,328) |
| Net cash provided by operating activities | 1,659,280 | 1,270,912 |
| Investing Activities | | |
| Purchases of property and equipment | (271,541) | (2,047,195) |
| Cash received (paid) on settlement of derivative financial instruments | 34,866 | (161,307) |
| Cash received on loans to unconsolidated affiliates | 23,487 | 14,923 |
| Proceeds from the sale of property and equipment | 230,000 | — |
| Other, net | (9,144) | (18,871) |
| Net cash provided by (used in) investing activities | 7,668 | (2,212,450) |
| Financing Activities | | |
| Debt proceeds | 2,236,000 | 5,300,561 |
| Debt issuance costs | (14,575) | (70,406) |
| Repayments of debt | (3,689,890) | (3,738,905) |
| Purchases of treasury stock | — | (250,051) |
| Dividends paid | (206,039) | (243,557) |
| Proceeds from exercise of common stock options | 2,385 | 1,512 |
| Other, net | 2,626 | 1,309 |
| Net cash (used in) provided by financing activities | (1,669,493) | 1,000,463 |
| Effect of exchange rate changes on cash | 419 | 9,195 |
| Net (decrease) increase in cash and cash equivalents | (2,126) | 68,120 |
| Cash and cash equivalents at beginning of period | 132,603 | 121,565 |
| Less: Cash and cash equivalents attributed to assets held for sale | — | (14,521) |
| Cash and cash equivalents at end of period | \$130,477 | \$175,164 |
| Supplemental Disclosure | | |

Cash paid during the period for:

| | | |
|---|------------|------------|
| Interest, net of amount capitalized | \$ 125,007 | \$ 116,531 |
| Non-cash Investing Activities | | |
| Notes receivable issued upon sale of property and equipment | \$— | \$ 213,042 |

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

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

As used in this Quarterly Report on Form 10-Q, the terms “Royal Caribbean,” the “Company,” “we,” “our” and “us” refer to Royal Caribbean Cruises Ltd. and, depending on the context, Royal Caribbean Cruises Ltd.’s consolidated subsidiaries and/or affiliates. The terms “Royal Caribbean International,” “Celebrity Cruises,” and “Azamara Club Cruises” refer to our wholly-owned global cruise brands. Throughout this report, we also refer to regional brands in which we hold an ownership interest, including “TUI Cruises,” “Pullmantur” and “SkySea Cruises.” However, because these regional brands are unconsolidated investments, our operating results and other disclosures herein do not include these brands unless otherwise specified. In accordance with cruise vacation industry practice, the term “berths” is determined based on double occupancy per cabin even though many cabins can accommodate three or more passengers. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016, including the audited consolidated financial statements and related notes included therein.

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

Note 1. General

Description of Business

We are a global cruise company. As of June 30, 2017, we own and operate three global cruise brands: Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises (collectively, our "Global Brands"). We also own a 50% joint venture interest in the German brand TUI Cruises, a 49% interest in the Spanish brand Pullmantur and have a minority interest in the Chinese brand SkySea Cruises (collectively, our "Partner Brands"). We account for our investments in our Partner Brands under the equity method of accounting.

Prior to August 2016, Pullmantur Holdings S.L. ("Pullmantur Holdings"), the parent company of the Pullmantur brand (formerly known as Royal Caribbean Holdings de España S.L.), was wholly owned by us. Effective July 31, 2016, we sold 51% of our interest in Pullmantur Holdings. We retain a 49% interest in Pullmantur Holdings as well as full ownership of the four vessels currently operated by the Pullmantur brand under bareboat charter arrangements. We account for the bareboat charters of the vessels to Pullmantur Holdings as operating leases. We also provide certain ship management services and other related services to Pullmantur Holdings.

Basis for Preparation of Consolidated Financial Statements

The unaudited consolidated financial statements are presented pursuant to the rules and regulations of the Securities and Exchange Commission. In our opinion, these statements include all adjustments necessary for a fair presentation of the results of the interim periods reported herein. Adjustments consist only of normal recurring items, except for any discussed in the notes below. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted as permitted by such rules and regulations. Estimates are required for the preparation of financial statements in accordance with GAAP and actual results could differ from these estimates. Refer to Note 2. Summary of Significant Accounting Policies in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of our significant accounting policies.

All significant intercompany accounts and transactions are eliminated in consolidation. We consolidate entities over which we have control, usually evidenced by a direct ownership interest of greater than 50%, and variable interest entities where we are determined to be the primary beneficiary. Refer to Note 5. Other Assets for further information regarding our variable interest entities. For affiliates we do not control but over which we have significant influence on financial and operating policies, usually evidenced by a direct ownership interest from 20% to 50%, the investment is accounted for using the equity method.

Prior to January 1, 2016, we consolidated the operating results of Pullmantur Holdings on a two-month reporting lag to allow for more timely preparation of our consolidated financial statements. Effective January 1, 2016, we eliminated the two-month reporting lag to reflect Pullmantur Holding's financial position, results of operations and cash flows concurrently and consistently with the fiscal calendar of the Company (the "elimination of the Pullmantur reporting lag"). The elimination of the Pullmantur reporting lag represented a change in accounting principle which we believed to be preferable because it provided more current

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information to the users of our financial statements. A change in accounting principle requires retrospective application, if material. The impact of the elimination of the reporting lag was immaterial to prior periods and was immaterial for our fiscal year ended December 31, 2016. As a result, we have accounted for this change in accounting principle in our consolidated results for the first quarter of 2016. Accordingly, the results of Pullmantur Holdings for November and December 2015 are included in our statement of comprehensive income (loss) for the six months ended June 30, 2016. The effect of this change was a decrease to net income of \$21.7 million, which has been reported within Other expense in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2016.

Note 2. Summary of Significant Accounting Policies

Recent Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, amended GAAP guidance was issued to clarify the principles used to recognize revenue for all entities. The guidance also requires more detailed disclosures and provides additional guidance for transactions that were not comprehensively addressed in the prior accounting guidance. This guidance must be applied using one of two retrospective application methods and will be effective for our annual reporting period beginning after December 15, 2017, including interim periods therein.

We have made significant progress toward completing our evaluation of potential changes to our core revenues using the five-step model supported by the new revenue standard. Based on our preliminary assessment, we do not expect the adoption of the new standard to materially change the timing of recognition of our core revenues, but we do anticipate enhancing our disclosures with respect to our revenue recognition policies in compliance with the new standard. We will continue to evaluate the impact of adopting this new standard on our consolidated financial statements, and expect to have our evaluation completed during the fourth quarter of fiscal 2017.

Upon adoption, we intend to elect the modified retrospective method. This will involve applying the guidance retrospectively only to the most current period presented in the consolidated financial statements and recognizing the cumulative effect of initially applying the guidance as an adjustment to the January 1, 2018 opening balance of retained earnings.

Leases

In February 2016, amended GAAP guidance was issued to increase the transparency and comparability of lease accounting among organizations. For leases with a term greater than 12 months, the amendments require the lease rights and obligations arising from the leasing arrangements, including operating leases, to be recognized as assets and liabilities on the balance sheet. The amendments also expand the required disclosures surrounding leasing arrangements. The guidance must be applied using a retrospective application method and will be effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. We are currently evaluating the impact of the adoption of this newly issued guidance to our consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, amended GAAP guidance was issued to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are aimed at reducing the existing diversity in practice. The guidance should be applied using a retrospective transition method to each period presented and will be effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. We intend to adopt the guidance on the date of

initial application, January 1, 2018. The adoption of this newly issued guidance is not expected to have a material impact to our consolidated financial statements.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, amended GAAP guidance was issued that requires the income tax consequences of an intra-entity transfer of an asset, other than inventory, to be recognized at the time that the transfer occurs, rather than when the asset is sold to an outside party. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued. The guidance is required to be adopted retrospectively by recording a cumulative-effect adjustment to retained earnings as of the beginning of the adoption period. The adoption of this newly issued guidance is not expected to have a material impact to our consolidated financial statements.

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Service Concession Arrangements

In May 2017, amended GAAP guidance was issued to reduce the diversity in practice in accounting for service concession arrangements. The amendments in this updated guidance provide clarity in determining the customer in a service concession arrangement and enables more consistent application of other aspects of the revenue guidance, which are affected by this customer determination. This guidance must be applied using one of two retrospective application methods and will be effective for our annual reporting period beginning after December 15, 2017, including interim periods therein. We are currently evaluating the impact of the adoption of this newly issued guidance to our consolidated financial statements.

Other

Revenues and expenses include port costs that vary with guest head counts. The amounts of such port costs included in Passenger ticket revenues on a gross basis were \$143.4 million and \$140.0 million for the second quarters of 2017 and 2016, respectively, and \$277.9 million and \$284.4 million for the six months ended June 30, 2017 and 2016, respectively.

Reclassifications

For the second quarter and six months ended June 30, 2016, restructuring charges of \$4.4 million and \$4.7 million, respectively, have been reclassified into Marketing, selling and administrative expenses in the consolidated statements of comprehensive income (loss) in order to conform to the current year presentation.

For the six months ended June 30, 2016, share-based compensation expense of \$13.3 million, equity investment income of \$48.3 million and amortization of debt issuance costs of \$14.7 million, have been reclassified in the consolidated statements of cash flows from Other, net to Share-based compensation expense, Equity investment income and Amortization of debt issuance costs, respectively, within Net cash provided by operating activities in order to conform to the current year presentation.

Additionally, for the six months ended June 30, 2016, amortization of debt issuance costs of \$7.7 million and \$3.5 million, have been reclassified from Increase in prepaid expenses and other assets and from Decrease (increase) in accrued expenses and other liabilities, respectively, in the consolidated statements of cash flows to Amortization of debt issuance costs, within Net cash provided by operating activities in order to conform to the current year presentation.

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Note 3. Earnings Per Share

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

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|---------------------------|-----------|------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income for basic and diluted earnings per share | \$369,526 | \$229,905 | \$584,252 | \$329,045 |
| Weighted-average common shares outstanding | 215,085 | 215,265 | 214,978 | 216,089 |
| Dilutive effect of stock options, performance share awards and restricted stock awards | 977 | 866 | 966 | 951 |
| Diluted weighted-average shares outstanding | 216,062 | 216,131 | 215,944 | 217,040 |
| Basic earnings per share | \$1.72 | \$1.07 | \$2.72 | \$1.52 |
| Diluted earnings per share | \$1.71 | \$1.06 | \$2.71 | \$1.52 |

There were no antidilutive shares for the quarters and six month periods ended June 30, 2017 and June 30, 2016.

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Note 4. Property and Equipment

In March 2017, we sold Legend of the Seas to an affiliate of TUI AG, our joint venture partner in TUI Cruises. The sale resulted in a gain of \$30.9 million and is reported within Other operating within Cruise operating expenses in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2017.

In April 2016, we sold Splendour of the Seas to TUI Cruises. Concurrent with the acquisition, TUI Cruises leased the ship to the same TUI AG affiliate mentioned above, which now operates the ship. The gain recognized did not have a material effect to our consolidated financial statements and was also reported in Other operating within Cruise operating expenses in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2016.

Note 5. Other Assets

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

We have determined that TUI Cruises GmbH, our 50%-owned joint venture, which operates the brand TUI Cruises, is a VIE. As of June 30, 2017, the net book value of our investment in TUI Cruises was approximately \$536.3 million, primarily consisting of \$335.5 million in equity and a loan of €174.3 million, or approximately \$198.7 million based on the exchange rate at June 30, 2017. As of December 31, 2016, the net book value of our investment in TUI Cruises was approximately \$517.0 million, primarily consisting of \$323.5 million in equity and a loan of €182.3 million, or approximately \$192.4 million based on the exchange rate at December 31, 2016. The loan, which was made in connection with the sale of Splendour of the Seas in April 2016, accrues interest at a rate of 6.25% per annum and is payable over 10 years. This loan is 50% guaranteed by TUI AG, our joint venture partner in TUI Cruises, and is secured by a first priority mortgage on the ship. Refer to Note 4. Property and Equipment for further information. The majority of these amounts were included within Other assets in our consolidated balance sheets.

In addition, we and TUI AG have each guaranteed the repayment by TUI Cruises of 50% of a bank loan. As of June 30, 2017, the outstanding principal amount of the loan was €105.7 million, or approximately \$120.5 million based on the exchange rate at June 30, 2017. While this loan matures in May 2022, the lenders have agreed to release each shareholder's guarantee in 2018. The loan amortizes quarterly and is secured by first mortgages on the Mein Schiff 1 and Mein Schiff 2 vessels. Based on current facts and circumstances, we do not believe potential obligations under our guarantee of this bank loan are probable.

Our investment amount, outstanding term loan and the potential obligations under the bank loan guarantee are substantially our maximum exposure to loss in connection with our investment in TUI Cruises. We have determined that we are not the primary beneficiary of TUI Cruises. We believe that the power to direct the activities that most significantly impact TUI Cruises’ economic performance are shared between ourselves and TUI AG. All the significant operating and financial decisions of TUI Cruises require the consent of both parties, which we believe creates shared power over TUI Cruises. Accordingly, we do not consolidate this entity and account for this investment under the equity method of accounting.

TUI Cruises has two newbuild ships on order scheduled to be delivered in each of 2018 and 2019. TUI Cruises has in place agreements for the secured financing of each of the ships on order for up to 80% of the contract price. The

remaining portion of the contract price of the ships is expected to be funded through an existing €150.0 million bank facility and TUI Cruises' cash flows from operations. The various ship construction and financing agreements include certain restrictions on each of our and TUI AG's ability to reduce our current ownership interest in TUI Cruises below 37.55% through 2021.

