

ROYAL CARIBBEAN CRUISES LTD

Form 10-Q

August 02, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 1-11884

ROYAL CARIBBEAN CRUISES LTD.

(Exact name of registrant as specified in its charter)

Republic of Liberia

(State or other jurisdiction of incorporation or organization)

98-0081645

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

1050 Caribbean Way, Miami, Florida 33132

(Address of principal executive offices) (zip code)

(305) 539-6000

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

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

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

There were 208,970,026 shares of common stock outstanding as of July 26, 2018.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROYAL CARIBBEAN CRUISES LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited; in thousands, except per share data)

	Quarter Ended June 30,	
	2018	2017
Passenger ticket revenues	\$1,672,570	\$1,581,385
Onboard and other revenues	665,035	613,889
Total revenues	2,337,605	2,195,274
Cruise operating expenses:		
Commissions, transportation and other	358,305	340,331
Onboard and other	142,240	132,437
Payroll and related	226,315	210,362
Food	128,383	121,764
Fuel	172,309	170,748
Other operating	286,859	281,143
Total cruise operating expenses	1,314,411	1,256,785
Marketing, selling and administrative expenses	312,923	283,855
Depreciation and amortization expenses	253,376	234,937
Operating Income	456,895	419,697
Other income (expense):		
Interest income	13,098	5,811
Interest expense, net of interest capitalized	(81,864)	(76,632)
Equity investment income	44,311	23,359
Other income (expense)	33,855	(2,709)
	9,400	(50,171)
Net Income	\$466,295	\$369,526
Earnings per Share:		
Basic	\$2.20	\$1.72
Diluted	\$2.19	\$1.71
Weighted-Average Shares Outstanding:		
Basic	211,673	215,085
Diluted	212,509	216,062
Comprehensive Income		
Net Income	\$466,295	\$369,526
Other comprehensive income (loss):		
Foreign currency translation adjustments	(11,521)	5,979
Change in defined benefit plans	(1,964)	(3,649)
(Loss) gain on cash flow derivative hedges	(68,900)	128,954
Total other comprehensive (loss) income	(82,385)	131,284
Comprehensive Income	\$383,910	\$500,810

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

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

	Six Months Ended June 30,	
	2018	2017
Passenger ticket revenues	\$3,098,214	\$2,999,608
Onboard and other revenues	1,267,147	1,204,226
Total revenues	4,365,361	4,203,834
Cruise operating expenses:		
Commissions, transportation and other	648,914	650,579
Onboard and other	241,777	238,431
Payroll and related	453,471	426,097
Food	248,025	242,975
Fuel	332,650	348,162
Other operating	565,593	526,365
Total cruise operating expenses	2,490,430	2,432,609
Marketing, selling and administrative expenses	650,284	601,320
Depreciation and amortization expenses	493,606	470,686
Operating Income	731,041	699,219
Other income (expense):		
Interest income	20,831	12,063
Interest expense, net of interest capitalized	(149,742)	(156,949)
Equity investment income	73,063	35,239
Other income (expense)	9,755	(5,320)
	(46,093)	(114,967)
Net Income	\$684,948	\$584,252
Earnings per Share:		
Basic	\$3.23	\$2.72
Diluted	\$3.21	\$2.71
Weighted-Average Shares Outstanding:		
Basic	212,139	214,978
Diluted	213,079	215,944
Comprehensive Income		
Net Income	\$684,948	\$584,252
Other comprehensive income (loss):		
Foreign currency translation adjustments	(10,361)	8,321
Change in defined benefit plans	5,796	(4,290)
Gain on cash flow derivative hedges	73,630	151,415
Total other comprehensive income	69,065	155,446
Comprehensive Income	\$754,013	\$739,698

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

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

	As of June 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 108,998	\$ 120,112
Trade and other receivables, net	355,729	318,641
Inventories	121,879	111,393
Prepaid expenses and other assets	418,817	258,171
Derivative financial instruments	94,473	99,320
Total current assets	1,099,896	907,637
Property and equipment, net	21,429,719	19,735,180
Goodwill	288,418	288,512
Other assets	1,239,003	1,429,597
	\$24,057,036	\$22,360,926
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 1,177,626	\$ 1,188,514
Accounts payable	418,616	360,113
Accrued interest	61,175	47,469
Accrued expenses and other liabilities	751,585	903,022
Derivative financial instruments	44,203	47,464
Customer deposits	3,049,145	2,308,291
Total current liabilities	5,502,350	4,854,873
Long-term debt	7,341,463	6,350,937
Other long-term liabilities	439,525	452,813
Commitments and contingencies (Note 7)		
Shareholders' equity		
Preferred stock (\$0.01 par value; 20,000,000 shares authorized; none outstanding)	—	—
Common stock (\$0.01 par value; 500,000,000 shares authorized; 235,779,344 and 235,198,901 shares issued, June 30, 2018 and December 31, 2017, respectively)	2,358	2,352
Paid-in capital	3,397,561	3,390,117
Retained earnings	9,429,784	9,022,405
Accumulated other comprehensive loss	(265,200)	(334,265)
Treasury stock (25,293,576 and 21,861,308 common shares at cost, June 30, 2018 and December 31, 2017, respectively)	(1,790,805)	(1,378,306)
Total shareholders' equity	10,773,698	10,702,303
	\$24,057,036	\$22,360,926

