ROYAL CARIBBEAN CRUISES LTD
Form 10-K
February 24, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

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	**98-0081645**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1050 Caribbean Way, Miami, Florida 33132

(Address of principal executive offices) (zip code)

(305) 539-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

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 x No ¨

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

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

large accelerated filer	x	accelerated filer	¨
non-accelerated filer	¨	smaller reporting company	¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was $3.0 billion as of the last business day of the registrant s most recently completed second fiscal quarter.

There were 213,676,131 shares of common stock outstanding as of February 12, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

The information required under Part III of this report is incorporated herein by reference to registrant s definitive proxy statement for the 2009 Annual Meeting of Shareholders.

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PART I

As used in this Annual Report on Form 10-K, the terms Royal Caribbean, the Company, we, our and us refer to Royal Caribbean Cruises Ltd. and the terms Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Cruises, and CDF Croisières de France refer to our cruise brands. 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.

Item 1. Business

General

Royal Caribbean International was founded in 1968. The current parent corporation, Royal Caribbean Cruises Ltd., was incorporated on July 23, 1985 in the Republic of Liberia under the Business Corporation Act of Liberia.

We are the world s second largest cruise company operating 38 ships in the cruise vacation industry with approximately 78,650 berths as of December 31, 2008. We own five cruise brands, Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Cruises, and CDF Croisières de France. In addition, we have a 50% investment in a joint venture with TUI AG which operates the brand TUI Cruises. Our cruise brands primarily serve the contemporary, premium and deluxe segments of the cruise vacation industry, which also includes the budget and luxury segments. Our ships operate on a selection of worldwide itineraries that call on approximately 425 destinations. We compete principally on the basis of quality of ships, quality of service, variety of itineraries and price.

Historically, our primary focus has been to serve the North American cruise market through our two main global cruise brands, Royal Caribbean International and Celebrity Cruises. Throughout the years, we have expanded our focus to increase international passenger sourcing by opening offices in the United Kingdom, Germany, Norway, Italy, Spain, Singapore, China, Brazil, and Australia. We also expanded our global base through the strategic acquisition of Pullmantur in 2006, which provides us with a brand to serve the cruise markets in Spain and Latin America. Our launch of CDF Croisières de France in 2007 provides us with a custom tailored product targeted at the cruise market in France and our joint venture with TUI AG will provide us with a custom tailored product targeted at the cruise market in Germany beginning in 2009.

In addition to increasing our international passenger sourcing, the launch of Azamara Cruises in 2007 provides us with a new global cruise brand designed to serve the emerging deluxe cruise segment between the premium and luxury segments, primarily in the North American, U.K. and German cruise markets.

Our commitment to acquire state-of-the-art ships, along with our maintenance programs and revitalizations to incorporate our current signature brand elements provides us with the flexibility to deploy our ships among our brand portfolio and expand into growing international markets.

We believe cruising has become a more widely accepted vacation alternative over the years due to its perceived value, expanded itineraries, shipboard innovation, and variety of shore-side activities. In addition, we believe that our products appeal to a large consumer base and are not dependent on a single market or demographic. Further, we believe our global brands possess the versatility to enter multiple cruise market segments within the cruise vacation industry.

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Royal Caribbean International

Royal Caribbean International is positioned at the upper end of the contemporary segment of the cruise vacation industry, although its quality enables it to attract consumers from the premium segment as well. This allows Royal Caribbean International to achieve one of the broadest market coverages of any of the major cruise brands in the vacation industry. The contemporary segment is served by cruises that are generally seven nights or shorter and feature a casual ambiance. The premium segment is served by cruises that are generally seven to 14 nights and appeal to the more experienced guest who is usually more affluent. Royal Caribbean International operates 20 ships with approximately 51,200 berths, offering cruise itineraries that range from two to 18 nights. Royal Caribbean International offers a variety of itineraries to destinations worldwide, including Alaska, Asia, Australia, Bermuda, Canada, the Caribbean, Europe, Hawaii, Latin America and New Zealand.

Royal Caribbean International s strategy is to attract an array of vacationing consumers by providing a wide variety of itineraries and cruise lengths with multiple innovative options for onboard dining, entertainment and other onboard activities. Royal Caribbean International offers a wide array of onboard services, amenities and activities. It has introduced many product innovations such as ice skating rinks, rock climbing walls, surf simulators, bungee jumping trampolines, an interactive waterpark called the H2O Zone , and Royal Promenades which are boulevards with shopping, dining and entertainment venues. Additionally, Royal Caribbean International offers a variety of shore excursions at each port of call. We believe that the variety and quality of Royal Caribbean International s product offerings represent excellent value to consumers, especially to couples and families traveling with children. Because of the brand s extensive product offerings, we believe Royal Caribbean International is well positioned to attract new consumers to the cruise vacation industry and to continue to bring guests back for their next vacation.

Celebrity Cruises

Celebrity Cruises primarily serves the premium segment of the cruise vacation industry. Celebrity Cruises operates nine ships with approximately 16,650 berths, offering various cruise itineraries that range from two to 16 nights. Celebrity Cruises fleet and service has been consistently recognized with numerous awards from cruise traveler polls, travel agents and travel industry publications.

Celebrity Cruises strategy is to attract experienced cruise guests who appreciate and value the high quality, service-focused experience the brand offers. Celebrity Cruises offers a global cruise experience by providing a variety of cruise lengths and itineraries to premium destinations throughout the world and has deployed a high proportion of its fleet in seasonal markets, e.g., Alaska, Australia, Europe, Hawaii, New Zealand, the Panama Canal, the Caribbean and South America. Celebrity Cruises is also the only major cruise line to operate a ship in the Galapagos Islands, *Celebrity Xpedition*. *Celebrity Xpedition* has approximately 100 berths and provides this unique experience on seven day cruises with pre-cruise tours in Ecuador.

Celebrity Cruises products and service have broad appeal for a global audience. Celebrity Cruises delivers an intimate experience onboard upscale ships that offer a high staff-to-passenger ratio, extensive spa facilities, fine dining, personalized service, and on *Celebrity Solstice*, unique onboard attractions such as the Lawn Club , a half acre venue featuring live grass and the Hot Glass Show , a fully functional glass blowing studio.

Pullmantur

Pullmantur serves the contemporary segment of the Spanish and Latin American cruise markets. Pullmantur operates six ships with approximately 8,650 berths, offering various seven-night cruise itineraries. In addition, Pullmantur has tour operations, and owns a 49% interest in a small air business that operates three Boeing 747 aircraft in support of its cruise and tour operations.

Pullmantur s strategy is to attract cruise guests by providing a variety of cruising options and land-based travel packages. Pullmantur offers a range of cruise itineraries to the Caribbean, the Mediterranean, Brazil and the Baltic. Pullmantur offers a wide array of onboard activities and services to guests, including exercise facilities, swimming pools, beauty salons, gaming facilities, shopping, and dining and entertainment venues. Pullmantur s tour operations sell land-based travel packages to Spanish guests including hotels and flights primarily to Caribbean resorts, and sell land-based tour packages to Europe aimed at Latin American guests.

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Empress of the Seas and *Sovereign of the Seas* were redeployed from Royal Caribbean International to Pullmantur in March 2008 and November 2008, respectively. The ships currently sail under the names of *Empress* and *Sovereign*, respectively. Before redeployment to Pullmantur, each ship underwent renovations including the expansion of public areas and restaurants, the redesign of the Atrium and incorporation of Pullmantur s signature elements.

Azamara Cruises

Azamara Cruises is designed to serve the emerging deluxe cruise segment between the premium and luxury segments of the North American cruise markets, along with the U.K. and German markets. Azamara Cruises operates two ships with a total of approximately 1,400 berths, offering various cruise itineraries that range from seven to 24 nights and appeal to the more experienced guest who is usually more affluent.

Azamara Cruises strategy is to attract experienced travelers who enjoy cruising and who seek a more intimate onboard experience, a high level of service and itineraries to a variety of unique destinations. Azamara Cruises completed its first full year of operation offering global itineraries to many ports not accessible by larger ships. Europe, South America, the Caribbean, Asia, and the Panama Canal were all visited by either *Azamara Journey* or *Azamara Quest* in 2008.

Azamara Cruises offers a wide array of onboard services, amenities and activities, including gaming facilities, fine dining and interactive entertainment venues.

CDF Croisières de France

CDF Croisières de France is designed to serve the contemporary segment of the French cruise market and increases our global presence by providing us with a brand custom-tailored for French cruise guests. In April 2008, *Holiday Dream*, a 750-berth ship, was redeployed from Pullmantur to CDF Croisières de France and is currently sailing under the name *Bleu de France* as the brand s only ship. Before redeployment to CDF Croisières de France, *Bleu de France* underwent renovations to customize the ship for French guests.

CDF Croisières de France offers seasonal seven to ten night itineraries to the Mediterranean and the Caribbean. CDF Croisières de France offers a variety of onboard services, amenities and activities, including entertainment venues, exercise and spa facilities, fine dining, and gaming facilities.

TUI Cruises

In April 2008, we closed on our joint venture agreement with TUI AG, a European tourism and shipping company which owns 51% of TUI Travel. The joint venture operates TUI Cruises, designed to serve the contemporary and premium segments of the German cruise market by offering a custom-tailored product for German guests. *Celebrity Galaxy*, a 1,850-berth ship currently part of Celebrity Cruises, will be sold to TUI Cruises to serve as its first ship and will sail under a new name beginning in May 2009.

Other

In November 2008, we sold our 50% investment in a joint venture with TUI Travel PLC (TUI Travel), formerly First Choice Holidays PLC, which operates the brand Island Cruises. As part of this transaction, we agreed to an early termination of the charter of *Island Star* to Island Cruises. We anticipate the return of *Island Star* in April 2009 and intend to redeploy the ship to Pullmantur. The ship will sail under the name *Pacific Dream*. Before redeployment to Pullmantur, the ship will undergo renovations to incorporate Pullmantur s signature elements. This ship will be dedicated to the Latin American market in support of Pullmantur s Latin American expansion.

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Industry

Over the past several years, cruising has represented a small but growing sector of the overall vacation market. Industry data indicates that a significant portion of cruise guests carried are first-time cruisers. We believe this could present an opportunity for long-term growth and a potential for increased market share through the expansion of our fleet.

We estimate that the global cruise industry carried 17.2 million cruise passengers in 2008 compared to 16.6 million cruise passengers carried in 2007. We estimate that the global cruise fleet was served by approximately 354,000 berths on approximately 240 ships by the end of 2008. There are approximately 34 ships with an estimated 86,000 berths that are expected to be placed in service in the global cruise market between 2009 and 2012.

North America represents the primary source of our cruise passengers and has experienced a compound annual growth rate of approximately 8.7% since 1970. From 2004 to 2008 North America has experienced a compound annual growth rate in cruise passengers of approximately 4.4%. We estimate that North America was served by 132 ships with approximately 194,000 berths at the beginning of 2004 and by 150 ships with approximately 257,000 berths by the end of 2008. There are approximately 27 ships with an estimated 68,000 berths that are expected to be placed in service in the North American cruise market between 2009 and 2012.

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

Year	Global Cruise Passengers(1)	Weighted-Average Supply of Berths Marketed Globally(1)	North American Cruise Passengers(2)	Weighted-Average Supply of Berths Marketed in North America(1)
2004	13,757,000	265,000	9,108,000	207,000
2005	14,818,000	282,000	9,909,000	216,000
2006	15,309,000	299,000	10,080,000	227,000
2007	16,586,000	323,000	10,330,000	242,000
2008	17,184,000	345,000	10,815,000	254,000

(1) Source: Our estimates.
(2) Source: Cruise Line International Association based on cruise passengers carried for at least two consecutive nights.

In an effort to penetrate untapped markets and diversify our customer base, we have redeployed some of the ships in our Royal Caribbean International and Celebrity Cruises brands from the North American market to Europe, Latin America and Asia. This redeployment has contributed to an increase in the growth of our global cruise brands outside of the North American market.

Although the global and North American cruise markets have grown steadily over the past several years, the recent weakening of the United States and other economies has significantly deteriorated consumer confidence and discretionary spending. This has caused a global drop in demand for cruises and a resulting drop in cruise prices. The long-term impact of these conditions on the continued growth of the cruise market will depend on the depth and duration of this worldwide economic downturn. In addition, the projected increase in capacity within the cruise industry from new cruise ships currently on order could produce additional pricing pressures within the industry. See Item 1A. *Risk Factors*.