We have determined that Pullmantur Holdings, in which we have a 49% noncontrolling interest, is a VIE for which we are not the primary beneficiary, as we do not have the power to direct the activities that most significantly impact the entity's economic performance. Accordingly, following the sale of our 51% interest in Pullmantur Holdings to Springwater Capital LLC ("Springwater"), we do not consolidate this entity and we account for this investment under the equity method of accounting. As of June 30, 2017, our maximum exposure to loss in Pullmantur Holdings was approximately \$32.0 million consisting of loans and other receivables. As of December 31, 2016, our maximum exposure to loss in Pullmantur Holdings was approximately \$32.9 million consisting of loans and other receivables. The majority of these amounts were included within Trade and other receivables, net in our consolidated balance sheets.

In conjunction with the sale, we agreed to provide a non-revolving working capital facility to a Pullmantur Holdings subsidiary in the amount of up to €15.0 million or approximately \$17.1 million based on the exchange rate at June 30, 2017. Proceeds of the

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facility, which may be drawn through July 2018, will bear interest at the rate of 6.5% per annum and are payable through 2022. Springwater has guaranteed repayment of 51% of the outstanding amounts under the facility. As of June 30, 2017, no amounts had been drawn on this facility.

We have determined that Grand Bahama Shipyard Ltd. ("Grand Bahama"), a ship repair and maintenance facility in which we have a 40% noncontrolling interest, is a VIE. This facility serves cruise and cargo ships, oil and gas tankers and offshore units. We utilize this facility, among other ship repair facilities, for our regularly scheduled drydocks and certain emergency repairs as may be required. During the quarter and six months ended June 30, 2017, we made payments of \$3.9 million and \$5.5 million, respectively, to Grand Bahama for ship repair and maintenance services. We have determined that we are not the primary beneficiary of this facility as we do not have the power to direct the activities that most significantly impact the facility's economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. As of June 30, 2017, the net book value of our investment in Grand Bahama was approximately \$50.2 million, consisting of \$30.6 million in equity and a loan of \$19.6 million. As of December 31, 2016, the net book value of our investment in Grand Bahama was approximately \$47.0 million, consisting of \$23.2 million in equity and a loan of \$23.8 million. These amounts represent our maximum exposure to loss related to our investment in Grand Bahama. Our debt agreement with Grand Bahama was amended during the quarter ended March 31, 2016 to extend the maturity by 10 years and increase the applicable interest rate to the lower of (i) LIBOR plus 3.50% and (ii) 5.5%. Interest payable on the loan is due on a semi-annual basis. We continue to classify the loan, as modified, as non-accrual status. The loan balance is included within Other assets in our consolidated balance sheets. We monitor credit risk associated with the loan through our participation on Grand Bahama's board of directors along with our review of Grand Bahama's financial statements and projected cash flows. Based on this review, we believe the risk of loss associated with the outstanding loan is not probable as of June 30, 2017.

We have determined that Skysea Holding International Ltd. ("Skysea Holding"), in which we have a 36% noncontrolling interest, is a VIE. During the second quarter of 2017, we made an equity contribution of \$7.1 million which increased our equity interest from 35% to 36%. The contribution was made pursuant to a funding arrangement in which the entity's three largest investors agreed to contribute a total of \$30.0 million in proportion to their equity interest in a series of installments. We have determined that we are not the primary beneficiary, as we do not have the power to direct the activities that most significantly impact the entity's economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. In December 2014, we and Ctrip.com International Ltd, which also owns 36% of Skysea Holding, each provided a debt facility to a wholly owned subsidiary of Skysea Holding in the amount of \$80.0 million. Interest under these facilities, which mature in January 2030, currently accrues at a rate of 6.5% per annum. The facilities, which are pari passu to each other, are each 100% guaranteed by Skysea Holding and are secured by first priority mortgages on the ship, Golden Era. As of June 30, 2017, the net book value of our investment in Skysea Holding and its subsidiaries was approximately \$101.7 million, consisting of \$10.7 million in equity and loans and other receivables of \$91.0 million. As of December 31, 2016, the net book value of our investment in Skysea Holding and its subsidiaries was approximately \$98.0 million, consisting of \$9.2 million in equity and loans and other receivables of \$88.8 million. The majority of these amounts were included within Other assets in our consolidated balance sheets and represent our maximum exposure to loss related to our investment in Skysea Holding.

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

| Quarter Ended June 30, 2017 | Quarter Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|-----------------------------|-----------------------------|--------------------------------|--------------------------------|
| | | | |

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| | | | | |
|---|----------|----------|----------|----------|
| Share of equity income from investments | \$23,359 | \$27,268 | \$35,239 | \$48,292 |
| Dividends received | \$29,405 | \$23,087 | \$57,402 | \$23,878 |

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

| | Quarter Ended June 30, 2017 | Quarter Six Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|----------|--------------------------------------|---|--|--|
| Revenues | \$13,318 | \$4,198 | \$25,933 | \$8,589 |
| Expenses | \$4,020 | \$3,004 | \$7,733 | \$6,505 |

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Note 6. Commitments and Contingencies

Ship Purchase Obligations

Our future capital commitments consist primarily of new ship orders. As of June 30, 2017, we had two Quantum-class ships, two Oasis-class ships and two ships of a new generation of ships, known as "Project Icon," on order for our Royal Caribbean International brand with an aggregate capacity of approximately 30,500 berths. Additionally, as of June 30, 2017, we have four Edge-class ships on order for our Celebrity Cruises brand with an aggregate capacity of approximately 11,600 berths. The following provides further information on recent developments with respect to our ship orders.

During the second quarter of 2017, we entered into agreements with Meyer Turku to build two "Project Icon" ships. We have received commitments for the unsecured financing of the ships for up to 80% of the ships' contract price. For each ship, the official Finnish export credit agency, Finnvera plc, has agreed to guarantee to the lenders 100% of a substantial majority of the financing, with Euler Hermes, the official German export credit agency, to also provide a 95% guarantee of a smaller portion of the financing. These ships, with an aggregate capacity of approximately 11,300 berths, are expected to be delivered in the second quarters of each of 2022 and 2024.

In July 2017, we entered into credit agreements for the unsecured financing of the third and fourth Edge-class ships and the fifth Oasis-class ship for up to 80% of each ship's contract price through facilities to be guaranteed 100% by Bpifrance Assurance Export, the official export credit agency of France. Under these financing arrangements, we have the right, but not the obligation, to satisfy the obligations to be incurred upon delivery and acceptance of the ship under the shipbuilding contract by assuming, at delivery and acceptance, the debt indirectly incurred by the shipbuilder during the construction of the ship. The maximum loan amount under each facility is not to exceed €684.2 million in the case of the third Edge-class ship and the United States dollar equivalent of €714.6 million and €1.1 billion in the case of the fourth Edge-class ship and fifth Oasis-class ship, or approximately \$814.9 million and \$1.3 billion, respectively, based on the exchange rate at June 30, 2017. The loans will amortize semi-annually and will mature 12 years following delivery of each ship. Interest on the loans will accrue at a fixed rate of 1.28% for the third Edge-class ship and at a fixed rate of 3.18% for both, the fourth Edge-class ship and the fifth Oasis-class ship. The third and fourth Edge-class ships, each of which will have a capacity of approximately 2,900 berths, are expected to enter service in the fourth quarters of 2021 and 2022, respectively. The fifth Oasis-class ship will have a capacity of approximately 5,450 berths and is expected to enter service in the second quarter of 2021.

As of June 30, 2017, the aggregate cost of our ships on order, not including any ships on order by our Partner Brands, was approximately \$12.6 billion, of which we had deposited \$322.4 million as of such date. Approximately 63.3% of the aggregate cost was exposed to fluctuations in the Euro exchange rate at June 30, 2017. Refer to Note 9. Fair Value Measurements and Derivative Instruments for further information.

Litigation

We are routinely involved in claims typical within the cruise vacation industry. The majority of these claims are covered by insurance. We believe the outcome of such claims, net of expected insurance recoveries, will not have a material adverse impact on our financial condition or results of operations and cash flows.

Other

If any person acquires ownership of more than 50% of our common stock or, subject to certain exceptions, during any 24-month period, a majority of the Board is no longer comprised of individuals who were members of the Board on the first day of such period, we may be obligated to prepay indebtedness outstanding under our credit facilities, which

we may be unable to replace on similar terms. Our public debt securities also contain change of control provisions that would be triggered by a third-party acquisition of greater than 50% of our common stock coupled with a ratings downgrade. If this were to occur, it would have an adverse impact on our liquidity and operations.

Note 7. Shareholders' Equity

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

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During the first and second quarters of 2016, we declared and paid a cash dividend on our common stock of \$0.375 per share. During the first quarter of 2016, we also paid a cash dividend on our common stock of \$0.375 per share which was declared during the fourth quarter of 2015.

In April 2017, our board of directors authorized a 12-month common stock repurchase program for up to \$500 million. The timing and number of shares purchased will depend on a variety of factors including price and market conditions. Repurchases under the program may be made at management's discretion from time to time on the open market or through privately negotiated transactions. As of June 30, 2017, we have not made any purchases under this program.

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

The following table presents the changes in accumulated other comprehensive income (loss) by component for the six months ended June 30, 2017 and 2016 (in thousands):

| | Accumulated Other Comprehensive Income (Loss) for the Six Months Ended June 30, 2017 | | | | Accumulated Other Comprehensive Income (Loss) for the Six Months Ended June 30, 2016 | | | |
|--|--|----------------------------------|--|--------------------------------------|--|----------------------------------|--|--------------------------------------|
| | Changes related to cash flow derivative hedges | Changes in defined benefit plans | Foreign currency translation adjustments | Accumulated other comprehensive loss | Changes related to cash flow derivative hedges | Changes in defined benefit plans | Foreign currency translation adjustments | Accumulated other comprehensive loss |
| Accumulated comprehensive loss at beginning of the year | \$(820,850) | \$(28,083) | \$(67,551) | \$(916,484) | \$(1,232,073) | \$(26,447) | \$(69,913) | \$(1,328,433) |
| Other comprehensive income (loss) before reclassifications | 43,408 | (4,847) | 8,321 | 46,882 | (24,062) | (8,184) | 4,380 | (27,866) |
| Amounts reclassified from accumulated other comprehensive loss | 108,007 | 557 | — | 108,564 | 183,150 | 1,087 | — | 184,237 |
| Net current-period other comprehensive income (loss) | 151,415 | (4,290) | 8,321 | 155,446 | 159,088 | (7,097) | 4,380 | 156,371 |
| Ending balance | \$(669,435) | \$(32,373) | \$(59,230) | \$(761,038) | \$(1,072,985) | \$(33,544) | \$(65,533) | \$(1,172,062) |

The following table presents reclassifications out of accumulated other comprehensive income (loss) for the quarters and six months ended June 30, 2017 and 2016 (in thousands):

| Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income |
|---|
| |

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| Details About Accumulated Other Comprehensive Income (Loss) Components | Quarter Ended June 30, 2017 | Quarter Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 | Affected Line Item in Statements of Comprehensive Income (Loss) |
|--|-----------------------------|-----------------------------|--------------------------------|--------------------------------|---|
| Loss on cash flow derivative hedges: | | | | | |
| Interest rate swaps | \$(7,863) | \$(10,938) | \$(16,720) | \$(20,066) | Interest expense, net of interest capitalized |
| Foreign currency forward contracts | (2,710) | (1,980) | (5,420) | (2,698) | Depreciation and amortization expenses |
| Foreign currency forward contracts | (4,105) | (12,830) | (7,675) | (6,742) | Other expense |
| Foreign currency forward contracts | — | (207) | — | (207) | Other operating |
| Foreign currency collar options | (602) | (601) | (1,204) | (1,204) | Depreciation and amortization expenses |
| Fuel swaps | 2,498 | 13,933 | 4,775 | 6,597 | Other expense |
| Fuel swaps | (41,835) | (68,129) | (81,763) | (158,830) | Fuel |
| | (54,617) | (80,752) | (108,007) | (183,150) | |
| Amortization of defined benefit plans: | | | | | |
| Actuarial loss | (293) | (285) | (557) | (1,087) | Payroll and related |
| | (293) | (285) | (557) | (1,087) | |
| Total reclassifications for the period | \$(54,910) | \$(81,037) | \$(108,564) | \$(184,237) | |

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Note 9. Fair Value Measurements and Derivative Instruments

Fair Value Measurements

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

| Description | Fair Value Measurements at June 30, 2017 Using | | | | Fair Value Measurements at December 31, 2016 Using | | | | | |
|---|--|------------------|------------------------|------------------------|--|------------------|------------------------|------------------------|------------------------|------|
| | Total Carrying Amount | Total Fair Value | Level 1 ⁽¹⁾ | Level 2 ⁽²⁾ | Total Carrying Amount | Total Fair Value | Level 1 ⁽¹⁾ | Level 2 ⁽²⁾ | Level 3 ⁽³⁾ | |
| Assets: | | | | | | | | | | |
| Cash and cash equivalents ⁽⁴⁾ | \$ 130,477 | \$ 130,477 | \$ 130,477 | \$— | \$ — | \$ 132,603 | \$ 132,603 | \$ 132,603 | \$— | \$ — |
| Total Assets | \$ 130,477 | \$ 130,477 | \$ 130,477 | \$— | \$ — | \$ 132,603 | \$ 132,603 | \$ 132,603 | \$— | \$ — |
| Liabilities: | | | | | | | | | | |
| Long-term debt (including current portion of long-term debt) ⁽⁵⁾ | \$ 7,984,221 | \$ 8,540,510 | \$— | \$ 8,540,510 | \$ — | \$ 9,347,051 | \$ 9,859,266 | \$— | \$ 9,859,266 | \$ — |
| Total Liabilities | \$ 7,984,221 | \$ 8,540,510 | \$— | \$ 8,540,510 | \$ — | \$ 9,347,051 | \$ 9,859,266 | \$— | \$ 9,859,266 | \$ — |

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

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

(3) Inputs that are unobservable. The Company did not use any Level 3 inputs as of June 30, 2017 and December 31, 2016.

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

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

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Other Financial Instruments

The carrying amounts of accounts receivable, accounts payable, accrued interest and accrued expenses approximate fair value at June 30, 2017 and December 31, 2016.

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

| Description | Fair Value Measurements at June 30, 2017 Using | | | | Fair Value Measurements at December 31, 2016 Using | | | |
|---|--|------------------------|------------------------|------------------------|--|------------------------|------------------------|------------------------|
| | Total | Level 1 ⁽¹⁾ | Level 2 ⁽²⁾ | Level 3 ⁽³⁾ | Total | Level 1 ⁽¹⁾ | Level 2 ⁽²⁾ | Level 3 ⁽³⁾ |
| Assets: | | | | | | | | |
| Derivative financial instruments ⁽⁴⁾ | \$68,693 | \$ — | \$68,693 | \$ — | \$19,397 | \$ — | \$19,397 | \$ — |
| Investments ⁽⁵⁾ | \$3,120 | 3,120 | — | — | \$3,576 | 3,576 | — | — |
| Total Assets | \$71,813 | \$ 3,120 | \$68,693 | \$ — | \$22,973 | \$ 3,576 | \$19,397 | \$ — |
| Liabilities: | | | | | | | | |
| Derivative financial instruments ⁽⁶⁾ | \$266,257 | \$ — | \$266,257 | \$ — | \$373,497 | \$ — | \$373,497 | \$ — |
| Total Liabilities | \$266,257 | \$ — | \$266,257 | \$ — | \$373,497 | \$ — | \$373,497 | \$ — |

- (1) Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Valuation of these items does not entail a significant amount of judgment.
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For foreign currency forward contracts, interest rate swaps, cross currency swaps and fuel swaps, fair value is derived using valuation models that utilize the income valuation approach. These valuation models take into account the contract terms, such as maturity, as well as other inputs, such as foreign exchange rates and curves, fuel types, fuel curves and interest rate yield curves. Fair value for foreign currency collar options is determined by using standard option pricing models with inputs based on the options' contract terms, such as exercise price and maturity, and readily available public market data, such as foreign exchange curves, foreign exchange volatility levels and discount rates. All derivative instrument fair values take into account the creditworthiness of the counterparty and the Company.
- (2) Inputs that are unobservable. The Company did not use any Level 3 inputs as of June 30, 2017 and December 31, 2016.
- (3) Consists of foreign currency forward contracts, interest rate swaps and fuel swaps. Please refer to the "Fair Value of Derivative Instruments" table for breakdown by instrument type.
- (4) Consists of exchange-traded equity securities and mutual funds reported within Other assets in our consolidated balance sheets.
- (5) Consists of foreign currency forward contracts, interest rate swaps and fuel swaps. Please refer to the "Fair Value of Derivative Instruments" table for breakdown by instrument type.
- (6) Consists of foreign currency forward contracts, interest rate swaps and fuel swaps. Please refer to the "Fair Value of Derivative Instruments" table for breakdown by instrument type.

The reported fair values are based on a variety of factors and assumptions. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of June 30, 2017 or December 31, 2016, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement.

We have master International Swaps and Derivatives Association ("ISDA") agreements in place with our derivative instrument counterparties. These ISDA agreements provide for final close out netting with our counterparties for all positions in the case of default or termination of the ISDA agreement. We have determined that our ISDA agreements

provide us with rights of setoff on the fair value of derivative instruments in a gain position and those in a loss position with the same counterparty. We have elected not to offset such derivative instrument fair values in our consolidated balance sheets.

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

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

| | Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements | | | | As of December 31, 2016 | | | |
|--|--|---|--------------------------|---------------------------------|---|--|--------------------------|---------------------------------|
| | As of June 30, 2017 | | | | As of December 31, 2016 | | | |
| | Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet | Gross Amount of Eligible Offsetting Recognized Derivative Liabilities | Cash Collateral Received | Net Amount of Derivative Assets | Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet | Gross Amount of Eligible Offsetting Recognized Derivative Assets | Cash Collateral Received | Net Amount of Derivative Assets |
| (In thousands) | | | | | | | | |
| Derivatives subject to master netting agreements | \$68,693 | \$(45,156) | \$ | -\$23,537 | \$19,397 | \$(19,397) | \$ | -\$ |
| Total | \$68,693 | \$(45,156) | \$ | -\$23,537 | \$19,397 | \$(19,397) | \$ | -\$ |

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

| | Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements | | | | As of December 31, 2016 | | | |
|--|--|--|-------------------------|--------------------------------------|--|---|-------------------------|--------------------------------------|
| | As of June 30, 2017 | | | | As of December 31, 2016 | | | |
| | Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet | Gross Amount of Eligible Offsetting Recognized Derivative Assets | Cash Collateral Pledged | Net Amount of Derivative Liabilities | Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet | Gross Amount of Eligible Offsetting Recognized Derivative Liabilities | Cash Collateral Pledged | Net Amount of Derivative Liabilities |
| (In thousands) | | | | | | | | |
| Derivatives subject to master netting agreements | \$(266,257) | \$45,156 | \$ | -\$221,101 | \$(373,497) | \$19,397 | \$7,213 | \$(346,887) |
| Total | \$(266,257) | \$45,156 | \$ | -\$221,101 | \$(373,497) | \$19,397 | \$7,213 | \$(346,887) |

Concentrations of Credit Risk

We monitor our credit risk associated with financial and other institutions with which we conduct significant business and, to minimize these risks, we select counterparties with credit risks acceptable to us and we seek to limit our exposure to an individual counterparty. Credit risk, including but not limited to counterparty nonperformance under derivative instruments, our credit facilities and new ship progress payment guarantees, is not considered significant, as we primarily conduct business with large, well-established financial institutions, insurance companies and export

credit agencies many of which we have long-term relationships with and which have credit risks acceptable to us or where the credit risk is spread out among a large number of counterparties. As of June 30, 2017, we had counterparty credit risk exposure under our derivative instruments of approximately \$23.7 million, which was limited to the cost of replacing the contracts in the event of non-performance by the counterparties to the contracts, the majority of which are currently our lending banks. As of December 31, 2016, we did not have any exposure under our derivative instruments. We do not anticipate nonperformance by any of our significant counterparties. In addition, we have established guidelines we follow regarding credit ratings and instrument maturities to maintain safety and liquidity. We do not normally require collateral or other security to support credit relationships; however, in certain circumstances this option is available to us.

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Derivative Instruments

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

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

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

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

On an ongoing basis, we assess whether derivatives used in hedging transactions are “highly effective” in offsetting changes in the fair value or cash flow of hedged items. We use the long-haul method to assess hedge effectiveness using regression analysis for each hedge relationship under our interest rate, foreign currency and fuel hedging programs. We apply the same methodology on a consistent basis for assessing hedge effectiveness to all hedges within each hedging program (i.e., interest rate, foreign currency and fuel). We perform regression analyses over an observation period of up to three years, utilizing market data relevant to the hedge horizon of each hedge relationship. High effectiveness is achieved when a statistically valid relationship reflects a high degree of offset and correlation between the changes in the fair values of the derivative instrument and the hedged item. The determination of ineffectiveness is based on the amount of dollar offset between the change in fair value of the derivative instrument and the change in fair value of the hedged item at the end of the reporting period. If it is determined that a derivative is not highly effective as a hedge or hedge accounting is discontinued, any change in fair value of the derivative since the last date at which it was determined to be effective is recognized in earnings. In addition, the ineffective portion of our highly effective hedges is immediately recognized in earnings and reported in Other expense in our consolidated statements of comprehensive income (loss).

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

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

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates to our long-term debt obligations including future interest payments. At June 30, 2017 and December 31, 2016, approximately 45.9% and 40.5%, respectively, of our long-term debt was effectively fixed. We use interest rate swap agreements to modify our exposure to interest rate movements and to manage our interest expense.

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Market risk associated with our long-term fixed rate debt is the potential increase in fair value resulting from a decrease in interest rates. We use interest rate swap agreements that effectively convert a portion of our fixed-rate debt to a floating-rate basis to manage this risk. At June 30, 2017 and December 31, 2016, we maintained interest rate swap agreements on the following fixed-rate debt instruments:

| Debt Instrument | Swap Notional as of June 30, 2017 (In thousands) | Maturity | Debt Fixed Rate | Swap Floating Rate: LIBOR plus | All-in Swap Floating Rate as of June 30, 2017 |
|-----------------------------|--|---------------|-----------------|--------------------------------|---|
| Oasis of the Seas term loan | \$ 157,500 | October 2021 | 5.41% | 3.87% | 5.29% |
| Unsecured senior notes | 650,000 | November 2022 | 5.25% | 3.63% | 4.81% |
| | \$ 807,500 | | | | |

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

Market risk associated with our long-term floating rate debt is the potential increase in interest expense from an increase in interest rates. We use interest rate swap agreements that effectively convert a portion of our floating-rate debt to a fixed-rate basis to manage this risk. At June 30, 2017 and December 31, 2016, we maintained interest rate swap agreements on the following floating-rate debt instruments:

| Debt Instrument | Swap Notional as of June 30, 2017 (In thousands) | Maturity | Debt Floating Rate | All-in Swap Fixed Rate |
|--|--|--------------|--------------------|------------------------|
| Celebrity Reflection term loan | \$409,063 | October 2024 | LIBOR plus 0.40% | 2.85% |
| Quantum of the Seas term loan | 581,875 | October 2026 | LIBOR plus 1.30% | 3.74% |
| Anthem of the Seas term loan | 604,167 | April 2027 | LIBOR plus 1.30% | 3.86% |
| Ovation of the Seas term loan | 760,833 | April 2028 | LIBOR plus 1.00% | 3.16% |
| Harmony of the Seas term loan ⁽¹⁾ | 724,794 | May 2028 | EURIBOR plus 1.15% | 2.26% |
| | \$3,080,732 | | | |

(1) Interest rate swap agreements hedging the Euro-denominated term loan for Harmony of the Seas include EURIBOR zero-floors matching the hedged debt EURIBOR zero-floor. Amount presented is based on the exchange rate as of June 30, 2017.

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

The notional amount of interest rate swap agreements related to outstanding debt as of June 30, 2017 and December 31, 2016 was \$3.9 billion and \$4.0 billion, respectively.

Foreign Currency Exchange Rate Risk

Derivative Instruments

Our primary exposure to foreign currency exchange rate risk relates to our ship construction contracts denominated in Euros, our foreign currency denominated debt and our international business operations. We enter into foreign currency forward contracts, collar options and cross currency swap agreements to manage portions of the exposure to

movements in foreign currency exchange rates. As of June 30, 2017, the aggregate cost of our ships on order, not including the TUI Cruises' ships on order and those subject to conditions to effectiveness, was approximately \$12.6 billion, of which we had deposited \$322.4 million as of such date. At June 30, 2017 and December 31, 2016, approximately 63.3% and 66.7%, respectively, of the aggregate cost of the ships under construction was exposed to fluctuations in the Euro exchange rate. The majority of our foreign currency forward contracts, collar options and cross currency swap agreements are accounted for as cash flow, fair value or net investment hedges depending on the designation of the related hedge.

On a regular basis, we enter into foreign currency forward contracts and, from time to time, we utilize cross-currency swap agreements to minimize the volatility resulting from the remeasurement of net monetary assets and liabilities denominated in a currency other than our functional currency or the functional currencies of our foreign subsidiaries. During the second quarter of 2017, we maintained an average of approximately \$670.6 million of these foreign currency forward contracts. These instruments are not designated as hedging instruments. Changes in the fair value of the foreign currency forward contracts resulted in a gain (loss), of approximately \$21.3 million and \$(24.7) million during the quarters ended June 30, 2017 and June 30, 2016, respectively, and approximately \$35.1 million and \$(9.3) million, during the six months ended June 30, 2017 and June 30, 2016, respectively, that were recognized in earnings within Other expense in our consolidated statements of comprehensive income (loss).

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The notional amount of outstanding foreign exchange contracts including our forward contracts as of June 30, 2017 and December 31, 2016 was \$2.7 billion and \$1.3 billion, respectively.

Non-Derivative Instruments

We also address the exposure of our investments in foreign operations by denominating a portion of our debt in our subsidiaries' and investments' functional currencies and designating it as a hedge of these subsidiaries and investments. We had designated debt as a hedge of our net investments in TUI Cruises of approximately €310.0 million, or approximately \$353.5 million, as of June 30, 2017.

Fuel Price Risk

Our exposure to market risk for changes in fuel prices relates primarily to the consumption of fuel on our ships. We use fuel swap agreements to mitigate the financial impact of fluctuations in fuel prices.

Our fuel swap agreements are accounted for as cash flow hedges. At June 30, 2017, we have hedged the variability in future cash flows for certain forecasted fuel transactions occurring through 2021. As of June 30, 2017 and December 31, 2016, we had the following outstanding fuel swap agreements:

| Fuel Swap Agreements | | | |
|---------------------------|-------------------------------|---------|--|
| As of June 30, 2017 | As of December 31, 2016 | | |
| (metric tons) | | | |
| 2017 | 427,100 | 799,065 | |
| 2018 | 756,700 | 616,300 | |
| 2019 | 668,500 | 521,000 | |
| 2020 | 531,200 | 306,500 | |
| 2021 | 224,900 | — | |
| Fuel Swap Agreements | | | |
| As of June 30, 2017 | As of December 31, 2016 | | |
| (% hedged) | | | |
| Projected fuel purchases: | | | |
| 2017 | 64 % | 60 % | |
| 2018 | 54 % | 44 % | |
| 2019 | 45 % | 35 % | |
| 2020 | 35 % | 20 % | |
| 2021 | 15 % | — | |

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At June 30, 2017 and December 31, 2016, \$123.0 million and \$138.5 million, respectively, of estimated unrealized net loss associated with our cash flow hedges pertaining to fuel swap agreements were expected to be reclassified to earnings from Accumulated other comprehensive loss within the next twelve months. Reclassification is expected to occur as the result of fuel consumption associated with our hedged forecasted fuel purchases.