We compete with a number of cruise lines; however, our principal competitors are Carnival Corporation & plc, which owns, among others, Aida Cruises, Carnival Cruise Lines, Costa Cruises, Cunard Line, Holland America Line, P&O Cruises and Princess Cruises and has a joint venture with Orizonia Corporation under which they operate Iberocruceros; Disney Cruise Line; MSC Cruises; Norwegian Cruise Line and Oceania Cruises. Cruise lines compete with other vacation alternatives such as land-based resort hotels and sightseeing destinations for consumers leisure time. Demand for such activities is influenced by political and general economic conditions. Companies within the vacation market are dependent on consumer discretionary spending. Although vacation spending is likely to be curtailed significantly in the midst of the current worldwide economic downturn, we believe that cruising is perceived by consumers as a good value when compared to other vacation alternatives.

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Our ships operate worldwide and have itineraries that call on destinations in Alaska, Asia, Australia, the Bahamas, Bermuda, California, Canada, the Caribbean, Europe, the Galapagos Islands, Hawaii, Mexico, New England, New Zealand, the Panama Canal and South America.

Operating Strategies

Our principal operating strategies are to:

- manage the efficiency of our operating expenditures and preserve cash and liquidity during the current worldwide economic downturn,
- increase the awareness and market penetration of our brands,
- expand our fleet with the new state-of-the-art cruise ships currently on order,
- expand into new markets and itineraries,
- continue to expand and diversify our passenger mix through passenger sourcing outside North America,
- protect the health, safety and security of our passengers and employees and protect the environment in which our vessels and organization operate,
- utilize sophisticated revenue management capabilities to optimize revenue based on demand for our products,
- further improve our technological capabilities, and
- maintain strong relationships with travel agencies, the principal industry distribution channel, while offering direct access for consumers.

Manage operating expenditures and preserve cash and liquidity

During the current worldwide economic downturn we are focused on maximizing the efficiency of our operating expenditures and preserving cash and liquidity. During 2008, we announced the reduction in our workforce of approximately 400 shoreside positions and implemented a number of cost-saving initiatives in an effort to reduce our operating costs. To preserve liquidity, we have discontinued our quarterly dividend commencing in the fourth quarter of 2008, curtailed our non-shipbuild capital expenditures, and currently do not have plans to place further newbuild orders. We believe these strategies will enhance our ability to fund our capital spending obligations and improve our balance sheet.

Brand Awareness and Market Penetration

We continue to increase the recognition and market penetration of our brands among consumers. Royal Caribbean International and Celebrity Cruises are established global brands in the contemporary and premium segments of the vacation industry. Pullmantur is a widely recognized brand in the Spanish and Latin American contemporary cruise markets. Azamara Cruises is designed to serve the emerging deluxe cruise segment. CDF Croisières de France which commenced operations in May 2008, is targeted to serve the contemporary segment of the French cruise market.

We increase brand awareness and market penetration of our Royal Caribbean International brand through communication strategies designed to emphasize its high quality and excellent-value cruise vacations. For instance, in 2008, Royal Caribbean International launched a new brand campaign, *The Nation of Why Not*. This brand campaign highlights Royal Caribbean International s global destinations and innovative onboard amenities. Royal Caribbean International s communication strategies

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target adults and families who are vacation enthusiasts interested in exploring new destinations and seeking new experiences. These strategies are also designed to attract first-time cruisers to the cruise vacation industry and to the Royal Caribbean International brand. In order to attract the experienced cruiser who is seeking new experiences as well as first-time cruisers, Royal Caribbean International provides multiple choices to guests through a wide array of itineraries, accommodations, dining options, onboard activities and shore excursions. The hallmarks of the brand include friendly and engaging service, state-of-the-art ships, family programs, entertainment, health and fitness and energizing onboard and shoreside activities designed for guests of all ages.

We increase brand awareness and market penetration of our Celebrity Cruises brand through a series of consumer and trade campaigns designed to broaden the recognition of its high quality cruise vacations and drive loyalty and brand preference by emphasizing the personalized service and attention its guests receive. Celebrity Cruises communications target cruisers who seek upscale experiences and appreciate a high staff-to-passenger ratio, spacious accommodations, fine dining and spa services.

We increase brand awareness and market penetration of our Pullmantur brand primarily through advertising campaigns targeted to Spanish-speaking guests in both Spain and Latin America. All customer-facing crewmembers speak Spanish, and onboard activities, services, shore excursions and menu offerings are designed to suit the preferences of this target market.

We are increasing awareness and market penetration of our Azamara Cruises brand through trade advertising and education, public relations and direct communications, designed to target the emerging deluxe cruise segment of the North American and European cruise markets. Azamara Cruises communications target experienced cruise guests who prefer a more upscale, intimate and destination-focused cruise experience on smaller ships with longer itineraries. We believe Azamara Cruises provides a more exclusive guest experience with its distinctive combination of personalized service, exceptional cuisine and exotic destinations, with unique excursions.

We are increasing the awareness and market penetration of our CDF Croisières de France brand through trade education, public relations and direct communications, designed to target the contemporary segment of the French cruise market. CDF Croisières de France s communications emphasizes that its cruise product is tailored specifically to French-speaking guests. All customer-facing crewmembers speak French, and the onboard activities and menu offerings are designed to suit their target guests preferences.

In addition, we also increase brand awareness through our travel agencies who generate the majority of our bookings. We are committed to further developing and strengthening this very important distribution channel by facilitating their focus on the unique qualities of each of our brands.

Fleet Development and Maintenance

We currently have signed agreements with two shipyards providing for the construction of six new state-of-the-art cruise ships scheduled to enter service between the third quarter of 2009 and the fourth quarter of 2012. These additions are expected to result in an increase in our passenger capacity of approximately 22,200 berths by December 31, 2012, or approximately 28.0% as compared to our capacity as of December 31, 2008. It is possible that some of our older ships may be sold or retired during this time period, thus reducing the size of our fleet. We could also order new ships or purchase existing ships, thereby further increasing our fleet size; however, we do not believe that current economic conditions warrant buying or ordering new ships other than what is currently on order.

The acquisition of the state-of-the-art ships on order, along with our maintenance programs on our existing fleet will provide us with the flexibility to deploy our ships among our brand portfolio and expand into growing international markets. Since our first fleet expansion program in 1988, we have increased our average ship size and number of available berths, which has enabled us to achieve certain economies of scale.

In addition to our fleet development, we place a strong focus on product innovation to drive new demand for our products and stimulate repeat business from our guests. Innovation of our products is achieved by introducing new concepts on our new ships and continuously making improvements to our existing fleet. In order to offer guests a wider range of activities and amenities and to ensure consistency across our fleets, we have revitalized some of our older ships to update and refresh their interiors and to incorporate signature brand elements. Renovations have included the addition of new balconies, dining and entertainment options, as well as refurbishments to staterooms and public areas.

Royal Caribbean International. Founded in 1968, Royal Caribbean International was the first cruise line to design ships for warm water year-round cruising. Royal Caribbean International operated a modern fleet in the 1970s and early 1980s, establishing a reputation for high quality. Between 1988 and 1992, the brand tripled its capacity by embarking on its first major capital expansion program and taking delivery of three Sovereign-class ships. In addition, Royal Caribbean International took delivery of *Empress of the Seas* in 1990 and from 1995 through 1998, took delivery of six Vision-class ships. Since delivery, several of these ships have undergone extensive renovations and refurbishments. This includes the addition of new dining and entertainment options, the upgrade of guest suites and staterooms, the expansion of day spa and fitness center facilities, and in one case, a new 73-foot midsection featuring 151 additional staterooms.

From 1999 through 2003, Royal Caribbean International introduced its five Voyager-class ships. Each Voyager-class ship is approximately 140,000 gross tons with approximately 3,100 berths. The Voyager-class ships introduced several product innovations to the marketplace, including the cruise vacation industry s first horizontal atrium, the Royal Promenade (which is four decks tall, longer than a football field and provides entertainment, shopping and dining experiences), recreational activities such as ice skating, in-line skating, rock climbing, miniature golf and full court basketball, enhanced staterooms, expanded dining venues and a variety of intimate spaces.

From 2001 through 2004, Royal Caribbean International introduced its four Radiance-class ships, a progression from the brand s Vision-class ships. Each Radiance-class ship is approximately 90,000 gross tons with approximately 2,100 berths. The Radiance-class ships incorporate many of the dining and entertainment options of the Voyager-class ships, as well as offer a wide array of unique features. These features include panoramic glass elevators facing outward to the sea, floor to ceiling glass windows offering sea views and a billiards club featuring gyroscopic billiard tables. Royal Caribbean International has adopted the product innovations of the Voyager and Radiance-class ships as signature elements of the brand.

In 2006, Royal Caribbean International launched the 3,600-berth *Freedom of the Seas*, the first of three Freedom-class ships. The Freedom-class ships are approximately 16% larger than the Voyager-class ships and have some of the largest staterooms and balconies in the industry, flat screen televisions, cell phone services and other amenities. The launch of the Freedom-class ships also introduced several new experiences to cruising, including a surf simulator and an interactive water park called the H2O Zone™. Royal Caribbean International took delivery of a second Freedom-class ship, *Liberty of the Seas,* in April 2007 and the third Freedom-class ship, *Independence of the Seas*, in April 2008.

Building upon the innovations of the Voyager and Freedom-class ships, Royal Caribbean International will introduce a new class of ships in 2009. This new class of ships, the Oasis-class, will be approximately 220,000 gross tons each with approximately 5,400 berths. Each ship will be 50% larger than the Freedom-class ships and will span 16 decks and 2,700 staterooms. The new Oasis-class ships will introduce several new experiences to cruising including the new neighborhood concept. The neighborhood concept consists of seven distinct themed areas which will include *Central Park*, a park open to the sky; *Boardwalk*, an outdoor family-friendly area featuring a handcrafted carousel; *AquaTheater*, the first amphitheater at sea; *Rising Tide*, a levitating bar; a sloped-beach entry pool and many other new features. The Oasis-class ships will also offer new categories in onboard accommodations including bi-level, urban-style two bedroom/two bathroom suites and balcony staterooms facing some of the distinct neighborhoods. Royal Caribbean International has contracts with a shipyard to build two Oasis-class ships, *Oasis of the Seas* and *Allure of the Seas*, expected to enter service in the fourth quarters of 2009 and 2010, respectively. See Item 1A. *Risk Factors* regarding shipyards.

Celebrity Cruises. Celebrity Cruises was founded in 1990 and operated three ships between 1992 and 1995. Between 1995 and 1997, Celebrity Cruises began its first capital expansion program, adding three Century-class ships, which range in size from approximately 1,750 to 1,850 berths. During this time, Celebrity Cruises also disposed of one of its original three ships.

From 2000 through 2002, Celebrity Cruises took delivery of four Millennium-class ships. Each Millennium-class ship is approximately 90,000 gross tons with approximately 2,050 berths. The Millennium-class ships are a progression from the Century-class ships and elevated Celebrity Cruises position in the premium segment of the marketplace. The Millennium-class ships build on the brand s primary strengths, including gourmet dining, spacious staterooms and suites with verandas and spa facilities featuring a large hydropool with neck massage, body jets and services including acupuncture at sea . On the Millennium-class ships, an entire deck is dedicated to health and fitness. To further enhance the onboard experience, Celebrity Cruises offers a more intimate setting in piano, champagne, and martini bars and lounges.

In 2004, Celebrity Cruises continued to expand its product offerings with the launch of *Celebrity Xpedition*, a 100-berth ship that offers a more intimate experience onboard a smaller ship with sailings to the Galapagos Islands.

From 2005 to 2008, Celebrity Cruises entered into contracts with a shipyard to build five Solstice-class ships. The Solstice-class ships are a new wide-body construction class of ships, and are approximately 122,000 gross tons each with approximately 2,850 berths. This new wide-body construction design provides for many intimate areas onboard the ship. The Solstice-class ships incorporate many new and improved design features including the industry s first ever Lawn Club . The Lawn Club is over a half acre venue featuring live grass for guest enjoyment. Celebrity Cruises also introduced the Hot Glass Show, a fully functional glass blowing studio which operates at the Lawn Club onboard Solstice-class ships. The Solstice-class ships are also equipped with solar foils and solar panels, another industry first. Approximately 90% of the ships staterooms are outside and approximately 85% of the staterooms have verandas. In 2008, Celebrity Cruises took delivery of *Celebrity Solstice,* the first of the five Solstice-class ships. *Celebrity Equinox* and *Celebrity Eclipse* are expected to enter service in the third quarters of 2009 and 2010, respectively. Two unnamed ships are expected to enter service in the third quarter of 2011 and the fourth quarter of 2012, respectively.

In 2009, *Celebrity Galaxy*, a 1,850-berth ship currently part of Celebrity Cruises, will be sold to TUI Cruises to serve as its first ship and will sail under a new name beginning in May 2009.

Pullmantur. Pullmantur was founded in 1971 and currently operates six ships which range in size from approximately 1,000 to 2,300 berths. As a result of the acquisition of Pullmantur in November 2006, we expanded our overall fleet by five ships and approximately 4,500 berths. Furthermore, Pullmantur purchased a 1,000-berth ship which is currently sailing under the name *Ocean Dream*.