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

| | Fair Value of Derivative Instruments | | | | | |
|---|--------------------------------------|--------------------------------|------------------------------------|----------------------------------|--------------------------------|------------------------------------|
| | Asset Derivatives | | | Liability Derivatives | | |
| | Balance Sheet Location | As of June 30, 2017 Fair Value | As of December 31, 2016 Fair Value | Balance Sheet Location | As of June 30, 2017 Fair Value | As of December 31, 2016 Fair Value |
| (In thousands) | | | | | | |
| Derivatives designated as hedging instruments under ASC 815-20 ⁽¹⁾ | | | | | | |
| Interest rate swaps | Other assets | \$ 886 | \$ 5,246 | Other long-term liabilities | \$ 54,726 | \$ 57,679 |
| Foreign currency forward contracts | Prepaid expenses and other assets | 16,137 | — | Derivative financial instruments | 1,127 | 5,574 |
| Foreign currency forward contracts | Other assets | 37,299 | — | Other long-term liabilities | 3,758 | 68,165 |
| Fuel swaps | Prepaid expenses and other assets | 1,577 | — | Derivative financial instruments | 117,654 | 129,486 |
| Fuel swaps | Other assets | 12,281 | 13,608 | Other long-term liabilities | 76,102 | 95,125 |
| Total derivatives designated as hedging instruments under 815-20 | | 68,180 | 18,854 | | 253,367 | 356,029 |
| Derivatives not designated as hedging instruments under ASC 815-20 | | | | | | |
| Fuel swaps | Prepaid expenses and other assets | 73 | — | Derivative financial instruments | 9,320 | 11,532 |
| Fuel swaps | Other Assets | 440 | 543 | Other long-term liabilities | 3,570 | 5,936 |
| Total derivatives not designated as hedging instruments under 815-20 | | 513 | 543 | | 12,890 | 17,468 |
| Total derivatives | | \$ 68,693 | \$ 19,397 | | \$ 266,257 | \$ 373,497 |

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

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

| Balance Sheet Location | Carrying Value |
|------------------------|----------------|
|------------------------|----------------|

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| Non-derivative instrument designated as hedging instrument under ASC 815-20 | | As of June 30, 2017 | As of December 31, 2016 |
|--|-----------------------------------|---------------------------|-------------------------------|
| (In thousands) | | | |
| Foreign currency debt | Current portion of long-term debt | \$66,582 | \$61,601 |
| Foreign currency debt | Long-term debt | 286,911 | 249,624 |
| | | \$353,493 | \$311,225 |

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The effect of derivative instruments qualifying and designated as hedging instruments and the related hedged items in fair value hedges on the consolidated statements of comprehensive income (loss) was as follows:

| Derivatives and Related Hedged Items under ASC 815-20 Fair Value Hedging Relationships | Location of Gain (Loss) Recognized in Income on Derivative and Hedged Item | Amount of Gain (Loss) Recognized in Income on Derivative | | | | Amount of Gain (Loss) Recognized in Income on Hedged Item | | | |
|--|--|--|-----------------------------|--------------------------------|--------------------------------|---|-----------------------------|--------------------------------|--------------------------------|
| | | Quarter Ended June 30, 2017 | Quarter Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 | Quarter Ended June 30, 2017 | Quarter Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
| (In thousands) | | | | | | | | | |
| Interest rate swaps | Interest expense, net of interest capitalized | \$869 | \$1,976 | \$2,042 | \$4,338 | \$— | \$3,278 | \$— | \$7,203 |
| Interest rate swaps | Other expense | 5,351 | 9,986 | 3,820 | 36,254 | (4,311) | (8,601) | (1,854) | (32,301) |
| | | \$6,220 | \$11,962 | \$5,862 | \$40,592 | \$(4,311) | \$(5,323) | \$(1,854) | \$(25,098) |

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

| Derivatives under ASC 815-20 Cash Flow Hedging Relationships | Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative (Effective Portion) | | | | Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion) | | | |
|--|---|-----------------------------|--------------------------------|--------------------------------|--|---|-----------------------------|--------------------------------|--------------------------------|
| | Quarter Ended June 30, 2017 | Quarter Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 | | Quarter Ended June 30, 2017 | Quarter Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
| (In thousands) | | | | | | | | | |
| Interest rate swaps | \$(19,060) | \$(35,732) | \$(21,549) | \$(133,103) | Interest expense, net of interest capitalized | \$(7,863) | \$(10,938) | \$(16,720) | \$(20,060) |
| Foreign currency forward contracts | 97,521 | (34,738) | 99,650 | 11,310 | Depreciation and amortization expenses | (2,710) | (1,980) | (5,420) | (2,698) |
| Foreign currency forward contracts | — | — | — | — | Other expense | (4,105) | (12,830) | (7,675) | (6,742) |
| Foreign currency forward contracts | — | — | — | — | Other operating | — | (207) | — | (207) |
| Foreign currency collar options | — | — | — | — | Depreciation and amortization expenses | (602) | (601) | (1,204) | (1,204) |
| Fuel swaps | — | — | — | — | Other expense | 2,498 | 13,933 | 4,775 | 6,597 |
| Fuel swaps | (4,125) | 146,068 | (34,693) | 97,731 | Fuel | (41,835) | (68,129) | (81,763) | (158,830) |

\$74,336 \$75,598 \$43,408 \$(24,062) \$(54,617) \$(80,752) \$(108,007) \$(183,1

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| Derivatives under ASC 815-20 Cash Flow Hedging Relationships | Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | | | |
|---|--|---|--------------------------------------|--|--|
| | | Quarter Ended June 30, 2017 | Quarter Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
| (In thousands) | | | | | |
| Interest rate swaps | Other expense | — | (342) | — | (1,242) |
| Foreign currency forward contracts | Other expense | 43 | — | 25 | — |
| Foreign currency forward contracts | Other expense | — | (57) | — | (57) |
| Fuel swaps | Other expense | 2,281 | — | — | — |
| Fuel swaps | Other expense | (2,337) | (3,925) | (2,337) | (3,941) |
| | | \$(13) | \$(4,324) | \$(2,312) | \$(5,240) |

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

| | Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) (Effective Portion) | | | |
|---|--|---|--|--|
| | Quarter Ended June 30, 2017 | Quarter Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
| Non-derivative instruments under ASC 815-20 Net Investment Hedging Relationships | | | | |
| (In thousands) | | | | |
| Foreign Currency Debt | \$21,888 | \$4,695 | \$26,257 | \$4,695 |
| | \$21,888 | \$4,695 | \$26,257 | \$4,695 |

There was no amount recognized in income (ineffective portion and amount excluded from effectiveness testing) for the quarters and six months ended June 30, 2017 and June 30, 2016, respectively.

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

| | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives | | | |
|---|---|--|--------------------------------------|--|--|
| | | Quarter Ended June 30, 2017 | Quarter Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
| Derivatives Not Designated as Hedging Instruments under ASC 815-20 | | | | | |
| (In thousands) | | | | | |
| Foreign currency forward contracts | Other expense | \$21,256 | \$(23,703) | \$35,068 | \$(9,248) |
| Fuel swaps | Other expense | (20) | (73) | (80) | (51) |
| | | \$21,236 | \$(23,776) | \$34,988 | \$(9,299) |

Credit Related Contingent Features

Our current interest rate derivative instruments may require us to post collateral if our Standard & Poor's and Moody's credit ratings are below specified levels. Specifically, if on the fifth anniversary of executing a derivative instrument, or on any succeeding fifth-year anniversary, our credit ratings for our senior unsecured debt were to be rated below BBB- by Standard & Poor's and Baa3 by Moody's, then the counterparty may periodically demand that we post collateral in an amount equal to the difference between (i) the net market value of all derivative transactions with such counterparty that have reached their fifth year anniversary, to the extent negative, and (ii) the applicable minimum call amount.

The amount of collateral required to be posted following such event will change as, and to the extent, our net liability position increases or decreases by more than the applicable minimum call amount. If our credit rating for our senior unsecured debt is subsequently equal to or above BBB- by Standard & Poor's or Baa3 by Moody's, then any collateral posted at such time will be released to us and we will no longer be required to post collateral unless we meet the collateral trigger requirement at the next fifth-year anniversary. At June 30, 2017, four of our interest rate derivative instruments had reached their fifth anniversary; however, our senior unsecured debt credit rating was BBB- by Standard & Poor's and Baa3 by Moody's and, accordingly, we were not required to post any collateral as of such date.

As of December 31, 2016, two of our interest rate derivative instruments had reached their fifth anniversary. As our unsecured debt credit rating at December 31, 2016 was below BBB-/Baa3, we had posted \$7.2 million in collateral as of such date. Consistent with the provisions of our interest rate derivatives instruments, all collateral that was posted with our counterparties was returned upon reaching investment grade.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Concerning Forward-Looking Statements

The discussion under this caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this document includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance (including our expectations for the third quarter and full year of 2017 and our earnings and yield estimates for 2017 set forth under the heading "Outlook" below), business and industry prospects or future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. Words such as "anticipate," "believe," "could," "estimate," "expect," "goal," "intend," "may," "plan," "project," "seek," "should," "will," "driving" and similar expressions are intended to further identify any of these forward-looking statements. Forward-looking statements reflect management's current expectations but they are based on judgments and are inherently uncertain. Furthermore, they are subject to risks, uncertainties and other factors that could cause our actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in those forward-looking statements. Examples of these risks, uncertainties and other factors include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q and, in particular, the risks discussed under the caption "Risk Factors" in Part II, Item 1A herein.

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

Overview

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

- a review of our financial presentation, including discussion of certain operational and financial metrics we utilize to assist us in managing our business;
- a discussion of our results of operations for the quarter and six months ended June 30, 2017 compared to the same period in 2016;
- a discussion of our business outlook, including our expectations for selected financial items for the third quarter and full year of 2017; and
- a discussion of our liquidity and capital resources, including our future capital and contractual commitments and potential funding sources.

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Critical Accounting Policies

For a discussion of our critical accounting policies, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations within our Annual Report on Form 10-K for the year ended December 31, 2016.

Seasonality

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

Financial Presentation

Description of Certain Line Items

Revenues

Our revenues are comprised of the following:

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

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

Cruise Operating Expenses

Our cruise operating expenses are comprised of the following:

• Commissions, transportation and other expenses, which consist of those costs directly associated with passenger ticket revenues, including travel agent commissions, air and other transportation expenses, port costs that vary with passenger head counts and related credit card fees;

• Onboard and other expenses, which consist of the direct costs associated with onboard and other revenues, including the costs of products sold onboard our ships, vacation protection insurance premiums, costs associated with pre- and post-cruise tours and related credit card fees as well as the minimal costs associated with concession revenues, as the costs are mostly incurred by third-party concessionaires and costs incurred for the procurement and management related services we perform on behalf of our unconsolidated affiliates;

• Payroll and related expenses, which consist of costs for shipboard personnel (costs associated with our shoreside personnel are included in Marketing, selling and administrative expenses);

• Food expenses, which include food costs for both guests and crew;

Fuel expenses, which include fuel and related delivery, storage and emission consumable costs and the financial impact of fuel swap agreements; and

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

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

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Selected Operational and Financial Metrics

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

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

Adjusted Net Income represents net income excluding certain items that we believe adjusting for is meaningful when assessing our performance on a comparative basis. For the periods presented, these items included the net loss related to the elimination of the Pullmantur reporting lag, restructuring charges and other initiative costs related to our Pullmantur right-sizing strategy.

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. For the periods presented, Net Cruise Costs excludes initiative costs related to our Pullmantur right-sizing strategy.

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.

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

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

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

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

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The use of certain significant non-GAAP measures, such as Net Yields, Net Cruise Costs and Net Cruise Costs Excluding Fuel, allows us to perform capacity and rate analysis to separate the impact of known capacity changes from other less predictable changes which affect our business. We believe these non-GAAP measures provide expanded insight to measure revenue and cost performance in addition to the standard 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.

We have not provided a quantitative reconciliation of (i) projected Total revenues to projected Net Revenues, (ii) projected Gross Yields to projected Net Yields, (iii) projected Gross Cruise Costs to projected Net Cruise Costs and projected Net Cruise Costs Excluding Fuel and (iv) projected Net Income and Earnings per Share to projected Adjusted Net Income and Adjusted Earnings per Share because preparation of meaningful GAAP projections of Total revenues, Gross Yields, Gross Cruise Costs, Net Income and Earnings per Share would require unreasonable effort. Due to significant uncertainty, we are unable to predict, without unreasonable effort, the future movement of foreign exchange rates, fuel prices and interest rates inclusive of our related hedging programs. In addition, we are unable to determine the future impact of restructuring expenses or other non-core business related gains and losses which may result from strategic initiatives. These items are uncertain and could be material to our results of operations in accordance with GAAP. Due to this uncertainty, we do not believe that reconciling information for such projected figures would be meaningful.