In May 2007, *Zenith* was redeployed from Celebrity Cruises to Pullmantur. Before redeployment to Pullmantur, *Zenith* underwent renovations to incorporate Pullmantur s signature elements, while adding approximately 38 new verandas and 25 staterooms. *Empress of the Seas* and *Sovereign of the Seas* were redeployed from Royal Caribbean International to Pullmantur in March 2008 and November 2008, respectively. Before redeployment to Pullmantur, each ship underwent renovations to incorporate Pullmantur s signature elements. Upon the return of *Island Star* in April 2009 from Island Cruises, the ship will be redeployed to Pullmantur and will sail under the name *Pacific Dream*. Before redeployment to Pullmantur, the ship will undergo renovations to incorporate Pullmantur s signature elements. This ship will be dedicated to the Latin American market in support of Pullmantur s Latin American expansion.

Azamara Cruises. In May 2007, *Blue Dream* was redeployed from Pullmantur to Azamara Cruises, and is sailing under the name *Azamara Journey*. In September 2007, *Blue Moon* was also redeployed from Pullmantur to Azamara Cruises and is sailing under the name *Azamara Quest*. Before redeployment to the Azamara Cruises brand, each ship underwent renovations to incorporate Azamara Cruises signature elements, while upgrading guest suites and staterooms, and adding two new specialty restaurants.

CDF Croisières de France. In April 2008, *Holiday Dream* was redeployed from Pullmantur to CDF Croisières de France and sails as its first ship under the name *Bleu de France.* Before redeployment to CDF Croisières de France, *Holiday Dream* underwent renovations, including the addition of a French bistro and a spa with a sea water center, to customize the ship for French guests.

New Markets and Itineraries

Our ships operate worldwide with a selection of itineraries that call on approximately 425 ports. New ships, including both newly constructed ships and those we acquire, allow us to expand into new markets and itineraries. Our brands have expanded their mix of itineraries, while strengthening our ability to penetrate the European, Latin American and Caribbean markets further.

In April 2008, *Independence of the Seas* was introduced in the United Kingdom and began offering itineraries from the United Kingdom to the Mediterranean, Ireland and the Canary Islands. *Navigator of the Seas*, which had offered the U.K. program in 2007, offered cruises sailing out of Spain and Italy during the summer of 2008. In the fall, both Royal Caribbean International and Celebrity Cruises expanded in Australia, New Zealand and the South Pacific with Royal Caribbean International s *Rhapsody of the Seas* and *Celebrity Millennium*. In December 2008, Royal Caribbean International introduced new Southern Caribbean itineraries from Panama on *Enchantment of the Seas.* Also in late 2008, *Legend of the Seas* began offering sailings throughout Asia from Singapore and Shanghai, and *Radiance of the Seas* began offering cruises in South America around Cape Horn.

In 2009, we will continue to focus on the acceleration of Royal Caribbean International s and Celebrity Cruise s strategic positioning as global cruise brands while expanding Pullmantur. An unprecedented 22 ships will be sailing in Europe for the Company and Royal Caribbean International will have the most European capacity of any non-European brand as it increases its capacity to eight ships: *Independence of the Seas, Voyager of the Seas, Navigator of the Seas, Brilliance of the Seas, Jewel of the Seas, Legend of the Seas, Splendour of the Seas,* and *Vision of the Seas*. *Brilliance of the Seas* will remain in Europe year round throughout 2009, and then will begin offering sailings from Dubai starting in January 2010. In late 2009, *Legend of the Seas* will return to Asia and commence year round deployment throughout 2010.

Celebrity Cruises will also increase its capacity in Europe in 2009. With five ships, the brand will have its greatest presence ever in Europe, with sailings being offered on *Celebrity Solstice, Celebrity Equinox, Celebrity Century, Celebrity Summit* and *Celebrity Constellation*. The 2009 season will also mark the debut of *Celebrity Equinox* with Holy Land sailings from Rome, which will be a first for the brand. The Royal Caribbean International brand will return to Israel in 2009, having last visited Israel in 2000. Azamara Cruises will offer European sailings on both *Azamara Journey* and *Azamara Quest*. Also, Pullmantur and CDF Croisières de France will continue to offer European itineraries on all ships.

In January 2009, *Mariner of the Seas* began year round cruises to Mexico from Los Angeles, California. Also in January, *Vision of the Seas* began offering seasonal Caribbean itineraries from the Dominican Republic. Starting in the fall of 2009, both the Celebrity Cruises and Royal Caribbean International brands are expanding into new North American markets. *Celebrity Mercury* will operate Caribbean cruises from Baltimore, Maryland and Charleston, South Carolina and Royal Caribbean International will operate Mexico cruises from San Diego, California with the *Radiance of the Seas.* Royal Caribbean International will debut *Oasis of the Seas* in the Eastern Caribbean in December 2009. Also starting in December, Royal Caribbean International will increase its capacity in Brazil, deploying both *Splendour of the Seas* and *Vision of the Seas.*

In an effort to secure desirable berthing facilities for our ships, and to provide new or enhanced cruise destinations for our passengers, we actively assist or invest in the development or enhancement of certain port facilities and infrastructure, including mixed-use commercial properties, located in strategic ports of call. Generally, we collaborate with local, private or governmental entities by providing management and/or financial assistance and often enter into long-term port usage arrangements. In exchange for our involvement, we generally secure preferential berthing rights for our ships.

International Passengers

Passenger ticket revenues generated by sales originating in countries outside of the United States were approximately 40%, 37%, and 24% of total passenger ticket revenues in 2008, 2007 and 2006, respectively. International passengers have grown from approximately 511,000 in 2004 to approximately 1.3 million in 2008.

We sell and market our global brands, Royal Caribbean International, Celebrity Cruises and Azamara Cruises, to passengers outside of North America through our offices in the United Kingdom, Germany, Norway, Italy, Spain, Singapore, China, Brazil, and Australia. We believe that having a local presence in these markets provides us with the ability to react faster to local market conditions as well as providing us with the ability to better understand our customer base in each respective market. We further extend our reach with a network of 48 independent international representatives located throughout the world. Historically, our focus has been to primarily source our passengers for our global brands from North America. Currently, we are expanding our focus to sell and market our cruise brands to countries outside of North America through fleet innovation and by responding to cultural characteristics of our global passengers.

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In 2008, we continued our strategy of acquiring or developing brands custom-tailored to specific markets when we closed on our joint venture agreement with TUI AG, a European tourism and shipping company that owns 51% of TUI Travel. This joint venture operates TUI Cruises, a new cruise brand targeted at the cruise market in Germany. TUI Cruises will complement two of our existing brands custom-tailored to specific markets, Pullmantur, which is targeted at passengers primarily in Spain and Latin America and CDF Croisières de France, which is targeted at passengers primarily in France.

Health, Safety, Security and Environmental Policies

We are committed to protecting the health, safety and security of our passengers, employees and others working on our behalf. We are also committed to protecting the marine environment in which our vessels sail and the communities in which we operate by minimizing adverse environmental consequences and using resources efficiently. To this end, we established a unified department to oversee Global Security, Maritime Safety, Medical and Public Health areas, and Environmental Stewardship. The organization is comprised of technical experts in each area focused on improving our systems for prevention and response.

Revenue Management

We believe we have some of the most advanced revenue management capabilities in the industry, which enables us to make more advantageous decisions about pricing, inventory management and marketing actions. We are continuously working to improve our systems and tools through increased forecasting capabilities, ongoing improvements to our understanding of price/demand relationships, and greater automation of the decision processes. We believe these revenue management capabilities allow us to make more advantageous decisions to enhance revenue, especially during these uncertain economic times.

Technological Capabilities

We continue to invest in information technology to align with our business strategies. In 2008, we completed the integration of Pullmantur and CDF Croisières de France into our reservations and accounting platforms, enabling additional synergies across brands. Also in 2008, we completed major upgrades to the reservations platform to support future needs. The most significant changes enabled the selling of *Oasis of the Seas* with expanded pricing options and key enhancements. We also invested in our shoreside and shipboard systems integration, most notably the Advanced Shipboard Revenue platform, where we enabled the sale of specialty dining on our websites, prior to guests boarding the vessel. This capability allows our guests to pre-arrange not only shore excursions in advance of their cruise vacation, but also allows guests to make reservations for one of our specialty restaurants.

To further align with our business strategy, we completed a major web globalization initiative, launching our full Royal Caribbean International website with localized content in a number of major international markets, including the U.K., Spain, Latin America, and Brazil.

This year also marked the completion of a major Customer Relationship Management initiative, an enhanced Marketing Datamart, which allows us to better target marketing campaigns based on a wide array of customer touch points, including web, call centers, and onboard.

Our fleet expansion was also a major focus for IT this year, with the launch of *Celebrity Solstice*, our first ship with a converged data/voice network and an enhanced in-stateroom entertainment system. This will serve as a model for future ships and opens the door to a number of exciting opportunities to enhance the guest experience.

Finally, we have implemented a number of key technologies across the enterprise to further enhance our guest experience and reduce operating costs. This includes enhancing the guest internet and telecommunications capabilities onboard. These technologies also include a consolidation strategy across systems, providing higher service levels and at the same time reducing operating expenses.

Travel Agency Support and Direct Business

Travel agencies generate the majority of bookings for our ships. We are committed to further developing and strengthening this very important distribution channel. Our sales teams focus on the unique qualities of each brand and provide support to the travel agency community. The Trade Support & Service department, with branded call center operations, further supports the travel agency community in delivering the cruise vacation experience. *Cruisingpower.com* continues to be an industry-leading website exclusive to the travel agency community. Over the past two years, the website launched a number of new online tools designed to increase travel agent productivity and the focus in 2008 has been on increasing travel agents adoption of these tools. This includes *VIP CruisePass*, a desktop alert designed to give travel agents alerts to special offers, weather updates, itinerary changes and latest news. *EMarketing* provides travel agents with a personalized link that directs customers to a video magazine or cruise planner interactive experience. *EConnect* is an online quoting tool that enables travel agents to send up to five online quotes to their database with real-time pricing and web-based functionality. In addition, Royal Caribbean International continues to enhance its online training certification program, University of Wow, where travel agents can now achieve up to an expert-plus graduate level certification. In 2008 Celebrity Cruises launched Five Star Academy, a travel partner learning suite featuring five sequential modules. The modules cover from brand basics to accommodations, amenities, and destinations.

In 2008, we completed several key enhancements to simplify the online booking process via our new CruiseMatch trade booking tool based on feedback from our travel agent partners. The second phase of this investment will be launched in 2009 to offer additional functionality such as enabling travel agents to make bookings in an existing group block, as well as provide group insurance. Pullmantur and Azamara Cruises were also incorporated into the online tool in 2008.

In 2008, we also launched a program directed to help support our travel agents during the current economic downturn. The program, Agent Support Action Plan (ASAP), includes multiple components to help the agency community during this period. These components include a one percent commission supplement on any cruise bookings made between January 1 and February 28, 2009 for sailings from January 2009 through March 2010, increased co-op funding for qualifying agencies undertaking significant marketing plans, relaxed requirements to qualify for tour conductor credits which will help agents earn more money while encouraging group bookings, and an individual agent booking incentive through which agents can earn a complimentary cruise.

We have customer service representatives that are trained to assist travel agents in providing a higher level of service and *Insight*, the first service tool of its kind in the industry, assists agencies with productivity and enhances customer service. We currently operate reservation call centers to support our travel agent community in the United States, Canada, France, Spain and the United Kingdom offering flexibility and extended hours of operations.

We have certified vacation planners in our call centers in Miramar, Wichita and Addlestone offering cruise planning expertise and personal attention for direct bookings. In addition, direct booking channels for Royal Caribbean International, Celebrity Cruises and Azamara Cruises are available through our internet sites at *www.royalcaribbean.com*, *www.celebrity.com* and *www.azamaracruises.com.* We continue to experience an increase in the use of our internet sites and other direct booking channels as a source of our overall bookings.

Passenger Services

We offer to handle virtually all travel aspects related to passenger reservations and transportation, including arranging passenger pre- and post-hotel stay arrangements and air transportation. We offer our passengers the ability to check-in online in order to alleviate boarding time during embarkation. Our air/sea program offers passengers the choice of our standard air or custom air programs. Our standard air program allows our passengers to benefit from comprehensive relationships that we maintain with many major airlines ranging from fare negotiation and space handling to baggage transfer. Our custom air program enables passengers to customize their flight arrangements, including selection of airline, specific flights and class of service.

The Royal Caribbean International passenger loyalty program, Crown & Anchor Society, has over five million members worldwide and includes benefits such as a secured dedicated section in the *www.royalcaribbean.com* internet site with special cruise offers and onboard amenities. The Celebrity Cruises and Azamara Cruises passenger loyalty program, Captain s Club, has over one million members. Captain s Club members enjoy exclusive members-only onboard programs and amenities, and are provided with a secured area on the Celebrity Cruises website, which communicates select products.