Results of Operations

Summary

Both our net income and Adjusted Net Income for the second quarter of 2017 were \$369.5 million, or \$1.71 per share on a diluted basis compared to net income and Adjusted Net Income of \$229.9 million and \$235.2 million, or \$1.06 and \$1.09 per share on a diluted basis, respectively, for the second quarter of 2016.

Both our net income and Adjusted Net Income for the six months ended June 30, 2017 were \$584.3 million, or \$2.71 per share on a diluted basis as compared to net income and Adjusted Net Income of \$329.0 million and \$359.1 million, or \$1.52 and \$1.65, per share on a diluted basis, respectively, for the six months ended June 30, 2016.

Significant items for the quarter and six months ended June 30, 2017 include:

The effect of changes in foreign currency exchange rates related to our passenger ticket and onboard and other revenue transactions and cruise operating expenses denominated in currencies other than the United States dollar, resulted in a decrease in total revenues of \$29.4 million and \$31.4 million for the quarter and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, and a decrease in cruise operating expenses by \$6.8 million and \$8.9 million for the quarter and six months ended June 30, 2017, respectively, as compared to the same periods in 2016.

Total revenues, excluding the unfavorable effect of changes in foreign currency exchange rates, increased \$119.4 million and \$212.2 million for the quarter and six months ended June 30, 2017, respectively, as compared to the same period in 2016. The increase was primarily due to an increase in ticket prices and onboard spending on a per passenger basis, which is further discussed below.

Total Cruise operating expenses, excluding the favorable effect of changes in foreign currency exchange rates, decreased \$47.0 million and \$110.7 million for the quarter and six months ended June 30, 2017, respectively, as

compared to the same period in 2016. The decrease was primarily due to the decrease in capacity, which is further discussed below. Additionally, we recognized a \$30.9 million gain on the sale of Legend of the Seas in March 2017.

Other Items

In May 2017, TUI Cruises, our 50% joint venture, took delivery of Mein Schiff 6.

During the second quarter of 2017, we entered into agreements with Meyer Turku to build two "Project Icon" ships. Refer to Note 6. Commitments and Contingencies to our consolidated financial statements for further information.

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Operating results for the quarter and six months ended June 30, 2017 compared to the same period in 2016 are shown in the following table (in thousands, except per share data):

| | Quarter Ended June 30, 2017 | | | 2016 | | | Six months ended June 30, 2017 | | | 2016 | | |
|--|--------------------------------|------------------------|---|-------------|------------------------|---|-----------------------------------|------------------------|---|------------------------|-------|---|
| | | % of Total Revenues | | | % of Total Revenues | | | % of Total Revenues | | % of Total Revenues | | |
| Passenger ticket revenues | \$1,581,385 | 72.0 | % | \$1,516,530 | 72.0 | % | \$2,999,608 | 71.4 | % | \$2,894,697 | 72.0 | % |
| Onboard and other revenues | 613,889 | 28.0 | % | 588,732 | 28.0 | % | 1,204,226 | 28.6 | % | 1,128,360 | 28.0 | % |
| Total revenues | 2,195,274 | 100.0 | % | 2,105,262 | 100.0 | % | 4,203,834 | 100.0 | % | 4,023,057 | 100.0 | % |
| Cruise operating expenses: | | | | | | | | | | | | |
| Commissions, transportation and other | 340,331 | 15.5 | % | 334,568 | 15.9 | % | 650,579 | 15.5 | % | 659,458 | 16.4 | % |
| Onboard and other | 132,437 | 6.0 | % | 136,198 | 6.5 | % | 238,431 | 5.7 | % | 239,852 | 6.0 | % |
| Payroll and related | 210,362 | 9.6 | % | 230,433 | 10.9 | % | 426,097 | 10.1 | % | 457,874 | 11.4 | % |
| Food | 121,764 | 5.5 | % | 124,517 | 5.9 | % | 242,975 | 5.8 | % | 246,027 | 6.1 | % |
| Fuel | 170,748 | 7.8 | % | 176,649 | 8.4 | % | 348,162 | 8.3 | % | 352,511 | 8.8 | % |
| Other operating | 281,143 | 12.8 | % | 308,222 | 14.6 | % | 526,365 | 12.5 | % | 596,443 | 14.8 | % |
| Total cruise operating expenses | 1,256,785 | 57.2 | % | 1,310,587 | 62.3 | % | 2,432,609 | 57.9 | % | 2,552,165 | 63.4 | % |
| Marketing, selling and administrative expenses | 283,855 | 12.9 | % | 290,782 | 13.8 | % | 601,320 | 14.3 | % | 593,108 | 14.7 | % |
| Depreciation and amortization expenses | 234,937 | 10.7 | % | 221,620 | 10.5 | % | 470,686 | 11.2 | % | 432,384 | 10.7 | % |
| Operating Income | 419,697 | 19.1 | % | 282,273 | 13.4 | % | 699,219 | 16.6 | % | 445,400 | 11.1 | % |
| Other income (expense): | | | | | | | | | | | | |
| Interest income | 5,811 | 0.3 | % | 5,683 | 0.3 | % | 12,063 | 0.3 | % | 8,403 | 0.2 | % |
| Interest expense, net of interest capitalized | (76,632) | (3.5) | % | (78,747) | (3.7) | % | (156,949) | (3.7) | % | (144,193) | (3.6) | % |
| Equity investment income | 23,359 | 1.1 | % | 27,268 | 1.3 | % | 35,239 | 0.8 | | 48,292 | 1.2 | % |
| Other expense | (2,709) | (0.1) | % | (6,572) | (0.3) | % | (5,320) | (0.1) | % | (28,857) | (0.7) | % |
| | (50,171) | (2.3) | % | (52,368) | (2.5) | % | (114,967) | (2.7) | % | (116,355) | (2.9) | % |
| Net Income | \$369,526 | 16.8 | % | \$229,905 | 10.9 | % | \$584,252 | 13.9 | % | \$329,045 | 8.2 | % |
| Diluted Earnings per Share | \$1.71 | | | \$1.06 | | | \$2.71 | | | \$1.52 | | |

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

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------|-----------|---------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Income | \$369,526 | \$229,905 | \$584,252 | \$329,045 |
| Adjusted Net income | 369,526 | 235,164 | 584,252 | 359,120 |
| Net Adjustments to Net Income- Increase | \$— | \$5,259 | \$— | \$30,075 |
| Adjustments to Net Income: | | | | |
| Net loss related to the elimination of the Pullmantur reporting lag | \$— | \$— | — | 21,656 |
| Restructuring charges | — | 4,425 | — | 4,730 |
| Other initiative costs | — | 834 | — | 3,689 |
| Net Adjustments to Net Income- Increase | \$— | \$5,259 | \$— | \$30,075 |
| Basic: | | | | |
| Earnings per Share | \$1.72 | \$1.07 | \$2.72 | \$1.52 |
| Adjusted Earnings per Share | \$1.72 | \$1.09 | \$2.72 | \$1.66 |
| Diluted: | | | | |
| Earnings per Share | \$1.71 | \$1.06 | \$2.71 | \$1.52 |
| Adjusted Earnings per Share | \$1.71 | \$1.09 | \$2.71 | \$1.65 |
| Weighted-Average Shares Outstanding: | | | | |
| Basic | 215,085 | 215,265 | 214,978 | 216,089 |
| Diluted | 216,062 | 216,131 | 215,944 | 217,040 |

Selected statistical information is shown in the following table:

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|-----------------------|------------------------|-----------|---------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 ⁽¹⁾ |
| Passengers Carried | 1,433,339 | 1,403,998 | 2,858,872 | 2,806,920 |
| Passenger Cruise Days | 9,950,570 | 9,980,140 | 19,910,135 | 19,639,130 |
| APCD | 9,152,899 | 9,544,636 | 18,432,309 | 18,737,199 |
| Occupancy | 108.7 | % 104.6 | % 108.0 | % 104.8 |

⁽¹⁾ Does not include November and December 2015 amounts for Pullmantur as the net Pullmantur result for those months was included within Other expense in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2016, as a result of the elimination of the Pullmantur reporting lag, and did not affect Gross Yields, Net Yields, Gross Cruise Costs, Net Cruise Costs and Net Cruise Costs Excluding Fuel.

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

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---------------------------------------|------------------------|--|-------------|---------------------------|--|-------------|
| | 2017 | 2017 On a Constant Currency Basis | 2016 | 2017 | 2017 On a Constant Currency Basis | 2016 |
| Passenger ticket revenues | \$1,581,385 | \$1,607,965 | \$1,516,530 | \$2,999,608 | \$3,027,567 | \$2,894,697 |
| Onboard and other revenues | 613,889 | 616,736 | 588,732 | 1,204,226 | 1,207,666 | 1,128,360 |
| Total revenues | 2,195,274 | 2,224,701 | 2,105,262 | 4,203,834 | 4,235,233 | 4,023,057 |
| Less: | | | | | | |
| Commissions, transportation and other | 340,331 | 344,944 | 334,568 | 650,579 | 656,131 | 659,458 |
| Onboard and other | 132,437 | 132,781 | 136,198 | 238,431 | 238,498 | 239,852 |
| Net Revenues | \$1,722,506 | \$1,746,976 | \$1,634,496 | \$3,314,824 | \$3,340,604 | \$3,123,747 |
| APCD | 9,152,899 | 9,152,899 | 9,544,636 | 18,432,309 | 18,432,309 | 18,737,199 |
| Gross Yields | \$239.84 | \$243.06 | \$220.57 | \$228.07 | \$229.77 | \$214.71 |
| Net Yields | \$188.19 | \$190.87 | \$171.25 | \$179.84 | \$181.24 | \$166.71 |

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

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------|--|-------------|---------------------------|--|-------------|
| | 2017 | 2017 On a Constant Currency Basis | 2016 | 2017 | 2017 On a Constant Currency Basis | 2016 |
| Total cruise operating expenses | \$1,256,785 | \$1,263,620 | \$1,310,587 | \$2,432,609 | \$2,441,477 | \$2,552,165 |
| Marketing, selling and administrative expenses ⁽¹⁾ | 283,855 | 286,875 | 286,357 | 601,320 | 607,946 | 588,378 |
| Gross Cruise Costs | 1,540,640 | 1,550,495 | 1,596,944 | 3,033,929 | 3,049,423 | 3,140,543 |
| Less: | | | | | | |
| Commissions, transportation and other | 340,331 | 344,944 | 334,568 | 650,579 | 656,131 | 659,458 |
| Onboard and other | 132,437 | 132,781 | 136,198 | 238,431 | 238,498 | 239,852 |
| Net Cruise Costs including other initiative costs | 1,067,872 | 1,072,770 | 1,126,178 | 2,144,919 | 2,154,794 | 2,241,233 |
| Less: | | | | | | |
| Other initiative costs included within cruise operating expenses and marketing, selling and administrative expenses | — | — | 834 | — | — | 3,325 |
| Net Cruise Costs | 1,067,872 | 1,072,770 | 1,125,344 | 2,144,919 | 2,154,794 | 2,237,908 |
| Less: | | | | | | |
| Fuel ⁽²⁾ | 170,748 | 170,747 | 176,649 | 348,162 | 348,161 | 352,087 |
| Net Cruise Costs Excluding Fuel | \$897,124 | \$902,023 | \$948,695 | \$1,796,757 | \$1,806,633 | \$1,885,821 |
| APCD | 9,152,899 | 9,152,899 | 9,544,636 | 18,432,309 | 18,432,309 | 18,737,199 |
| Gross Cruise Costs per APCD | \$168.32 | \$169.40 | \$167.31 | \$164.60 | \$165.44 | \$167.61 |
| Net Cruise Costs per APCD | \$116.67 | \$117.21 | \$117.90 | \$116.37 | \$116.90 | \$119.44 |
| Net Cruise Costs Excluding Fuel per APCD | \$98.02 | \$98.55 | \$99.40 | \$97.48 | \$98.01 | \$100.65 |

⁽¹⁾ For the quarter and six months ended June 30, 2016, amounts do not include restructuring charges of \$4.4 million and \$4.7 million, respectively.

⁽²⁾ For the six months ended June 30, 2016, amount does not include fuel expense of \$0.4 million included within other initiative costs associated with the redeployment of Pullmantur's Empress to the Royal Caribbean International brand.

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2017 Outlook

The company does not make predictions about fuel pricing, interest rates or currency exchange rates but does provide guidance about its future business activities. On August 1, 2017, we announced the following full year and third quarter 2017 guidance based on the then current fuel pricing, interest rates and currency exchange rates:

Full Year 2017

| | As Reported | Constant Currency |
|---|------------------------|-------------------|
| Net Yields | Approx. 6.0% | 5.5% to 6.0% |
| Net Cruise Costs per APCD | Approx. 1.0% | Approx. 1.0% |
| Net Cruise Costs per APCD, Excluding Fuel | Approx. 1.0% | Approx. 1.0% |
| Capacity Decrease | (1.9%) | |
| Depreciation and Amortization | \$945 to \$953 million | |
| Interest Expense, net | \$273 to \$278 million | |
| Fuel Consumption (metric tons) | 1,324,000 | |
| Fuel Expenses | \$706 million | |
| Percent Hedged (fwd consumption) | 64% | |
| Impact of 10% change in fuel prices | \$15 million | |
| 1% Change in Currency | \$10 million | |
| 1% Change in Net Yield | \$36 million | |
| 1% Change in NCC x Fuel | \$17 million | |
| 1% Change in LIBOR | \$16 million | |
| Adjusted Earnings per Share-Diluted | \$7.35 to \$7.45 | |

Third Quarter 2017

| | As Reported | Constant Currency |
|---|------------------------|-------------------|
| Net Yields | 4.5% to 5.0% | 4.0% to 4.5% |
| Net Cruise Costs per APCD | Approx. 4.0% | Approx. 4.0% |
| Net Cruise Costs per APCD, Excluding Fuel | 4.0% to 4.5% | Approx. 4.0% |
| Capacity Decrease | (4.0%) | |
| Depreciation and Amortization | \$235 to \$240 million | |
| Interest Expense, net | \$65 to \$70 million | |
| Fuel Consumption (metric tons) | 329,000 | |
| Fuel Expenses | \$176 million | |
| Percent Hedged (fwd consumption) | 63% | |
| Impact of 10% change in fuel prices | \$8 million | |
| 1% Change in Currency | \$6 million | |
| 1% Change in Net Yield | \$20 million | |
| 1% Change in NCC x Fuel | \$9 million | |
| 1% Change in LIBOR | \$6 million | |
| Adjusted Earnings per Share-Diluted | Approx. \$3.45 | |

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Volatility in foreign currency exchange rates affects the US dollar value of our earnings. Based on our highest net exposure for each quarter and the full year 2017, the top five foreign currencies are ranked below. For example, the Australian Dollar is the most impactful currency in the first and fourth quarters of 2017. The first and second quarters of 2017 rankings are based on actual results. Rankings for the remaining quarters and full year are based on estimated net exposures.

| Ranking | Q1 | Q2 | Q3 | Q4 | FY 2017 |
|---------|-----|-----|-----|-----|---------|
| 1 | AUD | GBP | GBP | AUD | GBP |
| 2 | CAD | CNH | CNH | GBP | AUD |
| 3 | GBP | AUD | EUR | CAD | CAD |
| 4 | CNH | CAD | CAD | EUR | CNH |
| 5 | BRL | MXN | MXN | CNH | EUR |

The currency abbreviations above are defined as follows:

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

Quarter Ended June 30, 2017 Compared to Quarter Ended June 30, 2016

In this section, references to 2017 refer to the quarter ended June 30, 2017 and references to 2016 refer to the quarter ended June 30, 2016.

Revenues

Total revenues for 2017 increased \$90.0 million, or 4.3%, from 2016.

Passenger ticket revenues comprised 72.0% of our 2017 total revenues. Passenger ticket revenues for 2017 increased by \$64.9 million, or 4.3%, from 2016. The increase was primarily due to a \$154.2 million increase in ticket prices driven by higher pricing on North America and Europe sailings. Additionally, the exit of the Pullmantur ships and the addition of Harmony of the Seas improved our ticket price on a per passenger basis. The increase in ticket prices was partially offset by lower pricing on Asia/Pacific sailings.

The increase was partially offset by:

- a 4.1% decrease in capacity, which decreased passenger ticket revenues by \$62.2 million primarily due to the sale of our majority interest in Pullmantur Holdings during the third quarter of 2016 and the sale of Legend of the Seas in first quarter of 2017, which was partially offset by an increase in capacity primarily due to the addition of Harmony of the Seas into our fleet during the second quarter of 2016; and

• an unfavorable effect of changes in foreign currency exchange rates related to our revenue transactions denominated in currencies other than the United States dollar of approximately \$26.6 million.

The remaining 28.0% of 2017 total revenues was comprised of onboard and other revenues, which increased \$25.2 million, or 4.3%, to \$613.9 million in 2017 from \$588.7 million in 2016. The increase in onboard and other revenues

was primarily due to:

a \$33.3 million increase in onboard revenue attributable to higher spending on a per passenger basis primarily due to our revenue enhancing initiatives, including beverage package sales and promotions, gaming initiatives, and to a lesser extent, an increase in port activities mainly due to itinerary changes; and

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- a \$17.5 million increase in other revenue primarily due to charter revenue and management fees earned from Pullmantur Holdings.

The increase was partially offset by a \$23.9 million decrease attributable to the 4.1% decrease in capacity noted above.

Onboard and other revenues included concession revenues of \$77.7 million in 2017 and \$77.9 million in 2016.

Cruise Operating Expenses

Total cruise operating expenses for 2017 decreased \$53.8 million, or 4.1%, from 2016. The decrease was primarily due to:

- a \$53.7 million decrease attributable to the 4.1% decrease in capacity noted above; and
- a \$10.5 million decrease in payroll and related expenses primarily driven by efficiencies gained through our cost reduction initiatives.

The net decrease was partially offset by a \$17.0 million increase in commissions expense mainly due to changes in commission incentives and the increase in ticket prices discussed above.

Marketing, Selling and Administrative Expenses

Marketing, selling and administrative expenses for 2017 decreased \$6.9 million, or 2.4%, to \$283.9 million from \$290.8 million in 2016. The decrease was primarily due to the sale of our majority interest in Pullmantur Holdings, partially offset by an increase in payroll and benefits primarily due to an increase in our stock price year over year related to our performance share awards.

Depreciation and Amortization Expenses

Depreciation and amortization expenses for 2017 increased \$13.3 million, or 6.0%, to \$234.9 million from \$221.6 million in 2016. The increase was primarily due to the addition of Harmony of the Seas into our fleet, and to a lesser extent, new shipboard additions associated with our ship upgrade projects. The increase was partially offset by the sale of Legend of the Seas in the first quarter of 2017.

Other Income (Expense)

Interest expense, net of interest capitalized for 2017 decreased \$2.1 million, or 2.7%, to \$76.6 million from \$78.7 million in 2016. The decrease was primarily due to a lower average debt in 2017 compared to 2016, partially offset by higher interest rates in 2017 compared to 2016.

Equity investment income decreased \$3.9 million, or 14.3%, to \$23.4 million in 2017 from \$27.3 million in 2016 mainly due to losses associated with Pullmantur Holdings in 2017, partially offset by an increase in income from TUI Cruises. Effective July 31, 2016, as a result of the sale of 51% of our interest in Pullmantur Holdings, we account for our investment in Pullmantur Holdings under the equity method of accounting.

Other expense in 2017 was \$2.7 million compared to \$6.6 million in 2016. The decrease in other expense of \$3.9 million, or 58.8%, was primarily driven by an increase in income attributable to changes in fair value of our derivative

instruments that are not accounted for under hedge accounting, partially offset by an increase in foreign exchange losses during the second quarter of 2017.

Gross and Net Yields

Gross Yields and Net Yields increased 8.7% and 9.9% in 2017, respectively, compared to 2016 primarily due to the increase in passenger ticket and onboard and other revenues discussed above. Gross Yields and Net Yields, on a Constant Currency basis, increased 10.2% and 11.5% in 2017, respectively, compared to 2016.

Gross and Net Cruise Costs

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Gross Cruise Costs and Net Cruise Costs decreased 3.5% and 5.1%, respectively, compared to 2016 primarily due to the decrease in capacity and cruise operating expenses discussed above. Gross Cruise Costs per APCD in 2017 was consistent with 2016 and Net Cruise Costs per APCD decreased 1.0% in 2017 compared to 2016. Gross Cruise Costs per APCD on a Constant Currency basis increased 1.2% in 2017 compared to 2016. Net Cruise Costs per APCD on a Constant Currency basis decreased 0.6% in 2017 compared to 2016. Net Cruise Costs Excluding Fuel per APCD decreased 1.4% in 2017 compared to 2016 and decreased 0.9% in 2017 compared to 2016 on a Constant Currency basis.

Other Comprehensive Income (Loss)

Other comprehensive income in 2017 was \$131.3 million compared to \$150.5 million in 2016. The decrease of \$19.2 million, or 12.8%, was primarily due to the Gain on cash flow derivative hedges in 2017 of \$129.0 million compared to \$156.4 million in 2016. The lower net gain of \$129.0 million in 2017 was due to a lower amount of deferred fuel swap losses reclassified into earnings during the quarter ended June 30, 2017 resulting from a lower average swap price in 2017.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

In this section, references to 2017 refer to the six months ended June 30, 2017 and references to 2016 refer to the six months ended June 30, 2016.

Revenues

Total revenues for 2017 increased \$180.8 million, or 4.5%, from 2016.

Passenger ticket revenues comprised 71.4% of our 2017 total revenues. Passenger ticket revenues for 2017 increased by \$104.9 million, or 3.6%, from 2016. The increase was primarily due to an increase of \$180.5 million in ticket prices primarily driven by the improvement in our ticket price on a per passenger basis due to the exit of the Pullmantur ships and the addition of Harmony of the Seas and Ovation of the Seas, as well as higher pricing on North America and Europe sailings. The increase in ticket prices on these itineraries was partially offset by lower pricing on Asia/Pacific sailings.

The increase was partially offset by:

a 1.6% decrease in capacity, which decreased passenger ticket revenues by \$47.1 million primarily due to the sale of our majority interest in Pullmantur Holdings during the third quarter of 2016, the sale of Splendour of the Seas in the second quarter of 2016 and the sale of Legend of the Seas in first quarter of 2017, which was partially offset by an increase in capacity due to the addition of Ovation of the Seas and Harmony of the Seas into our fleet during the second quarter of 2016; and

- an approximate \$28.0 million unfavorable effect of changes in foreign currency exchange rates related to our passenger ticket revenue transactions denominated in currencies other than the United States dollar.

The remaining 28.6% of 2017 total revenues was comprised of onboard and other revenues, which increased \$75.9 million, or 6.7%, in 2017 from 2016. The increase in onboard and other revenues was primarily due to:

a \$70.4 million increase in onboard revenue attributable to higher spending on a per passenger basis primarily due to our revenue enhancing initiatives, including beverage package sales and promotions, gaming initiatives, and to a lesser extent, an increase in port activities mainly due to itinerary changes; and

- a \$25.7 million increase in other revenue primarily due to charter revenue and management fees earned from Pullmantur Holdings.

The increase was partially offset by an \$18.2 million decrease attributable to the 1.6% decrease in capacity noted above.

Onboard and other revenues included concession revenues of \$157.0 million in 2017 and \$154.2 million in 2016.

Cruise Operating Expenses

Total cruise operating expenses for 2017 decreased \$119.6 million, or 4.7%, from 2016.

The decrease was primarily due to:

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• \$41.4 million decrease attributable to the 1.6% decrease in capacity noted above;

• \$30.9 million gain resulting from the sale of Legend of the Seas in 2017 compared to an immaterial gain from the sale of Splendour of the Seas in 2016;

• \$24.2 million decrease in payroll and related expenses primarily driven by efficiencies gained through our cost reduction initiatives;

• \$23.8 million decrease in air expense due to itinerary changes and lower ticket costs; and

• \$15.8 million decrease in vessel maintenance primarily due to the timing of scheduled drydocks.

The net decrease was partially offset by an increase in commissions expense of \$12.5 million mainly due to changes in commission incentives and the increase in ticket prices discussed above.

Marketing, Selling and Administrative Expenses

Marketing, selling and administrative expenses for 2017 increased \$8.2 million, or 1.4%, to \$601.3 million from \$593.1 million in 2016. The increase was primarily due to an increase in payroll and benefits which was driven by an increase in our stock price year over year related to our performance share awards, partially offset by a decrease due to the sale of our majority interest in Pullmantur Holdings.

Depreciation and Amortization Expenses

Depreciation and amortization expenses for 2017 increased \$38.3 million, or 8.9%, to \$470.7 million from \$432.4 million in 2016. The increase was primarily due to the addition of Ovation of the Seas and Harmony of the Seas in the second quarter of 2016 into our fleet, and to a lesser extent, new shipboard additions associated with our ship upgrade projects. The increase was partially offset by the decrease in depreciation associated with the sale of Splendour of the Seas in the second quarter of 2016 and the sale of Legend of the Seas in first quarter of 2017.

Other Income (Expense)

Interest expense, net of interest capitalized, for 2017 increased \$12.8 million, or 8.8%, to \$156.9 million from \$144.2 million in 2016. The increase was primarily due to higher interest rates in 2017 compared to 2016, partially offset by lower average debt in 2017 compared to 2016.

Equity investment income decreased \$13.1 million, or 27.0%, to \$35.2 million in 2017 from \$48.3 million in 2016 primarily due to losses associated with Pullmantur Holdings in 2017, partially offset by an increase in income from TUI Cruises. Effective July 31, 2016, as a result of the sale of 51% of our interest in Pullmantur Holdings, we account for our investment in Pullmantur Holdings under the equity method of accounting.

Other expense decreased \$23.5 million, or 81.6%, to \$5.3 million in 2017 from \$28.9 million in 2016 primarily due to the 2016 net loss of \$21.7 million related to the elimination of the Pullmantur reporting lag that did not recur in 2017.

Gross and Net Yields

Gross Yields and Net Yields increased 6.2% and 7.9% in 2017, respectively, compared to 2016 primarily due to the increase in passenger ticket and onboard and other revenues discussed above. Gross Yields and Net Yields, on a

Constant Currency basis, increased 7.0% and 8.7% in 2017, respectively, compared to 2016.

Gross and Net Cruise Costs

Gross Cruise Costs and Net Cruise Costs decreased 3.4% and 4.2% in 2017, respectively compared to 2016 primarily due to the decrease in capacity and cruise operating expenses discussed above. Gross Cruise Costs per APCD and Net Cruise Costs per APCD decreased 1.8% and 2.6% in 2017, respectively, compared to 2016 primarily due to the decrease in cruise operating expenses. Gross Cruise Costs per APCD on a Constant Currency basis decreased 1.3% in 2017 compared to 2016. Net Cruise Costs per APCD on a Constant Currency basis decreased 2.1% in 2017 compared to 2016. Net Cruise Costs Excluding Fuel per APCD decreased 3.1% in 2017 compared to 2016 and decreased 2.6% in 2017 compared to 2016 on a Constant Currency basis.

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Other Comprehensive Income (Loss)

Other comprehensive income remained consistent compared to 2016.