Operations

Cruise Ships and Itineraries

As of December 31, 2008, we operate 38 ships under five cruise brands, with a selection of worldwide itineraries ranging from two to 24 nights that call on approximately 425 destinations. *Celebrity Equinox* and *Oasis of the Seas* are expected to enter revenue service in the third and fourth quarters of 2009, respectively. The following table represents summary information concerning our ships and their areas of operation based on 2009 itineraries (subject to change):

Ship	Year Ship Entered Service[1]	Approximate Berths	Primary Areas of Operation
Royal Caribbean International			
Oasis of the Seas	2009	5,400	Eastern Caribbean
Independence of the Seas	2008	3,600	Europe, Eastern/Western Caribbean
Liberty of the Seas	2007	3,600	Eastern/Western Caribbean
Freedom of the Seas	2006	3,600	Eastern/Western Caribbean
Jewel of the Seas	2004	2,100	Caribbean, Panama Canal, Canada/New England, Europe
Mariner of the Seas	2003	3,100	South America, Mexican Riviera
Serenade of the Seas	2003	2,100	Alaska, Southern Caribbean, Panama Canal
Navigator of the Seas	2002	3,100	Western Caribbean, Europe
Brilliance of the Seas	2002	2,100	Europe
Adventure of the Seas	2001	3,100	Southern Caribbean
Radiance of the Seas	2001	2,100	South America, Mexican Riviera, Alaska
Explorer of the Seas	2000	3,100	Eastern/Southern Caribbean, Bermuda, Canada/New England
Voyager of the Seas	1999	3,100	Western Caribbean, Europe
Vision of the Seas	1998	2,000	Southern Caribbean, Europe, Brazil
Enchantment of the Seas	1997	2,250	Western/Southern Caribbean
Rhapsody of the Seas	1997	2,000	Australia/NZ, Alaska
Grandeur of the Seas	1996	1,950	Eastern/Western Caribbean, Bermuda, Canada/New England
Splendour of the Seas	1996	1,800	Europe, Brazil
Legend of the Seas	1995	1,800	Asia, Europe
Majesty of the Seas	1992	2,350	Bahamas
Monarch of the Seas	1991	2,350	Bahamas
Celebrity Cruises			
Celebrity Equinox	2009	2,850	Europe, Caribbean
Celebrity Solstice	2008	2,850	Europe, Eastern Caribbean
Celebrity Constellation	2002	2,050	Caribbean, Europe, Canada/New England, Panama Canal
Celebrity Summit	2001	2,050	Europe, Southern Caribbean
Celebrity Infinity	2001	2,050	Alaska, Panama Canal, South America
Celebrity Millennium	2000	2,050	Southern Caribbean, Panama Canal, Hawaii, Alaska, Australia/NZ
Celebrity Mercury	1997	1,850	

			Alaska, Pacific Northwest, Panama Canal, Hawaii, Bahamas, Eastern Caribbean
Celebrity Galaxy[3]	1996	1,850	Southern Caribbean
Celebrity Century	1995	1,800	Western Caribbean, Bahamas, Europe
Celebrity Xpedition[4]	2004	100	Galapagos Islands

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Pullmantur			
Ocean Dream[5]	2008	1,000	Southern Caribbean
Sky Wonder[11]	2006	1,200	Eastern Mediterranean
Oceanic[5]	2001	1,150	Western Mediterranean
Zenith[7]	1992	1,400	Western Europe, Baltic
Empress[2]	1990	1,600	Eastern Mediterranean
Sovereign[2]	1988	2,300	Western Mediterranean
Pacific Dream[10]	1990	1,350	Mexico
Azamara Cruises			
Azamara Journey[8]	2004	700	Europe, Caribbean, Panama Canal
Azamara Quest[9]	2006	700	Europe, Asia
CDF Croisières de France			
Bleu de France[6]	2005	750	Mediterranean, Caribbean
Total		88,250	

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

2 *Empress* (formerly *Empress of the Seas*) and *Sovereign* (formerly *Sovereign of the Seas)* were redeployed from Royal Caribbean International to Pullmantur in March 2008 and November 2008, respectively.

3 *Celebrity Galaxy* will be sold to TUI Cruises to serve as its first ship and will sail under a new name beginning in May 2009.

4 *Celebrity Xpedition* was built in 2001.

5 *Ocean Dream* and *Oceanic* were built in 1981and 1965, respectively.

6 *Bleu de France* (formerly *Holiday Dream)* was built in 1981 and was redeployed from Pullmantur to CDF Croisières de France in April 2008.

7 *Zenith* was revitalized in 2007 and redeployed to Pullmantur in May 2007.

8 *Azamara Journey* (formerly *Blue Dream*) was built in 2000 and was redeployed from Pullmantur to Azamara Cruises in May 2007.

9 *Azamara Quest* (formerly *Blue Moon*) was built in 2000 and was redeployed from Pullmantur to Azamara Cruises in September 2007.

10 Celebrity Cruises *Horizon* was built in 1990 and is currently chartered to Island Cruises. We anticipate the return of the ship in April 2009 and intend to redeploy the ship to Pullmantur. The ship will sail under the name *Pacific Dream*.

11 *Sky Wonder* was built in 1984 and will begin sailing under the name *Atlantic Star* in March 2009.

We have two Oasis-class ships on order for Royal Caribbean International. These ships are being built in Finland by STX Finland Cruise Oy (formerly Aker Yards Oy). We have four Solstice-class ships on order for Celebrity Cruises. These ships are being built in Germany by Meyer Werft GmbH. See Item 1A. *Risk Factors* regarding shipyards. The expected dates these ships will enter service and their planned number of berths are as follows:

Ship	**Expected to Enter Service**	**Approximate Berths**
Royal Caribbean International:		
Oasis-class:		
Oasis of the Seas	4th Quarter 2009	5,400
Allure of the Seas	4th Quarter 2010	5,400
Celebrity Cruises:		
Solstice-class:		
Celebrity Equinox	3rd Quarter 2009	2,850
Celebrity Eclipse	3rd Quarter 2010	2,850
Unnamed	3rd Quarter 2011	2,850
Unnamed	4th Quarter 2012	2,850
	Total Berths	22,200

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Seasonality

Our revenues are seasonal based on the demand for cruises. Demand is strongest for cruises during the Northern Hemisphere summer months and holidays.

Passengers and Capacity

Selected statistical information is shown in the following table (see Terminology and Non-GAAP Financial Measures under Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*, for definitions). (Amounts include Pullmantur effective January 1, 2007):

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Passengers Carried	4,017,554	3,905,384	3,600,807	3,476,287	3,405,227
Passenger Cruise Days	27,657,578	26,594,515	23,849,606	23,178,560	22,661,965
Available Passenger Cruise Days (APCD)	26,463,637	25,155,768	22,392,478	21,733,724	21,439,288
Occupancy	104.5%	105.7%	106.5%	106.6%	105.7%

Cruise Pricing

Our cruise ticket prices include accommodations and a wide variety of activities and amenities, including meals and entertainment. Prices vary depending on the destination, cruise length, cabin category selected and the time of year the cruise takes place. Although we grant credit terms to certain travel agencies and tour operators outside of the United States, our payment terms generally require an upfront deposit to confirm a reservation with the balance due prior to the sailing. During the selling period of a cruise, we continually monitor and adjust our cruise ticket prices for available passenger cabins based on demand, with the objective of maximizing net yields. Historically, we have opened cruises for sale at least one year in advance, and often as much as two years in advance. Additionally, we offer air transportation as a service for guests that elect to utilize our transportation program. Our air transportation program is available from major cities in the United States and Canada, and from select cities in Europe, mainly in the United Kingdom. Prices vary by gateway and destination. Generally, air tickets are sold to guests at prices close to cost. Passenger ticket revenues accounted for 72.4%, 72.0% and 73.4% of total revenues in 2008, 2007 and 2006, respectively.

Onboard Activities and Other Revenues

Our cruise brands offer modern fleets with a wide array of onboard services, amenities and activities, including swimming pools, sun decks, lawn decks, spa facilities (which include massage and exercise facilities), beauty salons, bungee jumping trampolines, gaming facilities, lounges, bars, a wide variety of dining options and venues, Las Vegas-style entertainment, hot glass shows, retail shopping, libraries, dedicated recreational areas for youth of all ages, cinemas, conference centers, internet cafes and shore excursions at each port of call. Royal Caribbean International offers rock climbing walls on its ships, additional activities including ice skating rinks and in-line skating on its Voyager-class and Freedom-class ships, sports courts, a surf simulator and an interactive water park called the H2O Zone on its Freedom-class ships. While many onboard activities are included in the base price of a cruise, we realize additional revenues from, among other things, gaming, the sale of alcoholic and other beverages, specialty restaurants, gift shop items, shore excursions, photography, spa/salon and fitness services and art auctions. Royal Caribbean International, Celebrity Cruises and Azamara Cruises offer enhanced functionality on our internet sites for selecting shore excursions, specialty dining and amenities prior to embarkation. Royal Caribbean International and Celebrity Cruises also offer a catalogue gift service, which is now offered via the internet to provide travel agents and others the opportunity to purchase gifts for guests.

In conjunction with our cruise vacations, we offer pre- and post-cruise hotel packages to our Royal Caribbean International, Celebrity Cruises and Azamara Cruises guests. We also offer escorted, premium land-tour vacation packages in Alaska, Asia, Australia, the Canadian Rockies, Europe, New Zealand and Latin America. These escorted, premium land-tour vacations are offered exclusively in conjunction with our cruises marketed to our Royal Caribbean International, Celebrity Cruises and Azamara Cruises guests through our cruise-tour operations, Royal Celebrity Tours. Pullmantur also offers land-based tour packages to Spanish and European vacation travelers including hotels and flights to Caribbean resorts and sells land based packages to Europe aimed at Latin

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American guests. In addition, we sell cruise vacation protection coverage, which provides guests with coverage for trip cancellation, medical protection and baggage protection. Onboard and other revenues accounted for 27.6%, 28.0% and 26.6% of total revenues in 2008, 2007 and 2006, respectively.

Segment Reporting

We operate five cruise brands, Royal Caribbean International, Celebrity Cruises, Pullmantur, Azamara Cruises and CDF Croisières de France. The brands have been aggregated as a single reportable segment based on the similarity of their economic characteristics as well as products and services provided. (For financial information see Item 8. *Financial Statements and Supplementary Data*.)

Employees

As of December 31, 2008, we employed approximately 4,400 full-time and 650 part-time employees worldwide in our shoreside operations. We also employed approximately 44,600 shipboard employees. As of December 31, 2008, approximately 80% of our shipboard employees were covered by collective bargaining agreements. We believe that our relationship with our employees is good.

Insurance

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

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

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

We also maintain insurance coverage for certain events, which would result in a delayed delivery of our contracted new ships, which we normally place starting approximately two years prior to the scheduled delivery dates.

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

We do not carry business interruption insurance for our ships nor our shoreside operations based on our evaluation of the risks involved and protective measures already in place, as compared to the cost of insurance.

All insurance coverage is subject to certain limitations, exclusions and deductible levels. In addition, in certain circumstances, we co-insure a portion of these risks. Premiums charged by insurance carriers, including carriers in the maritime insurance industry, increase or decrease from time to time and tend to be cyclical in nature. These cycles are impacted both by our own loss experience and by losses incurred in direct and reinsurance markets. We historically have been able to obtain insurance coverage in amounts and at premiums we have deemed to be commercially acceptable. No assurance can be given that affordable and secure insurance markets will be available to us in the future, particularly for war risk insurance.

The Athens Convention relating to the Carriage of Passengers and their Luggage by Sea (1974) and the 1976 Protocol to the Athens Convention are generally applicable to passenger ships. The United States has not ratified the Athens Convention; however, with limited exceptions, the 1976 Athens Convention Protocol may be contractually enforced with respect to those of our cruises that do not call at a United States port. The International Maritime Organization Diplomatic Conference agreed upon a new Protocol to the Athens Convention on November 1, 2002. The 2002 Protocol, which is not yet in force, substantially increases the level of compulsory insurance, which must be maintained by passenger ship operators. No assurance can be given as to if or when the 2002 Protocol will come into force. If in force, no assurance can be given that affordable and secure insurance markets will be available to provide the level of coverage required under the 2002 Protocol.

Trademarks

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

Regulation

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

Our ships are required to comply with international safety standards defined in the Safety of Life at Sea Convention. The Safety of Life at Sea Convention standards are revised from time to time and the most recent modifications are being phased in through 2010. We do not anticipate that we will be required to make any material expenditures in order to comply with these rules.