Future Application of Accounting Standards

Refer to Note 2. Summary of Significant Accounting Policies to our consolidated financial statements for further information on Recent Accounting Pronouncements.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash flow generated from operations provides us with a significant source of liquidity. Net cash provided by operating activities increased \$388.4 million to \$1.7 billion for the first six months in 2017 compared to \$1.3 billion for the same period in 2016. The increase in cash provided by operating activities was primarily attributable to an increase in proceeds from customer deposits during the first six months in 2017 compared to the same period in 2016. Additionally, dividends received from unconsolidated affiliates increased by \$33.5 million.

Net cash provided by investing activities was \$7.7 million for the first six months in 2017 compared to Net cash used in investing activities of \$2.2 billion for the same period in 2016. The change was primarily attributable to a decrease in capital expenditures of \$1.8 billion due to ship deliveries in 2016, Ovation of the Seas and Harmony of the Seas, compared to no ship deliveries in 2017. In addition, we received \$230.0 million of proceeds from the sale of property and equipment in 2017 which did not occur in 2016. Furthermore, during 2017, we received cash of \$34.9 million on settlements on our foreign currency forward contracts compared to cash paid of \$161.3 million during 2016.

Net cash used in financing activities was \$1.7 billion for the first six months in 2017 compared to Net cash provided in financing activities of \$1.0 billion for the same period in 2016. The change was primarily attributable to the decrease in debt proceeds of \$3.1 billion during 2017 compared to 2016, partially offset by stock repurchases of \$250.1 million in 2016 that did not recur in 2017 and a lower amount of dividends paid in the first half of 2017 compared to the first half of 2016 due to timing shifts in our record and payment dates. The decrease in debt proceeds was primarily due to the \$841.8 million unsecured term loan borrowed in April 2016 to finance Ovation of the Seas and the €700.7 million and \$226.1 million unsecured term loans borrowed in May 2016 to finance Harmony of the Seas that did not recur in 2017 and lower drawings on our revolving credit facilities during the first six months of 2017 compared to the same period in 2016.

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Future Capital Commitments

Capital Expenditures

As of June 30, 2017, our Global Brands and our Partner Brands have twelve ships on order. The expected dates that these ships will enter service and their approximate berths are as follows:

| Ship | Expected to Enter Service | Approximate Berths |
|--|---------------------------|--------------------|
| Royal Caribbean International — | | |
| Oasis-class: | | |
| Symphony of the Seas | 1st Quarter 2018 | 5,450 |
| Unnamed | 2nd Quarter 2021 | 5,450 |
| Quantum-class: | | |
| Unnamed | 2nd Quarter 2019 | 4,150 |
| Unnamed | 4th Quarter 2020 | 4,150 |
| Project Icon: | | |
| Unnamed | 2nd Quarter 2022 | 5,650 |
| Unnamed | 2nd Quarter 2024 | 5,650 |
| Celebrity Cruises — Edge-class: | | |
| Celebrity Edge | 4th Quarter 2018 | 2,900 |
| Celebrity Beyond | 2nd Quarter 2020 | 2,900 |
| Unnamed | 4th Quarter 2021 | 2,900 |
| Unnamed | 4th Quarter 2022 | 2,900 |
| TUI Cruises (50% joint venture) ⁽¹⁾ — | | |
| Unnamed | 2nd Quarter 2018 | 2,850 |
| Unnamed | 1st Quarter 2019 | 2,850 |
| Total Berths | | 47,800 |

(1) TUI Cruises plans to offset this additional capacity through the planned transfer of their first two ships, Mein Schiff 1 and Mein Schiff 2, to an affiliate of TUI AG, our joint venture partner in TUI Cruises, in 2018 and 2019, respectively.

During the second quarter of 2017, we entered into agreements with Meyer Turku to build two ships of a new generation of ships for Royal Caribbean International, known as “Project Icon”. We have received commitments for the unsecured financing of the ships for up to 80% of the ships' contract price. Refer to Note 6. Commitments and Contingencies to our consolidated financial statements under Item 1. Financial Statements for further information.

Our future capital commitments consist primarily of new ship orders. As of June 30, 2017, the aggregate cost of our ships on order, not including the TUI Cruises' ships on order, was approximately \$12.6 billion, of which we had deposited \$322.4 million as of such date. Approximately 63.3% of the aggregate cost was exposed to fluctuations in the Euro exchange rate at June 30, 2017. Refer to Note 9. Fair Value Measurements and Derivative Instruments to our consolidated financial statements under Item 1. Financial Statements for further information.

As of June 30, 2017, we anticipate overall full year capital expenditures, not including the TUI Cruises' ships, will be approximately \$0.6 billion for 2017, \$2.8 billion for 2018, \$1.6 billion for 2019, \$2.1 billion for 2020 and \$2.4 billion for 2021.

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Contractual Obligations

As of June 30, 2017, our contractual obligations were as follows (in thousands):

| | Payments due by period | | | | |
|--|------------------------|---------------------|--------------|--------------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Operating Activities: | | | | | |
| Operating lease obligations ⁽¹⁾ | \$222,980 | \$20,468 | \$32,985 | \$21,508 | \$148,019 |
| Interest on long-term debt ⁽²⁾ | 1,125,969 | 242,966 | 360,857 | 254,418 | 267,728 |
| Other ⁽³⁾ | 745,285 | 213,509 | 278,821 | 142,146 | 110,809 |
| Investing Activities: | 0 | | | | |
| Ship purchase obligations ⁽⁴⁾ | 10,056,210 | 1,497,312 | 2,513,106 | 4,059,073 | 1,986,719 |
| Financing Activities: | 0 | | | | |
| Long-term debt obligations ⁽⁵⁾ | 7,984,221 | 1,536,679 | 2,649,234 | 1,225,368 | 2,572,940 |
| Capital lease obligations ⁽⁶⁾ | 36,104 | 4,840 | 6,895 | 8,149 | 16,220 |
| Other ⁽⁷⁾ | 33,729 | 10,674 | 18,648 | 4,407 | — |
| Total | \$20,204,498 | \$3,526,448 | \$5,860,546 | \$5,715,069 | \$5,102,435 |

(1) We are obligated under noncancelable operating leases primarily for offices, warehouses and motor vehicles.

Amounts represent contractual obligations with initial terms in excess of one year.

Long-term debt obligations mature at various dates through fiscal year 2028 and bear interest at fixed and

(2) variable rates. Interest on variable-rate debt is calculated based on forecasted debt balances, including the impact of interest rate swap agreements using the applicable rate at June 30, 2017. Debt denominated in other currencies is calculated based on the applicable exchange rate at June 30, 2017.

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

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

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

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

(7) Amounts represent fees payable to sovereign guarantors in connection with certain of our export credit debt facilities and facility fees on our revolving credit facilities.

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

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

Off-Balance Sheet Arrangements

We and TUI AG have each guaranteed repayment of 50% of a bank loan provided to TUI Cruises which is due 2022. Notwithstanding this, the lenders have agreed to release each shareholder's guarantee in 2018. As of June 30, 2017, €105.7 million, or approximately \$120.5 million based on the exchange rate at June 30, 2017, remains outstanding. Based on current facts and circumstances, we do not believe potential obligations under this guarantee are probable.

TUI Cruises has entered into various ship construction and credit agreements that include certain restrictions on each of our and TUI AG's ability to reduce our current ownership interest in TUI Cruises below 37.55% through 2021.

In July 2016, we executed an agreement with Miami Dade County ("MDC"), which was simultaneously assigned to Sumitomo Banking Corporation ("SMBC"), to lease land from MDC and construct a new cruise terminal at PortMiami in Miami, Florida. The terminal is expected to be approximately 170,000 square feet and will serve as a homeport. During the construction period, SMBC will fund the costs of the terminal's construction and land lease. Upon completion of the terminal's construction, we will

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operate and lease the terminal from SMBC for a five-year term. We determined that the lease arrangement between SMBC and us should be accounted for as an operating lease upon completion of the terminal.

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

As of June 30, 2017, other than the items described above, we are not party to any other off-balance sheet arrangements, including guarantee contracts, retained or contingent interest, certain derivative instruments and variable interest entities, that either have, or are reasonably likely to have, a current or future material effect on our financial position.

Funding Needs and Sources

We have significant contractual obligations of which our debt service obligations and the capital expenditures associated with our ship purchases represent our largest funding needs. As of June 30, 2017, we had approximately \$3.5 billion in contractual obligations due through June 30, 2018, of which approximately \$1.5 billion relates to debt maturities, \$243.0 million relates to interest on long-term debt and \$1.5 billion relates to progress payments on our ship orders and the final installment payable on delivery of Symphony of the Seas in the first quarter of 2018. Of the debt maturities due through June 30, 2018, \$407.0 million was paid in July 2017. We have historically relied on a combination of cash flows provided by operations, drawdowns under our available credit facilities, the incurrence of additional debt and/or the refinancing of our existing debt and the issuance of additional shares of equity securities to fund these obligations.

We had a working capital deficit of \$4.5 billion and \$3.7 billion as of June 30, 2017 and December 31, 2016, respectively. Included within our working capital deficit is \$1.5 billion and \$1.3 billion of current portion of long-term debt, including capital leases, as of June 30, 2017 and December 31, 2016, respectively. Similar to others in our industry, we operate with a substantial working capital deficit. This deficit is mainly attributable to the fact that, under our business model, a vast majority of our passenger ticket receipts are collected in advance of the applicable sailing date. These advance passenger receipts remain a current liability until the sailing date. The cash generated from these advance receipts is used interchangeably with cash on hand from other sources, such as our revolving credit facilities and other cash from operations. The cash received as advanced receipts can be used to fund operating expenses for the applicable future sailing or otherwise, pay down our revolving credit facilities, invest in long term investments or any other use of cash. In addition, we have a relatively low-level of accounts receivable and rapid turnover results in a limited investment in inventories. We generate substantial cash flows from operations and our business model, along with our unsecured revolving credit facilities, has historically allowed us to maintain this working capital deficit and still meet our operating, investing and financing needs. We expect that we will continue to have working capital deficits in the future.

As of June 30, 2017, we had liquidity of \$1.9 billion, consisting of approximately \$130.5 million in cash and cash equivalents and \$1.8 billion available under our unsecured revolving credit facilities. We anticipate that our cash flows from operations and our current financing arrangements, as described above, will be adequate to meet our capital expenditures and debt repayments over the next twelve-month period.

In April 2017, Moody's changed our senior unsecured debt credit rating to Baa3 with a stable outlook. Consistent with the provisions of our interest rate derivatives instruments, all collateral that was posted with our counterparties as of that date was returned in April 2017.

In April 2017, our board of directors authorized a 12-month common stock repurchase program for up to \$500 million. The timing and number of shares purchased will depend on a variety of factors including price and market conditions. Repurchases under the program may be made at management's discretion from time to time on the open market or through privately negotiated transactions. As of June 30, 2017, we have not made any purchases under this program.

If any person acquires ownership of more than 50% of our common stock or, subject to certain exceptions, during any 24-month period, a majority of the Board is no longer comprised of individuals who were members of the Board on the first day of such period, we may be obligated to prepay indebtedness outstanding under our credit facilities, which we may be unable to replace on similar terms. Our public debt securities also contain change of control provisions that would be triggered by a third-party

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acquisition of greater than 50% of our common stock coupled with a ratings downgrade. If this were to occur, it would have an adverse impact on our liquidity and operations.

Debt Covenants

Certain of our financing agreements contain covenants that require us, among other things, to maintain minimum net worth of at least \$7.5 billion, a fixed charge coverage ratio of at least 1.25x and limit our net debt-to-capital ratio to no more than 62.5%. The fixed charge coverage ratio is calculated by dividing net cash from operations for the past four quarters by the sum of dividend payments plus scheduled principal debt payments in excess of any new financings for the past four quarters. Our minimum net worth and maximum net debt-to-capital calculations exclude the impact of Accumulated other comprehensive loss on Total shareholders' equity. We were well in excess of all debt covenant requirements as of June 30, 2017. The specific covenants and related definitions can be found in the applicable debt agreements, the majority of which have been previously filed with the Securities and Exchange Commission.

Dividends

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of our market risks, refer to Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2016. There have been no significant developments or material changes since the date of our Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are routinely involved in claims typical within the cruise vacation industry. The majority of these claims are covered by insurance. We believe the outcome of such claims, net of expected insurance recoveries, will not have a material adverse impact on our financial condition or results of operations and cash flows.

Item 1A. Risk Factors

The risk factors set forth below and elsewhere in this Quarterly Report on Form 10-Q are important factors that could cause actual results to differ from expected or historical results. It is not possible to predict or identify all such risks. There may be additional risks that we consider not to be material, or which are not known, and any of these risks could have the effects set forth below. The ordering of the risk factors set forth below is not intended to reflect any Company indication of priority or likelihood. See Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for a cautionary note regarding forward-looking statements.

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

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

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

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

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

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

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

We are exposed to market risk attributable to changes in foreign currency exchange rates, fuel prices and interest rates. Significant changes in any of the foregoing could have a material impact on our financial results, net of the impact of

our hedging activities and natural offsets. Our operating results have been and will continue to be impacted, often significantly, by changes in each of these factors. The value of our earnings in foreign currencies is adversely impacted by a strong United States dollar. In addition, any significant increase in fuel prices could materially adversely affect our business as fuel prices not only impact our fuel costs, but also some of our other expenses, such as crew travel, freight and commodity prices. See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 3. Quantitative and Qualitative Disclosures About Market Risk” for more information.

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

We operate our business globally. Operating internationally exposes us to a number of risks, including increased exposure to a wider range of regional and local economic conditions, volatile local political conditions, potential changes in duties and taxes, including changing and/or uncertain interpretations of existing tax laws and regulations, required compliance with additional laws

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and policies affecting cruising, vacation or maritime businesses or governing the operations of foreign-based companies, currency fluctuations, interest rate movements, difficulties in operating under local business environments, port quality and availability in certain regions, U.S. and global anti-bribery laws or regulations, imposition of trade barriers and restrictions on repatriation of earnings.

Our future growth strategies increasingly depend on the growth and sustained profitability of certain international markets, such as China. Some factors that will be critical to our success in developing these markets may be different than those affecting our more-established North American and European markets. In the Chinese market, in particular, our future success depends on our ability to continue to raise awareness of our products, evolve the available distribution channels and adapt our offerings to best suit the Chinese consumer. China's economy differs from the economies of other developed countries in many respects and, as the legal and regulatory system in China continues to evolve, there may be greater uncertainty as to the interpretation and enforcement of applicable laws and regulations. In March 2017, China's National Tourism Administration issued a directive to travel agents to halt sales of holiday packages to South Korea. This travel restriction has had a direct impact on our related itineraries impacting the overall performance of our China business. It is uncertain what the ultimate scope and duration of this restriction will be, but to the extent that this or similar sanctions affecting regional travel and/or tourism continues or are put in place, it may impact local demand, available cruise itineraries and the overall financial performance of the China market.

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

We have operations in and source passengers from the United Kingdom and other member countries of the European Union. In March 2017, the United Kingdom notified the European Council of its intent to withdraw from the European Union. Since the initial referendum in June 2016, the proposed withdrawal has resulted in increased volatility in the global financial markets and, in particular, in global currency exchange rates. The withdrawal could potentially adversely affect tax, legal and regulatory regimes to which our business in the region is subject. The withdrawal could also, among other potential outcomes, disrupt the free movement of goods, services and people between the United Kingdom and the European Union. Further, uncertainty around these issues could lead to adverse effects on the economy of the United Kingdom and the other economies in which we operate, making it more difficult to source passengers from these regions. These risks may be exacerbated if voters of other countries within the European Union similarly elect to exit the European Union in future referendums.

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

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

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

reasonably priced vacation packages to our guests.

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

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

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

Our cruise ships and port facilities may also be adversely impacted by unusual weather patterns or natural disasters or disruptions, such as hurricanes. We are often forced to alter itineraries and occasionally to cancel a cruise or a series of cruises due to these or other factors, which could have an adverse effect on our sales and profitability. Increases in the frequency, severity or duration of severe weather events, including those related to climate change, could exacerbate the impact and cause further disruption to our operations. In addition, these and any other events which impact the travel industry more generally may negatively impact our ability to deliver guests or crew to our cruises and/or interrupt our ability to obtain services and goods from key vendors in our supply chain. Any of the foregoing could have an adverse impact on our results of operations and on industry performance.

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

Although our ships can be redeployed, cruise sales and/or pricing may be impacted by the introduction of new ships into the marketplace, reductions in cruise capacity, overall market growth and deployment decisions of ourselves and our competitors. A total of 62 new ships with approximately 173,000 berths are on order for delivery through 2021 in the cruise industry. The further net growth in capacity from these new ships and future orders, without an increase in the cruise industry's demand and/or share of the vacation market, could depress cruise prices and impede our ability to achieve yield improvement.

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

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

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

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

We rely on shipyards and their subcontractors to effectively construct our new ships and to repair, maintain and upgrade our existing ships on a timely basis and in a cost effective manner.

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

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Building, repairing, maintaining and/or upgrading a ship is sophisticated work that involves significant risks, and shipyards and/or their subcontractors may encounter financial, technical or design problems when doing these jobs. If materialized, these problems could impact the timely delivery or costs of new ships or the ability of shipyards to repair and upgrade our fleet in accordance with our needs or expectations. In addition, delays or mechanical faults may result in cancellation of cruises or, in more severe situations, new ship orders, or necessitate unscheduled drydocks and repairs of ships. These events and any related adverse publicity could result in lost revenue, increased operating expenses, or both, and thus adversely affect our results of operations.

We may lose business to competitors throughout the vacation market.

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

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

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

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

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

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

operations and our financial condition.

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

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

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

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

Our goals call for us to provide high quality products and deliver high quality services. There can be no assurance that we can successfully balance these goals with our cost management and capital allocation strategies. Our business also requires us to make capital allocation decisions, such as ordering new ships and/or upgrading our existing fleet, based on expected market preferences and projected demand. There can be no assurance that our strategies will be successful, which could adversely impact our business, financial condition and results of operations. Investments in older tonnage, in particular, run the risk of not meeting expected returns and diluting related asset values.

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

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

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

We rely on travel agencies to generate the majority of bookings for our ships. Accordingly, we must ensure that our commission rates and incentive structures remain competitive. If we fail to offer competitive compensation packages, these agencies may be incentivized to sell cruises offered by our competitors to our detriment, which could adversely impact our operating results. Our reliance on third-party sellers is particularly pronounced in certain markets, such as China, where we have a large number of travel agent charter and group sales and less retail agency and direct booking. In addition, the travel agent industry is sensitive to economic conditions that impact discretionary income. Significant disruptions, especially disruptions impacting those agencies that sell a high volume of our business, or contractions in the industry could reduce the number of travel agencies available for us to market and sell our cruises, which could have an adverse impact on our financial condition and results of operations.

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

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

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

Our success depends, in large part, on the skills and contributions of key executives and other employees, and on our ability to recruit and retain high quality personnel in key markets. We must continue to sufficiently recruit, retain, train and motivate our employees to maintain our current business and support our projected global growth both shoreside and on our ships. Furthermore, as of December 31, 2016, 85% of our shipboard employees were covered by collective bargaining agreements. A dispute under our collective bargaining agreements could result in a work stoppage of those employees covered by the agreements. We may not be able to satisfactorily renegotiate these collective bargaining agreements when they expire. In addition, existing collective bargaining agreements may not prevent a strike or work stoppage on our ships. We may also be subject to or affected by work stoppages unrelated to our business or collective bargaining agreements. Any such work stoppages or potential work stoppages

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could have a material adverse effect on our financial results, as could a loss of key employees, our inability to recruit or retain qualified personnel or disruptions among our personnel.

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

Partnerships, joint ventures, and other business structures involving our co-investment with third parties, generally include some form of shared control over the operations of the business and create additional risks, including the possibility that other investors in such ventures could become bankrupt or otherwise lack the financial resources to meet their obligations, or could have or develop business interests, policies or objectives that are inconsistent with ours. With the sale of 51% of our interest in Pullmantur in July 2016, we continue to expand the breadth of our co-investment activities, which also include TUI Cruises, SkySea Cruises, Grand Bahama Shipyard and minority ownership investments in various port development and other projects. In addition to financial risks, our co-investment activities may also present managerial and operational risks and expose us to reputational or legal concerns. These or other issues related to our co-investment with third parties could adversely impact our operations.

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

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

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

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

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

We may be exposed to risks and costs associated with cyber security, including protecting the integrity and security of our guests', employees' and business partners' personal information.

We are subject to various risks associated with the collection, handling, storage and transmission of sensitive information, including risks related to compliance with applicable laws and other contractual obligations, as well as the risk that our systems collecting such information could be compromised. In the course of doing business, we collect large volumes of internal and customer data, including personally identifiable information for various business purposes. We are subject to federal, state and international laws relating to the collection, use, retention, security and transfer of personally identifiable information, including the European Union Global Data Protection Regulation which is expected to take effect in May 2018. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between the Company and its subsidiaries, and among the Company, its subsidiaries and other parties with which the Company has commercial relations. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause us to incur substantial costs or require us to change our business practices. If we fail to comply with the

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various applicable data collection and privacy laws, we could be exposed to fines, penalties, restrictions, litigation or other expenses, and our business could be adversely impacted.

In addition, even if we are fully compliant with legal standards and contractual requirements, we still may not be able to prevent security breaches involving sensitive data. Any breach, theft, loss, or fraudulent use of guest, employee or company data could adversely impact our reputation and brand and our ability to retain or attract new customers, and expose us to risks of data loss, business disruption, governmental investigation, litigation and other liability, any of which could adversely affect our business. Significant capital investments and other expenditures could be required to remedy the problem and prevent future breaches, including costs associated with additional security technologies, personnel, experts and credit monitoring services for those whose data has been breached. Further, if we or our vendors experience significant data security breaches or fail to detect and appropriately respond to significant data security breaches, we could be exposed to government enforcement actions and private litigation. Additionally, the techniques and sophistication used to conduct cyber-attacks and breaches of information technology systems, as well as the sources and targets of these attacks, change frequently and are often not recognized until such attacks are launched or have been in place for a period of time. Our security measures cannot provide assurance that we will be successful in preventing or identifying such breaches.

The potential unavailability of insurance coverage or an inability to obtain insurance coverage at commercially reasonable rates may adversely affect our financial condition or results of operations.

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

Our protection and indemnity (“P&I”) liability insurance is placed on a mutual basis and we are subject to additional premium calls in amounts based on claim records of all members of the P&I Club. We are also subject to additional premium assessments including, but not limited to, investment or underwriting shortfalls experienced by the P&I Club.

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

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

The United States and various state and foreign government or regulatory agencies have enacted or may enact environmental regulations or policies, such as requiring the use of low sulfur fuels, that could increase our direct cost to operate in certain markets, increase our cost for fuel, limit the supply of compliant fuel, cause us to incur significant expenses to purchase and/or develop new equipment and adversely impact the cruise vacation industry. While we have taken and expect to continue to take a number of actions to mitigate the potential impact of certain of these regulations, there can be no assurances that these efforts will be successful or completed on a timely basis.

There is increasing global regulatory focus on climate change and greenhouse gas (GHG) emissions. These regulatory efforts, both internationally and in the United States are still developing, and we cannot yet determine what the final

regulatory programs or their impact will be in any jurisdiction where we do business. However, such climate change-related regulatory activity in the future may adversely affect our business and financial results by requiring us to reduce our emissions, purchase allowances or otherwise pay for our emissions. Such activity may also impact us by increasing our operating costs, including fuel costs.

Some environmental groups have also lobbied for more stringent regulation of cruise ships and have generated negative publicity about the cruise vacation industry and its environmental impact. See Item 1. Business-Regulation-Environmental Regulations of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

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

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

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

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

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

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

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

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

Our corporate affairs are governed by our Articles of Incorporation and By-Laws and by the Business Corporation Act of Liberia. The provisions of the Business Corporation Act of Liberia resemble provisions of the corporation laws of a number of states in the United States. However, while most states have a fairly well developed body of case law interpreting their respective corporate statutes, there are very few judicial cases in Liberia interpreting the Business

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

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

Certain provisions of our Articles of Incorporation and By-Laws and Liberian law may inhibit third parties from effectuating a change of control of the Company without Board approval which could result in the entrenchment of current management. These

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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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

The following table presents the total number of shares of our common stock that we repurchased during the quarter ended June 30, 2017:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs ⁽¹⁾ | Approximate dollar value of shares that may yet be purchased under the plans or programs |
|------------------|----------------------------------|------------------------------|---|--|
| April 1, 2017 | | | | |
| - April 30, 2017 | — | — | — | \$500,000,000 |
| May 1, 2017 | | | | |
| - May 31, 2017 | — | — | — | \$500,000,000 |
| June 1, 2017 | | | | |
| - June 30, 2017 | — | — | — | \$500,000,000 |
| Total | — | | — | |

⁽¹⁾On April 28, 2017, we announced that our board of directors authorized a 12-month common stock repurchase program for up to \$500 million. The timing and number of shares purchased will depend on a variety of factors including price and market conditions. Repurchases under the program may be made at management's discretion from time to time on the open market or through privately negotiated transactions. As of June 30, 2017, we have not made any purchases under this program.

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Item 6. Exhibits

Novation Agreement, dated as of July 24, 2017, between Hibisyeu Finance Ltd., Royal Caribbean Cruises Ltd., Citibank Europe Plc, UK Branch, Citicorp Trustee Company Limited, Citibank N.A., London Branch, HSBC
10.1 France, Sumitomo Mitsui Banking Corporation Europe Limited, Paris Branch and the banks and financial institutions as lender parties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 28, 2017).

Novation Agreement, dated as of July 24, 2017, between Hoediscus Finance Ltd., Royal Caribbean Cruises Ltd., Citibank Europe Plc, UK Branch, Citicorp Trustee Company Limited, Citibank N.A., London Branch, HSBC
10.2 France, Sumitomo Mitsui Banking Corporation Europe Limited, Paris Branch and the banks and financial institutions as lender parties thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 28, 2017).

Novation Agreement, dated as of July 24, 2017, between Houatorris Finance Ltd., Royal Caribbean Cruises Ltd., Citibank Europe Plc, UK Branch, Citicorp Trustee Company Limited, Citibank N.A., London Branch, HSBC
10.3 France, Sumitomo Mitsui Banking Corporation Europe Limited, Paris Branch and the banks and financial institutions as lender parties thereto (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 28, 2017).

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

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

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

* Filed herewith

** Furnished herewith

Interactive Data File

101 The following financial statements of Royal Caribbean Cruises Ltd. for the quarter ended June 30, 2017, formatted in XBRL are filed herewith:

(i) the Consolidated Statements of Comprehensive Income (Loss) for the quarter and six months ended June 30, 2017 and 2016;

(ii) the Consolidated Balance Sheets at June 30, 2017 and December 31, 2016;

(iii) the Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016; and

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

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SIGNATURES

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

ROYAL CARIBBEAN CRUISES LTD.
(Registrant)

/s/ JASON T. LIBERTY

Jason T. Liberty

Executive Vice President, Chief Financial Officer

August 1, 2017 (Principal Financial Officer and duly authorized signatory)