We are required to obtain certificates from the United States Federal Maritime Commission relating to our ability to satisfy liability in cases of non-performance of obligations to passengers, as well as casualty and personal injury. Pursuant to the United States Federal Maritime Commission regulations, we arrange through our insurers for the provision of guarantees aggregating $45.0 million for our ship-operating companies as a condition to obtaining the required certificates. The United States Federal Maritime Commission has proposed various revisions to the financial responsibility regulations, which could require us to significantly increase the amount of our bonds and accordingly increase our costs of compliance.

We are also required by the United Kingdom and other jurisdictions to establish our financial responsibility for any liability resulting from the non-performance of our obligations to passengers from these jurisdictions. In the United Kingdom, we are currently required by the United Kingdom Passenger Shipping Association to provide performance bonds totaling approximately £42.0 million. We are also required to pay to the United Kingdom Civil Aviation Authority a non-refundable tax of £1 per passenger.

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

Our ships are subject to the International Maritime Organization s regulations under the International Convention for the Prevention of Pollution from Ships (the MARPOL Regulations), which impose limitations on the sulfur content of fuel used by ships operating worldwide. The MARPOL Regulations also provide for special Emission Control Areas (ECAs) to be established with more stringent limitations on sulfur emissions.

In 2008, the MARPOL Regulations were amended (the Amendment) to require reductions in sulfur emissions by reducing the maximum sulfur content in fuel oil that may be used in ECAs to 1.0% by 2010. The Amendment also introduced progressive reductions in nitrogen oxide emissions from both existing and new marine diesel engines by 2011.

Compliance with the MARPOL Regulations will increase our fuel and operating costs, due to the higher cost of purchasing low sulfur fuel. In addition, compliance with the new standards under the Amendment may require the development of new engine designs or exhaust gas treatment systems, which may result in significant additional costs.

In 2010, a European Union directive also regarding the use of low sulfur fuels for passenger ships becomes effective. The directive places a 0.1% sulfur content limit on all marine fuels used by such ships while alongside in European Union ports. Compliance with this directive will require us to use distillate fuels such as marine gas oil, which will increase our fuel costs.

The International Labour Organization, an agency of the United Nations that develops worldwide employment standards, has adopted a new Consolidated Maritime Labour Convention (the Convention). The Convention reflects standards and conditions to govern all aspects of crew management for all ships in international commerce, including additional requirements not previously in effect. The Convention may be ratified in 2010, in which case it would enter into force in 2011. If ratified, our crew costs may increase in order to comply with the Convention.

We are required to obtain certificates from the United States Coast Guard relating to our ability to satisfy liability in cases of water pollution. Pursuant to United States Coast Guard regulations, we arrange through our insurers for the provision of guarantees aggregating $348.0 million as a condition to obtaining the required certificates.

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

Taxation of the Company

United States Federal Income Tax

The following discussion of the application of the United States federal income tax laws to us and our subsidiaries is based on the current provisions of the United States Internal Revenue Code, Treasury Department regulations, administrative rulings, and court decisions. All of the foregoing is subject to change, and any such change could affect the accuracy of this discussion.

Application of Section 883 of the Internal Revenue Code

We and our subsidiary, Celebrity Cruises Inc., the operator of Celebrity Cruises and Azamara Cruises, are foreign corporations engaged in a trade or business in the United States, and our ship-owning subsidiaries are foreign corporations that, in many cases, depending upon the itineraries of their ships, receive income from sources within the United States. Under Section 883 of the Internal Revenue Code, certain foreign corporations are not subject to United States income or branch profits tax on United States source income derived from or incidental to the international operation of a ship or ships, including income from the leasing of such ships.

A foreign corporation will qualify for the benefits of Section 883 if, in relevant part: (1) the foreign country in which the foreign corporation is organized grants an equivalent exemption to corporations organized in the United States; and (2)(A) more than 50% of the value of the corporation s capital stock is owned, directly or indirectly, by individuals who are residents of a foreign country that grants such an equivalent exemption to corporations organized in the United States, or (B) the stock of the corporation (or the direct or indirect corporate parent thereof) is primarily and regularly traded on an established securities market in the United States or another qualifying country such as Norway. In the opinion of our United States tax counsel, Drinker Biddle & Reath LLP, based on the representations and assumptions set forth in that opinion, we, Celebrity Cruises Inc. and our ship-owning subsidiaries qualify for the benefits of Section 883 because we and each of those subsidiaries are incorporated in Liberia or Malta, which are qualifying countries, and our common stock is primarily and regularly traded on an established securities market in the United States or Norway. If, in the future, (1) Liberia no longer qualifies as an equivalent exemption jurisdiction, and we do not reincorporate in a jurisdiction that does qualify for the exemption, or (2) we fail to qualify as a publicly traded corporation, we and all of our ship-owning or operating subsidiaries that rely on Section 883 for tax exemption on qualifying income would be subject to United States federal income tax on their United States source shipping income and income from activities incidental thereto.

We believe that most of our income and the income of our ship-owning subsidiaries is derived from or incidental to the international operation of a ship or ships and, therefore, is exempt from taxation under Section 883. In 2005, final regulations became effective under Section 883, which, among other things, narrow somewhat the scope of activities that are considered by the Internal Revenue Service to be incidental to the international operation of ships. The activities listed in the regulations as not being incidental to the international operation of ships include income from the sale of air and land transportation, shore excursions and pre- and post-cruise tours. To the extent the income from these activities is earned from sources within the United States, that income will be subject to United States taxation; but the determination of the precise amount of such United States source income involves some uncertainties.

Under certain circumstances, changes in the identity, residence or holdings of our direct or indirect shareholders could cause our common stock not to be regularly traded on an established securities market within the meaning of the regulations under Section 883. To substantially reduce any such risk, in May 2000, our Articles of Incorporation were amended to prohibit any person, other than our two existing largest shareholders, from owning, directly or constructively as determined for purposes of Section 883(c)(3) of the Internal Revenue Code and the regulations promulgated under it, more than 4.9% of the relevant class or classes of our shares. Under Liberian law, this amendment may not be enforceable with respect to shares of common stock that were voted against the amendment or that were recorded as abstaining from the vote.

Also, it should be noted that Section 883 has been the subject of legislative modifications in past years that have had the effect of limiting its availability to certain taxpayers, and there can be no assurance that future legislation will not preclude us from obtaining the benefits of Section 883.

Taxation in the Absence of an Exemption under Section 883 of the Internal Revenue Code

If we, Celebrity Cruises Inc., or our ship-owning subsidiaries were to fail to meet the requirements of Section 883 of the Internal Revenue Code, or if the provision was repealed, then, as explained below, such companies would be subject to United States income taxation on a portion of their income derived from or incidental to the international operation of our ships.

Because we and Celebrity Cruises Inc. conduct a trade or business in the United States, we and Celebrity Cruises Inc. would be taxable at regular corporate rates on our separate company taxable income (i.e., without regard to the income of our ship-owning subsidiaries), from United States sources, which includes 100% of income, if any, from transportation that begins and ends in the United States (not including possessions of the United States), 50% of income from transportation that either begins or ends in the United States, and no income from transportation that neither begins nor ends in the United States. The legislative history of the transportation income source rules suggests that a cruise that begins and ends in a United States port, but that calls on more than one foreign port, will derive United States source income only from the first and last legs of such cruise. This conclusion is not free from doubt, however, because there are no regulations or other Internal Revenue Service interpretations of the above rules. In addition, if any of our earnings and profits effectively connected with our United States trade or business were withdrawn, or were deemed to have been withdrawn, from our United States trade or business, those withdrawn amounts would be subject to a branch profits tax

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at the rate of 30%. The amount of such earnings and profits would be equal to the aforesaid United States source income, with certain generally minor adjustments, less income taxes. We and Celebrity Cruises Inc. would also be potentially subject to tax on portions of certain interest paid by us at rates of up to 30%.

If Section 883 were not available to our ship-owning subsidiaries, each such subsidiary would be subject to a special 4% tax on its United States source gross transportation income, if any, each year because it does not have a fixed place of business in the United States and its income is derived from the leasing of a ship. Such United States source gross transportation income may be determined under any reasonable method, including ratios of days traveling directly to or from United States ports to total days traveling, or of the lessee s United States source gross income from the ship (as determined under the source rules discussed in the preceding paragraph, and subject to the assumptions and qualifications set forth therein) to the lessee s total gross income from the ship.

Maltese Income Tax

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

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

United Kingdom Income Tax

The *Brilliance of the Seas* is operated by a company that is strategically and commercially managed in the United Kingdom, which has elected to be subject to the United Kingdom tonnage tax regime (U.K. tonnage tax). Companies subject to U.K. tonnage tax pay a corporate tax on a notional profit determined with reference to the net tonnage of qualifying vessels. Normal United Kingdom corporate income tax is not chargeable on the relevant shipping profits of a qualifying U.K. tonnage tax company. The requirements for a company to qualify for the U.K. tonnage tax regime include being subject to United Kingdom corporate income tax, operating qualifying ships, which are strategically and commercially managed in the United Kingdom, and fulfilling a seafarer training requirement.

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

State Taxation

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

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Other Taxation

We and certain of our subsidiaries are subject to income tax in the United States or other jurisdictions on income that does not qualify for exemption under Section 883 or tonnage tax regimes. The tax on such income was not material to our results of operations for all years presented.

Website Access to Reports

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

Executive Officers of the Company

Our executive officers are:

Name	Age	Position
Richard D. Fain	61	Chairman, Chief Executive Officer and Director
Adam M. Goldstein	49	President and Chief Executive Officer, Royal Caribbean International
Daniel J.Hanrahan	51	President and Chief Executive Officer, Celebrity Cruises and Azamara Cruises
Brian J. Rice	50	Executive Vice President and Chief Financial Officer
Harri U. Kulovaara	56	Executive Vice President, Maritime
Gonzalo Chico Barbier	48	President and Chief Executive Officer, Pullmantur

Richard D. Fain has served as a director since 1979 and as our Chairman and Chief Executive Officer since 1988. Mr. Fain has been involved in the shipping industry for over 25 years.

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

Daniel J. Hanrahan has served as President of Celebrity Cruises since February 2005 and as its President and Chief Executive Officer since September 2007. Mr. Hanrahan also serves as President and Chief Executive Officer of Azamara Cruises. From 1999 until February 2005, Mr. Hanrahan served in a variety of positions with the Royal Caribbean International brand, including Senior Vice President, Sales and Marketing.

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

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

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

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Item 1A. Risk Factors

The risk factors set forth below and elsewhere in this Annual Report on Form 10-K are important factors, among others, that could cause actual results to differ from expected or historical results. It is not possible to predict or identify all such factors. Consequently, this list should not be considered a complete statement of all potential risks or uncertainties. (See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations for a cautionary note regarding forward-looking statements.)

The adverse impact of the continuing worldwide economic downturn on the demand for cruises could adversely impact our operating results, cash flows and financial condition.

The demand for cruises is affected by international, national and local economic conditions. The current worldwide economic downturn has had an adverse effect on vacationers discretionary income and consumer confidence which has resulted in cruise booking slowdowns, decreased cruise prices and lower onboard revenues for us and for the others in the cruise industry. We cannot predict the extent or duration of this downturn or the timing or strength of a subsequent economic recovery. However, if the downturn continues for an extended period of time or worsens, we could experience a prolonged period of booking slowdowns, depressed cruise prices and reduced onboard revenues. This could adversely impact our operating results, cash flows and financial condition including the impairment of the value of our ships, goodwill and other intangible assets.

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

To fund our capital expenditures and scheduled debt payments, we have historically relied on a combination of cash flows provided by operations, drawdowns under available credit facilities, the incurrence of additional indebtedness and the sale of equity or debt securities in private or public securities markets. The decrease in consumer cruise spending as a result of the current economic environment is adversely impacting our cash flows from operations. The disruption in the credit markets has resulted in a lack of liquidity worldwide which may affect our ability to successfully raise capital or to do so on acceptable terms. These factors may prevent us from having sufficient available capital or financing to meet our needs or to do so on acceptable terms. During 2008, our credit rating was lowered from BBB- with a negative outlook to BB with a negative outlook by Standard and Poor s. In January 2009, Standard and Poor s placed our credit rating on credit watch with negative implications. In addition, our credit rating was lowered from Ba1 with a stable outlook to Ba2 with a negative outlook by Moody s. There is no assurance that our credit ratings will not be lowered further. The lowering of our credit ratings may increase our cost of financing and can make it more difficult for us to access the financial markets. See Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.*

As of December 31, 2008, we had two ships of a new Oasis-class designated for Royal Caribbean International and four Solstice-class ships designated for Celebrity Cruises on order. We expect to take delivery of *Celebrity Equinox* and *Oasis of the Seas* in July 2009 and November 2009, respectively. We have committed financing for all of the Solstice-class ships and have commitments for government financing guarantees from Finnvera, the export credit agency of Finland for 80% of the financed amount of the Oasis-class ships. We must still secure financing for *Oasis of the Seas* and *Allure of the Seas,* and, although we believe that we will be able to do so, there can be no assurance that we will be able to do so or that we will be able to do so on acceptable terms.

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

The economic events over the past several months, including recent failures of financial service companies and the related liquidity crisis, have disrupted the capital and credit markets. These disruptions could cause our counterparties and others to breach their obligations to us under our contracts with them. This could include failures of banks or other financial service companies to fund required borrowings under our loan agreements or to pay us amounts that may become due under our derivative contracts for hedging of fuel prices, interest rates and foreign currencies or other agreements. If this occurs it may have a negative impact on our cash flows including our ability to meet our obligations, results of operations and financial condition.

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The increase in capacity resulting from delivery of newbuilds currently on order within the cruise industry could further adversely impact the demand for cruises or cruise pricing.

A total of 34 new ships are on order for delivery through 2012 in the cruise industry, six of which are ours. The current worldwide economic downturn and tighter credit markets have already resulted in a weaker demand environment which has led to lower cruise prices and lower onboard purchases, all of which have adversely affected our revenues. The further growth in capacity from these new ships, without an increase in the cruise industry s share of the vacation market, could further depress cruise prices, compounding with the current adverse economic environment to hinder our ability for a quick recovery.

We may lose business to competitors throughout the vacation market.

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

We face significant competition from other cruise lines, both on the basis of cruise pricing and also in terms of the nature of ships and services we offer to passengers. Our principal competitors within the cruise vacation industry include Carnival Corporation & plc, which owns, among others, Aida Cruises, Carnival Cruise Lines, Costa Cruises, Cunard Line, Holland America Line, P&O Cruises and Princess Cruises and has a joint venture with Orizonia Corporation under which they operate Iberocruceros; Disney Cruise Line; MSC Cruises; Norwegian Cruise Line and Oceania Cruises.

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

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

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

Incidents or adverse publicity concerning the cruise vacation industry or unusual weather conditions could affect our reputation and harm our future sales and results of operations.

The operation of cruise ships involves the risk of accidents, illnesses and other incidents which may bring into question passenger safety, health, security and vacation satisfaction and create a perception that cruising is more dangerous than other vacation alternatives. Incidents involving cruise ships, adverse media publicity concerning the cruise vacation industry or unusual weather patterns or natural disasters, such as hurricanes and earthquakes, could impact demand and consequently have an adverse impact on our results of operations and on future industry performance.

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

The United States and various state and foreign government or regulatory agencies have enacted or are considering new environmental regulations or policies, such as requiring the use of low sulfur fuels, increasing fuel efficiency requirements or further restricting emissions, that could adversely impact the cruise vacation industry. Some environmental groups have also lobbied for more stringent regulation of cruise ships and have generated negative publicity about the cruise vacation industry and its environmental impact. In addition, we are subject to various international, national, state and local laws, regulations and treaties that govern, among other things, safety standards applicable to our ships, health and sanitary standards applicable to our passengers, security standards on board our ships and at the ship/port interface areas, and financial responsibilities to our passengers. 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 would subject us to increasing compliance costs in the future.

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

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

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

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

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

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

We depend on shipyards to construct and deliver our cruise ships on a timely basis and in good working order. The sophisticated nature of building a ship involves risks. Delays or mechanical faults in ship construction have in the past and may in the future result in delays or cancellation of cruises or necessitate unscheduled drydocks and repairs of ships. We have, for example, experienced mechanical problems with the pod propulsion units on certain ships and there can be no assurance that we will not experience such problems in the future. These events and any related adverse publicity could result in lost revenue, increased operating expenses, or both, and thus adversely affect our results of operations.

The current worldwide economic downturn is resulting in financial difficulties for shipyards and their subcontractors. This may cause or result in delivery delays, ship cancellations or increases in shipbuilding costs that could adversely affect our results of operations.

The current downturn in the worldwide economy is causing a loss of business for shipyards and their subcontractors which could result in financial difficulties, liquidations or closures. These events could adversely affect the timely delivery or costs of new ships or the ability of shipyards to repair and refurbish our existing fleet in accordance with our needs or expectations. Delivery delays and cancelled deliveries can adversely affect our results of operations, as can any constraints on our ability to repair and maintain our ships on a timely basis. In addition, the cruise shipyard industry is undergoing consolidation, which could result in stronger bargaining power on the part of the shipyards, and thus higher prices for our future ship orders.

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

Our operating costs, including fuel, food, payroll, airfare for our shipboard personnel, insurance and security costs are subject to increases due to market forces and economic or political instability or other factors beyond our control. Increases in these operating costs could adversely affect our profitability. In addition, the recent volatility in the price of fuel is making our ability to predict fuel prices extremely difficult. United States, state and local authorities as well as foreign authorities periodically consider increases in taxes. Any such tax increases could also cause an increase in our costs.

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

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

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

Many of our passengers 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 passengers which may adversely impact demand for our cruises. In addition, changes in the availability of commercial airline services could adversely affect our passenger s ability to obtain airfare as well as our ability to fly our passengers to or from our cruise ships which could adversely affect our results of operations.

Changes or disruptions to external distribution channels for our guest bookings could adversely affect our results of operations.

We rely on travel agencies to generate the majority of bookings for our ships. If the current worldwide economic downturn continues for an extended period of time or worsens, these agencies could be adversely impacted and significant disruptions or contractions could occur to these businesses. This could reduce the distribution channels available for us to market and sell our cruises. If this were to occur, it could have an adverse impact on our financial condition and results of operations.

The loss of key personnel or our inability to recruit or retain qualified personnel could adversely affect our results of operations.

Our success depends, in large part, on the skills and contributions of key executives and other employees, and on our ability to recruit and retain high quality employees. We must continue to recruit, retain and motivate management and other employees sufficient to maintain our current business and support our projected growth. A loss of key employees could adversely affect our results of operations.

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

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

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

Finally, changes in the income tax laws affecting our operations in Malta, the United Kingdom or elsewhere could result in higher income taxes being charged against our operations, resulting in lower net income.

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

As of February 12, 2009, A. Wilhelmsen AS., a Norwegian corporation indirectly owned by members of the Wilhelmsen family of Norway, owned approximately 20.1% of our common stock and Cruise Associates, a Bahamian general partnership indirectly owned by various trusts primarily for the benefit of certain members of the Pritzker family and a trust primarily for the benefit of certain members of the Ofer family, owned approximately 15.6% of our common stock. A sale of shares by A. Wilhelmsen AS. or Cruise Associates could cause a drop in our share prices.

A. Wilhelmsen AS. and Cruise Associates are parties to a shareholders agreement and have the power to determine, among other things our policies, the persons who will be our directors and officers, and actions requiring shareholder approval. The shareholders agreement provides that our board of directors will consist of four nominees of A. Wilhelmsen AS., four nominees of Cruise Associates and our Chief Executive Officer.

During the term of the shareholders agreement, certain corporate actions require the approval of at least one director nominated by A. Wilhelmsen AS. and one director nominated by Cruise Associates. Our principal shareholders are not prohibited from engaging in a business that may compete with our business, subject to certain exceptions. If any person other than A. Wilhelmsen AS. and Cruise Associates, our two principal shareholders, acquires ownership of more than 30% of our common stock and our two principal shareholders, in the aggregate, own less of our common stock than such person and do not collectively have the right to elect, or to designate for election, at least a majority of the board of directors, we may be obligated to prepay indebtedness outstanding under the majority of our credit facilities, which we may be unable to replace on similar terms. If this were to occur, it could have an adverse impact on our liquidity and 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 Restated Articles of Incorporation and By-Laws and by the Business Corporation Act of Liberia. The provisions of the Business Corporation Act of Liberia resemble provisions of the corporation laws of a number of states in the United States. However, while most states have a fairly well developed body of case law interpreting their respective corporate statutes, there are very few judicial cases in Liberia interpreting the Business Corporation Act of Liberia. As such, the rights and fiduciary responsibilities of directors under Liberian law are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. For example, the right of shareholders to bring a derivative action in Liberian courts may be more limited than in United States jurisdictions. There may also be practical difficulties for shareholders attempting to bring suit in Liberia and Liberian courts may or may not recognize and enforce foreign judgments. Thus, our public shareholders may have more difficulty in protecting their interests with respect to actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

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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 or agents 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Our principal executive office and shoreside operations are located at the Port of Miami, Florida where we lease three office buildings totaling approximately 359,000 square feet from Miami-Dade County, Florida, under long-term leases with initial terms expiring in various years on and after 2011. We also lease offices to administer our Royal Caribbean International and Celebrity Cruises operations internationally, including an office in Addlestone, England, for our Europe operations, offices in Singapore and Shanghai for our Asia/Pacific operations and an office in Sydney for our Australia operations. We lease an office in Madrid, Spain and in Mexico City, Mexico to administer our Pullmantur operations.

We lease an office building in Springfield, Oregon totaling approximately 163,000 square feet, which is used as a call center for reservations. In addition, we lease an office building in Wichita, Kansas totaling approximately 95,000 square feet, which is used as a call center for reservations and customer service.

We lease two buildings in Miramar, Florida totaling approximately 178,000 square feet. One building is used primarily as additional office space and the other building is used as a call center for reservations.

We lease our logistics center in Pembroke Park, Florida totaling approximately 154,000 square feet through December 2009. We also lease a building in Weston, Florida totaling approximately 267,000 square feet which is currently used as additional office space. This facility will be used as our logistics center in the future.

Royal Caribbean International operates two private destinations: (i) an island we own in the Bahamas which we call CocoCay; and (ii) Labadee, a secluded peninsula which we lease and is located on the north coast of Haiti.

Item 3. Legal Proceedings

In January 2006, a purported class action lawsuit was filed in the United States District Court for the Southern District of New York alleging that we infringed rights in copyrighted works and other intellectual property by presenting performances on our cruise ships without securing the necessary licenses. The suit seeks payment of damages, disgorgement of profits and a permanent injunction against future infringement. In April 2006, we filed a motion to sever and transfer the case to the United States District Court for the Southern District of Florida. The motion is pending. We are not able at this time to estimate the impact of this proceeding.

We have a lawsuit pending in the Circuit Court for Miami-Dade County, Florida against Rolls Royce, co-producer of the Mermaid pod-propulsion system on Millennium-class ships, for the recurring Mermaid pod failures. Alstom Power Conversion, the

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other co-producer of the pod-propulsion system, settled out of this suit in January 2006 for $38.0 million. In December 2008, Rolls Royce filed its answer to our lawsuit denying the allegations and asserting various affirmative defenses. At the same time, Rolls Royce counterclaimed that we engaged in a civil conspiracy with Alstom Power Conversion and its various affiliates (Alstom), that we tortiously interfered with Rolls Royce s joint venture agreement with Alstom and that we caused Alstom to breach its fiduciary obligations owing to Rolls Royce under the joint venture agreement. Rolls Royce alleges damages against us in excess of $100.0 million for these claims. They also brought a third-party complaint against Alstom and are seeking indemnification and contribution from them. We have moved to dismiss Rolls Royce s counterclaims on the basis that they are frivolous, unfounded and untimely. We are not able at this time to estimate the outcome of the Rolls Royce proceeding although we believe we have meritorious claims against Rolls Royce and meritorious defenses to the counterclaims, both of which we intend to vigorously pursue.

In July 2006, a purported class action lawsuit was filed in the United States District Court for the Central District of California alleging that we failed to timely pay crew wages and failed to pay proper crew overtime. The suit seeks payment of damages, including penalty wages under the United States Seaman s Wage Act and equitable relief damages under the California Unfair Competition Law. In December 2006, the District Court granted our motion to dismiss the claim and held that it should be arbitrated pursuant to the arbitration provision in Royal Caribbean s collective bargaining agreement. In November 2008, the United States Ninth Circuit Court of Appeals affirmed the District Court s finding and plaintiffs subsequent request for rehearing and rehearing en banc was denied. We are not able at this time to estimate the impact of this proceeding.

The Miami District Office of the United States Equal Employment Opportunity Commission (EEOC) has alleged that certain of our shipboard employment practices do not comply with United States employment laws. In June 2007, the EEOC proposed payment of monetary sanctions and certain remedial actions. Following discussions with the EEOC regarding this matter, the EEOC informed us that they transferred the matter to its legal unit for litigation review. To date, no legal proceedings have been initiated. We do not believe that this matter will have a material adverse impact on our financial condition or results of operations.

The Florida Attorney General s office is investigating whether there is or has been a violation of state or federal anti-trust laws in connection with the setting by us and other cruise line operators of fuel supplements in 2007. We are cooperating with the Attorney General s office in connection with this investigation and are not able at this time to estimate the impact of this investigation.

In October 2008, we were named as a defendant in a purported class action filed in the United States District Court, Western District of Washington against Park West Galleries, Inc. (Park West), Fine Arts Sales, Inc., HSBC Bank Nevada, NA, HSBC Finance Corporation, Holland America Line Inc., Holland America Line USA Inc. and other unnamed parties on behalf of purchasers of artwork from Park West. The suit alleges that Park West sold art pieces that Park West falsely claimed were authored by certain artists. The suit seeks damages and equitable relief on behalf of the class members and alleges claims for violation of the Racketeer Influenced and Corrupt Organizations Act (RICO), breach of contract, statutory fraud and other similar claims. Park West has a concession to sell artwork onboard Royal Caribbean International and Celebrity Cruises ships. In January 2009, we were dismissed without prejudice from the case.

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

Item 4. Submission of Matters to a Vote of Security Holders

None.

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PART II

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

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

	NYSE Common Stock		OSE Common Stock(1)	
	High	Low	High	Low
2008				
Fourth Quarter	$ 21.26	$ 6.64	133.50	54.50
Third Quarter	29.35	19.54	164.00	97.50
Second Quarter	35.47	22.33	181.50	113.50
First Quarter	41.22	30.23	229.00	160.00
2007				
Fourth Quarter	$ 43.45	$ 37.52	243.50	205.00
Third Quarter	42.53	36.03	251.00	203.50
Second Quarter	44.62	40.43	268.00	244.00
First Quarter	45.34	38.68	290.00	243.00

(1) Denominated in Norwegian kroner.

Holders

As of February 12, 2009 there were 1,254 record holders of our common stock. Since certain of our shares are held indirectly, the foregoing number is not representative of the number of beneficial owners.

Dividends

We declared cash dividends on our common stock of $0.15 per share in the each of the first three quarters of 2008 and each of the quarters of 2007. Commencing in the fourth quarter 2008 our board of directors discontinued the quarterly dividends.

Holders of our common stock have an equal right to share in our profits in the form of dividends when declared by our board of directors out of funds legally available for the distribution of dividends. Holders of our common stock have no rights to any sinking fund.

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

The declaration of dividends shall at all times be subject to the final determination of our board of directors that a dividend is prudent at that time in consideration of the needs of the business. The shareholders agreement provides that A. Wilhelmsen AS. and Cruise Associates will from time to time consider our dividend policy with due regard for the interests of the shareholders in

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maximizing the return on their investment and our ability to pay such dividends. The shareholders agreement also provides that payment of dividends will depend, among other factors, upon our earnings, financial position and capital requirements and the income and other tax liabilities of A. Wilhelmsen AS., Cruise Associates and their respective affiliates relating to their ownership of common stock.

Issuer Purchases of Equity Securities

None.

Performance Graph

The following graph compares the total return, assuming reinvestment of dividends, on an investment in the Company, based on performance of the Company s common stock with the performance of the Standard & Poor s 500 Composite Stock Index and the Dow Jones United States Travel and Leisure Index for a five year period by measuring the changes in common stock prices from December 31, 2003 to December 31, 2008.

	12/03	12/04	12/05	12/06	12/07	12/08
Royal Caribbean Cruises Ltd.	**$ 100.00**	**$ 158.32**	**$ 132.66**	**$ 123.67**	**$ 128.70**	**$ 42.33**
S&P 500	**$ 100.00**	**$ 110.88**	**$ 116.33**	**$ 134.70**	**$ 142.10**	**$ 89.53**
Dow Jones United States Travel & Leisure	**$ 100.00**	**$ 128.53**	**$ 130.64**	**$ 159.96**	**$ 157.71**	**$ 102.30**

The stock performance graph assumes for comparison that the value of the Company s common stock and of each index was $100 on December 31, 2003 and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

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Item 6. Selected Financial Data

The selected consolidated financial data presented below for the years 2004 through 2008 and as of the end of each such year, are derived from our audited financial statements and should be read in conjunction with those financial statements and the related notes.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands, except per share data)				
Operating Data:					
Total revenues	$ 6,532,525	$ 6,149,139	$ 5,229,584	$ 4,903,174	$ 4,555,375
Operating income	831,984	901,335	858,446	871,565	753,589
Income before cumulative effect of a change in accounting principle	573,722	603,405	633,922	663,465	474,691
Cumulative effect of a change in accounting principle[1]				52,491	
Net income	573,722	603,405	633,922	715,956	474,691
Per Share Data Basic:					
Income before cumulative effect of a change in accounting principle	$ 2.69	$ 2.84	$ 3.01	$ 3.22	$ 2.39
Cumulative effect of a change in accounting principle[1]	$	$	$	$ 0.25	$
Net income	$ 2.69	$ 2.84	$ 3.01	$ 3.47	$ 2.39
Weighted-average shares	213,477	212,784	210,703	206,217	198,946
Per Share Data Diluted:					
Income before cumulative effect of a change in accounting principle	$ 2.68	$ 2.82	$ 2.94	$ 3.03	$ 2.26
Cumulative effect of a change in accounting principle[1]	$	$	$	$ 0.22	$
Net income	$ 2.68	$ 2.82	$ 2.94	$ 3.26	$ 2.26
Weighted-average shares and potentially dilutive shares	214,195	214,255	221,485	234,714	234,580
Dividends declared per common share	$ 0.45	$ 0.60	$ 0.60	$ 0.56	$ 0.52
Balance Sheet Data:					
Total assets	$ 16,463,310	$ 14,982,281	$ 13,393,088	$ 11,255,771	$ 11,964,084
Total debt, including capital leases	7,011,403	5,698,272	5,413,744	4,154,775	5,731,944
Common stock	2,239	2,235	2,225	2,165	2,012
Total shareholders equity	6,803,012	6,757,343	6,091,575	5,554,465	4,804,520

1 In the third quarter of 2005, we changed our method of accounting for drydocking costs from the accrual in advance to the deferral method. Under the accrual in advance method, estimated drydocking costs are accrued evenly over the period to the next scheduled drydock. Under the deferral method, drydocking costs incurred are deferred and charged to expense on a straight-line basis over the period to the next scheduled drydock. The deferral method is preferable because it only recognizes the liability when incurred and does not require the use of estimates inherent in the accrual in advance method.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations
Cautionary Note Concerning Factors That May Affect Future Results

Certain statements under this caption Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this document constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. Words such as anticipate, believe, could, estimate, expect, goal, intend, may, plan, project, seek, should, will, and similar expressions are intended forward-looking statements. Forward-looking statements do not guarantee future performance and may involve risks, uncertainties and other factors, which 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 under Item 1A. *Risk Factors* as well as the following:

- the adverse impact of the continuing worldwide economic downturn on the demand for cruises,
- the impact of the economic downturn on the availability of our credit facility and on our ability to generate cash flows from operations or obtain new borrowings from the credit or capital markets in amounts sufficient to satisfy our capital expenditures, debt repayments and other financing needs,
- the impact of disruptions in the global financial markets on the ability of our counterparties and others to perform their obligations to us,
- the uncertainties of conducting business internationally and expanding into new markets,
- the volatility in fuel prices and foreign exchange rates,
- the impact of changes in operating and financing costs, including changes in foreign currency, interest rates, fuel, food, payroll, airfare for our shipboard personnel, insurance and security costs,
- the impact of problems encountered at shipyards and their subcontractors including insolvency or financial difficulties,
- vacation industry competition and changes in industry capacity and overcapacity,
- the impact of tax and environmental laws and regulations affecting our business or our principal shareholders,
- the impact of changes in other laws and regulations affecting our business,
- the impact of pending or threatened litigation, enforcement actions, fines or penalties,
- the impact of delayed or cancelled ship orders,

the impact of emergency ship repairs, including the related lost revenue,

the impact on prices of new ships due to shortages in available shipyard facilities, component parts and shipyard consolidations,

negative incidents involving cruise ships including those involving the health and safety of passengers,

reduced consumer demand for cruises as a result of any number of reasons, including geo-political and economic uncertainties and the unavailability or cost of air service,

the international political climate, fears of terrorist and pirate attacks, armed conflict and the resulting concerns over safety and security aspects of traveling,

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- the impact of the spread of contagious diseases,
- the impact of changes or disruptions to external distribution channels for our guest bookings,
- the loss of key personnel or our inability to retain or recruit qualified personnel,
- changes in our stock price or principal shareholders,
- uncertainties of a foreign legal system as we are not incorporated in the United States,
- the unavailability of ports of call,
- weather.

The above examples are not exhaustive and new risks emerge from time to time. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies

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

Ship Accounting

Our ships represent our most significant assets and are stated at cost less accumulated depreciation. Depreciation of ships is generally computed net of a 15% projected residual value using the straight-line method over estimated service lives of primarily 30 years. Improvement costs that we believe add value to our ships are capitalized as additions to the ship and depreciated over the improvements estimated useful lives. The estimated cost and accumulated depreciation of replaced or refurbished ship components are written off and any resulting losses are recognized in cruise operating expenses. Repairs and maintenance activities are charged to expense as incurred. We use the deferral method to account for drydocking costs. Under the deferral method, drydocking costs incurred are deferred and charged to expense on a straight-line basis over the period to the next scheduled drydock. Deferred drydock costs consist of the costs to drydock the vessel and other costs incurred in connection with the drydock which are necessary to maintain the vessel s class certification. (See Note 2. *Summary of Significant Accounting Policies* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data*).

Our service life and residual value estimates take into consideration the impact of anticipated technological changes, long-term cruise and vacation market conditions and historical useful lives of similarly-built ships. In addition, we take into consideration our estimates of the average useful lives of the ships major component systems, such as hull, superstructure, main electric, engines and cabins. Given the very large and complex nature of our ships, our accounting estimates related to ships and determinations of ship improvement costs to be capitalized require considerable judgment and are inherently uncertain. We do not have cost segregation studies performed to specifically componentize our ship systems; therefore, we estimate the costs of component systems based principally on general and technical information known about major ship component systems and their lives and our knowledge of the cruise vacation industry. We do not identify and track depreciation by ship component systems, but instead utilize these estimates to determine the net cost basis of assets replaced or refurbished.

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We believe we have made reasonable estimates for ship accounting purposes. However, should certain factors or circumstances cause us to revise our estimates of ship service lives or projected residual values, depreciation expense could be materially higher or lower. If circumstances cause us to change our assumptions in making determinations as to whether ship improvements should be capitalized, the amounts we expense each year as repairs and maintenance costs could increase, partially offset by a decrease in depreciation expense. If we had reduced our estimated average 30-year ship service life by one year, depreciation expense for 2008 would have increased by approximately $31.4 million. If our ships were estimated to have no residual value, depreciation expense for 2008 would have increased by approximately $90.1 million.

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

We review our ships and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of these assets based on our estimate of their undiscounted future cash flows. If estimated future cash flows are less than the carrying value of an asset, an impairment charge is recognized for the difference between the asset s estimated fair value and its carrying value.

We determine fair value based on quoted market prices in active markets, if available. If active markets are not available we base fair value on independent appraisals, sales price negotiations and projected future cash flows discounted at a rate determined by management to be commensurate with the business risk. The estimation of fair value utilizing discounted forecasted cash flows includes numerous uncertainties which require significant judgment when making assumptions of revenues, operating costs, marketing, selling and administrative expenses, interest rates, cruise vacation industry competition and general economic and business conditions, among other factors.

We review goodwill, trademarks and tradenames, which are our most significant indefinite-lived intangible assets, for impairment whenever events or circumstances indicate but at least annually. The impairment review for goodwill consists of a two- step process of first determining the fair value of the reporting unit and comparing it to the carrying value of the net assets allocated to the reporting unit. If the fair value of the reporting unit exceeds the carrying value, no further analysis or write-down of goodwill is required. If the fair value of the reporting unit is less than the carrying value of its net assets, the implied fair value of the reporting unit is allocated to all its underlying assets and liabilities, including both recognized and unrecognized tangible and intangible assets, based on their fair value. If necessary, goodwill is then written down to its implied fair value. The impairment review for indefinite-life intangible assets consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. If the fair value exceeds its carrying amount, the indefinite-life intangible asset is not considered impaired.

The fair value of a reporting unit and an indefinite-life intangible asset is based on quoted market prices if available. Quoted market prices are often not available for individual reporting units and for indefinite-life intangible assets. Accordingly, we base the fair value of a reporting unit and an indefinite-life intangible asset on an expected present value technique.

We performed the annual impairment review for goodwill during the fourth quarter of 2008. We determined the fair value of our two reporting units which include goodwill, Royal Caribbean International and Pullmantur, using a probability-weighted discounted cash flow model. The principal assumptions used in the discounted cash flow model are projected operating results, weighted average cost of capital, and terminal value. Cash flows were calculated using our 2009 projected operating results as a base. To that base we added future years cash flows assuming multiple revenue and expense scenarios that reflect the impact on each reporting unit of different global economic environments beyond 2009.

We discounted the projected cash flows using rates specific to each reporting unit based on their respective weighted average cost of capital. Based on the probability-weighted discounted cash flows of each reporting unit we determined the fair values of Royal Caribbean International and Pullmantur exceeded their carrying values. Therefore, we did not proceed to step two of the impairment analysis and we do not consider goodwill to be impaired.

We also performed the annual impairment review of our trademarks and trade names during the fourth quarter of 2008 using a discounted cash flow model and the relief-from-royalty method. The royalty rate used is based on comparable royalty agreements in the tourism and hospitality industry. We used the same discount rate used in valuing the Pullmantur reporting unit. Based on the discounted cash flow model we determined the fair value of our trademarks and trade names exceeded their carrying value.

In performing our asset impairment analysis, we considered the fact that at December 31, 2008, the book value of our shareholders equity exceeded our market capitalization. However, we did not consider this to be determinative, especially in light of recent negative market conditions, the turmoil in the credit and capital markets and the resulting weakened demand environment.

The estimation of fair value utilizing discounted expected future cash flows includes numerous uncertainties which require our significant judgment when making assumptions of expected revenues, operating costs, marketing, selling and administrative expenses, interest rates, ship additions and retirements as well as assumptions regarding the cruise vacation industry competition and general economic and business conditions, among other factors. If there is a material change in the assumptions used in our determination of fair values or if there is a material change in the conditions or circumstances influencing fair value, we could be required to recognize a material impairment charge.

Contingencies Litigation

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

Terminology

Our revenues are seasonal based on demand for cruises. Demand is strongest for cruises during the Northern Hemisphere summer months and holidays.

Our revenues consist of the following:

Passenger ticket revenues consist of revenue recognized from the sale of passenger tickets and the sale of air transportation to and from our ships.

Onboard and other revenues consist primarily of revenues from the sale of goods and/or services onboard our ships not included in passenger ticket prices, cancellation fees, sales of vacation protection insurance, pre- and post-cruise tours, Pullmantur s land-based tours and hotel and air packages. Also included are 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.

Our cruise operating expenses consist of the following:

Commissions, transportation and other expenses 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 consist of the direct costs associated with onboard and other revenues. These costs include the cost of products sold onboard our ships, vacation protection insurance premiums, costs associated with pre- and post-cruise tours and related credit card fees. These costs also include minimal costs associated with concession revenues, as the costs are mostly incurred by third-party concessionaires.

Payroll and related expenses consist of costs for shipboard personnel.

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Food expenses include food costs for both passengers and crew.

Fuel expenses include fuel and related delivery and storage costs, including the financial impact of fuel swap agreements.

Other operating expenses consist primarily of operating costs such as repairs and maintenance, port costs that do not vary with passenger head counts, vessel operating lease costs, costs associated with Pullmantur s land-based tours, vessel related insurance and entertainment.

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

Non-GAAP Financial Measures

Available Passenger Cruise Days (APCD) are our measurement of capacity and represent 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 which 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 represent Gross Cruise Costs excluding commissions, transportation and other expenses and onboard and other expenses (each of which is described above under the Terminology heading). In measuring our ability to control costs in a manner that positively impacts net income, we believe changes in Net Cruise Costs to be the most relevant indicator of our performance. A reconciliation of historical Gross Cruise Costs to Net Cruise Costs is provided below under *Summary of Historical Results of Operations*. We have not provided a quantitative reconciliation of projected Gross Cruise Costs to projected Net Cruise Costs due to the significant uncertainty in projecting the costs deducted to arrive at this measure. Accordingly, we do not believe that reconciling information for such projected figures would be meaningful.

Net Debt-to-Capital is a ratio which represents total long-term debt, including current portion of long-term debt, less cash and cash equivalents (Net Debt) divided by the sum of Net Debt and total shareholders equity. We believe Net Debt and Net Debt-to-Capital, along with total long-term debt and shareholders equity are useful measures of our capital structure. A reconciliation of historical Debt-to-Capital to Net Debt-to-Capital is provided below under *Summary of Historical Results of Operations.*

Net Revenues represent total revenues less commissions, transportation and other expenses and onboard and other expenses (each of which is described under the Terminology 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 *Summary of Historical Results of Operations*. We have not provided a quantitative reconciliation of projected Gross Yields to projected Net Yields due to the significant uncertainty in projecting the costs deducted to arrive at this measure. Accordingly, we do not believe that reconciling information for such projected figures would be meaningful.

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

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

The use of certain significant non-GAAP measures, such as Net Yields and Net Cruise Costs, allow us to perform capacity and rate analysis to separate the impact of known capacity changes from other less predictable changes which affect our business. We believe these non-GAAP measures provide expanded insight to measure revenue and cost performance in addition to the standard United States GAAP based financial measures. There are no specific rules or regulations for determining non-GAAP measures, and as such, there exists the possibility that they may not be comparable to other companies within the industry.

Executive Overview

We have seen a dramatic change in our operating environment during the past several months. The current worldwide economic downturn and the meltdown of the global credit and capital markets have resulted in significant deterioration in consumer confidence and spending. In addition, the current disruption and tightening of the credit and capital markets may make it more difficult for us to secure financing or to raise additional capital or to do so on acceptable terms. We are starting to experience significant compression in our booking window and forward bookings are lagging behind levels achieved during the last few years as consumers are delaying their purchase decisions. The extent and duration of this worldwide economic downturn is uncertain. Forecasting demand in 2009 is extremely difficult and we expect this difficult environment to continue at least through 2009. As a result, we expect 2009 Net Yields to decrease in the range of 9% to 13% compared to 2008.

The current economic environment has also led to more dramatic levels of volatility in fuel prices and foreign exchange rates which have become extremely volatile with significant daily or even hourly price fluctuations. For planning purposes, we do not forecast future fuel prices or exchange rates, but instead use current spot prices for calculation purposes.

In an effort to offset the impact of the weaker demand environment, we have increased our focus on cost reductions and on preserving cash and liquidity. The cost cutting initiatives we announced in July 2008 are on track to produce the anticipated savings and we have implemented a number of new initiatives including the targeting of synergies and capturing deflationary opportunities from our vendors. As a result of these initiatives, we expect a reduction in our 2009 Net Cruise Costs in the range of 7% to 9% per APCD compared to 2008. Approximately 2 percentage points of this decrease relates to reductions in the price of fuel in 2009.

We have also discontinued our quarterly dividend commencing in the fourth quarter of 2008, curtailed our non-shipbuild capital expenditures, and currently do not have plans to place further newbuild ship orders. We are also exploring other activities to improve our liquidity. We believe these strategies will enhance our ability to better fund our capital spending obligations and improve our balance sheet.

While cutting costs throughout the organization, we have not altered our strategy of substantially growing our sourcing of passengers outside of North America. We continue to increase our investments in growth outside of North America with the goal of diversifying our sources and increasing our opportunities for revenue growth.

We have four Solstice-class vessels under construction in Germany, all of which have committed bank financing arrangements and include financing guarantees from HERMES (Euler Hermes Kreditrersicherungs AG), the export credit agency of the German government for 95% of the financed amount. We also have two Oasis-class vessels under construction in Finland each of which has commitments for financing guarantees from Finnvera, the export credit agency of Finland for 80% of the financed amount. We are working with the relevant export credit agencies and various financial institutions to obtain committed financing for *Oasis of the Seas*. This includes exploring opportunities to increase the guarantee level and obtain partial funding support from the relevant export credit agencies. Although we believe that we will secure committed financing for these ships before their delivery dates, there can be no assurance that we will be able to do so or that we will do so on acceptable terms.

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Summary of Historical Results of Operations

Although the operating environment has deteriorated since September 2008, total revenues increased 6.2% to $6.5 billion from total revenues of $6.1 billion for 2007 primarily due to a 5.2% increase in capacity and a 1.0% increase in Gross Yields. Net Yields increased by approximately 0.5% compared to 2007. The increase in Net Yields was primarily due to an increase in ticket prices partially offset by a decrease in onboard and other revenues. The increase in total revenues was partially offset by an increase in expenses primarily due to the increase in fuel and to a lesser extent, payroll and related expenses. In addition, we recorded a one-time litigation gain of approximately $17.6 million related to the settlement of our pending case against Pentair Water Treatment (OH) Company (formerly known as Essef Corporation). As a result, our net income was $573.7 million or $2.68 per share on a diluted basis for 2008 compared to $603.4 million or $2.82 per share on a diluted basis for 2007.

Highlights for 2008 included:

- Total revenues increased 6.2% to $6.5 billion from total revenues of $6.1 billion in 2007 primarily due to a 5.2% increase in capacity and a 1.0% increase in Gross Yields. Net Yields increased by approximately 0.5% compared to the same period in 2007.

- Net Cruise Costs per APCD increased 3.7% compared to 2007.

- Fuel expenses per APCD, net of the financial impact of fuel swap agreements, increased 25.7% per APCD as compared to the same period in 2007.

- Our Net Debt-to-Capital ratio increased to 49.3% in 2008 from 44.7% in 2007. Similarly, our Debt-to-Capital ratio increased to 50.8% in 2008 from 45.7% in 2007.

- As of December 31, 2008, liquidity was $1.0 billion, including cash and the undrawn portion of our unsecured revolving credit facility.

- We took delivery of *Independence of the Seas*, the third Freedom-class ship for Royal Caribbean International in the second quarter of 2008. To finance the purchase, we borrowed $530.0 million under an unsecured term loan due through 2015. The loan bears interest at LIBOR plus an applicable margin. Currently, the rate is approximately 5.40%.

- We took delivery of *Celebrity Solstice*, the first Solstice-class ship for Celebrity Cruises in the fourth quarter of 2008. To finance the purchase, we borrowed $519.1 million under an unsecured term loan due through 2020. The loan bears interest at LIBOR plus 0.45%; the rate is currently 4.28%.

- We implemented a cost savings initiative expected to save approximately $125.0 million annually. As part of this initiative, we eliminated approximately 400 shore-side positions. In addition, we discontinued some non-core operations, including The Scholar Ship. As a result of this initiative, we incurred charges of approximately $14.3 million, or $0.07 per share.

- We settled our pending case against Pentair Water Treatment (OH) Company (formerly known as Essef Corporation). Pursuant to the terms of the settlement agreement, we were paid, net of costs and payments to insurers, approximately $17.6 million which we recognized during the third quarter.

We finalized our contract with Meyer Werft GmbH to build a fifth Solstice-class ship for Celebrity Cruises, for an additional capacity of approximately 2,850 berths, which is expected to enter service in the fourth quarter of 2012. We signed a credit agreement to finance approximately 80% of the contract price at delivery.

We sold our interest in Island Cruises to TUI Travel PLC, the other 50% owner in the joint venture. We received proceeds of $51.4 million and recognized a gain of approximately $1.0 million on the transaction. As part of the transaction, we agreed to an early termination of the charter of *Island Star* to Island Cruises. We anticipate the return of *Island Star* in April 2009 and intend to redeploy the ship to Pullmantur at that time.

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We discontinued the Company s dividend beginning in the fourth quarter of 2008.

We reported historical total revenues, operating income, net income and earnings per share as shown in the following table (in thousands, except per share data):

	Year Ended December 31,		
	2008	2007	2006
Total revenues	$ 6,532,525	$ 6,149,139	$ 5,229,584
Operating income	$ 831,984	$ 901,335	$ 858,446
Net income	$ 573,722	$ 603,405	$ 633,922
Basic earnings per share:			
Net income	$ 2.69	$ 2.84	$ 3.01
Diluted earnings per share:			
Net income	$ 2.68	$ 2.82	$ 2.94

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

	Year Ended December 31,		
	2008	2007	2006
Passenger ticket revenues	72.4	72.0	73.4
Onboard and other revenues	27.6	28.0	26.6
Total revenues	100.0%	100.0%	100.0%
Cruise operating expenses			
Commissions, transportation and other	18.3	18.3	17.6
Onboard and other	7.0	6.6	6.3
Payroll and related	10.1	9.5	9.6
Food	5.2	5.3	5.3
Fuel	11.1	8.9	9.2
Other operating	15.8	16.2	14.1
Total cruise operating expenses	67.5	64.8	62.1
Marketing, selling and administrative expenses	11.9	12.7	13.4
Depreciation and amortization expenses	7.9	7.8	8.1
Operating income	12.7	14.7	16.4
Other expense	(3.9)	(4.9)	(4.3)
Net income	8.8%	9.8%	12.1%

Selected historical statistical information is shown in the following table:

	Year Ended December 31,		
	2008	2007	2006
Passengers Carried	4,017,554	3,905,384	3,600,807

Passenger Cruise Days	27,657,578	26,594,515	23,849,606
APCD	26,463,637	25,155,768	22,392,478
Occupancy	104.5%	105.7%	106.5%

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

	Year Ended December 31,		
	2008	2007	2006
Passenger ticket revenues	$ 4,730,289	$ 4,427,384	