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

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

	Six Months Ended	
	June 30,	
	2018	2017
Operating Activities		
Net income	\$684,948	\$584,252
Adjustments:		
Depreciation and amortization	493,606	470,686
Impairment losses	33,651	—
Net deferred income tax (benefit) expense	(893	) 1,084
Gain (loss) on derivative instruments not designated as hedges	29,750	(34,988)
Share-based compensation expense	31,819	35,379
Equity investment income	(73,063	) (35,239)
Amortization of debt issuance costs	16,283	26,035
Gain on sale of property and equipment	—	(30,902)
Gain on sale of unconsolidated affiliate	(13,680) —
Recognition of deferred gain	(21,794) —
Changes in operating assets and liabilities:		
Decrease in trade and other receivables, net	16,162	33,045
(Increase) decrease in inventories	(10,485	) 4,682
Increase in prepaid expenses and other assets	(152,626	) (36,931)
Increase in accounts payable	58,842	69,634
Increase in accrued interest	13,706	5,486
Decrease in accrued expenses and other liabilities	(71,254	) (47,189)
Increase in customer deposits	740,420	563,546
Dividends received from unconsolidated affiliates	158,942	57,402
Other, net	(2,748	) (6,702)
Net cash provided by operating activities	1,931,586	1,659,280
Investing Activities		
Purchases of property and equipment	(2,212,880	) (271,541)
Cash received on settlement of derivative financial instruments	69,195	34,866
Cash paid on settlement of derivative financial instruments	(34,898) —
Cash received on loans to unconsolidated affiliates	37,607	23,487
Proceeds from the sale of property and equipment	—	230,000
Proceeds from the sale of unconsolidated affiliate	13,215	—
Other, net	(13,220	) (9,144)
Net cash (used in) provided by investing activities	(2,140,981	) 7,668
Financing Activities		
Debt proceeds	3,929,322	2,236,000
Debt issuance costs	(48,535	) (14,575)
Repayments of debt	(3,029,944	) (3,689,890
Purchases of treasury stock	(369,476) —
Dividends paid	(254,645	) (206,039)
Proceeds from exercise of common stock options	4,062	2,385
Other, net	(16,827	) 2,626
Net cash provided by (used in) financing activities	213,957	(1,669,493
Effect of exchange rate changes on cash	(15,676) 419

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Net decrease in cash and cash equivalents	(11,114)	(2,126)
Cash and cash equivalents at beginning of period	120,112	132,603
Cash and cash equivalents at end of period	\$108,998	\$130,477

Supplemental Disclosure

Cash paid during the period for:

Interest, net of amount capitalized	\$114,061	\$125,007
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The accompanying notes are an integral part of these consolidated financial statements.

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

As used in this Quarterly Report on Form 10-Q, the terms “Royal Caribbean,” the “Company,” “we,” “our” and “us” refer to Royal Caribbean Cruises Ltd. and, depending on the context, Royal Caribbean Cruises Ltd.’s consolidated subsidiaries and/or affiliates. The terms “Royal Caribbean International,” “Celebrity Cruises,” and “Azamara Club Cruises” refer to our wholly-owned global cruise brands. Throughout this report, we also refer to regional brands in which we hold an ownership interest, including “TUI Cruises,” “Pullmantur” and “SkySea Cruises.” However, because these regional brands are unconsolidated investments, our operating results and other disclosures herein do not include these brands unless otherwise specified. In accordance with cruise vacation industry practice, the term “berths” is determined based on double occupancy per cabin even though many cabins can accommodate three or more passengers. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017, including the audited consolidated financial statements and related notes included therein.

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

Note 1. General

Description of Business

We are a global cruise company. As of June 30, 2018, we own and operate three global cruise brands: Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises (collectively, our "Global Brands"). We also own a 50% joint venture interest in the German brand TUI Cruises, a 49% interest in the Spanish brand Pullmantur and a 36% interest in the Chinese brand SkySea Cruises (collectively, our "Partner Brands"). We account for our investments in our Partner Brands under the equity method of accounting.

In March 2018, we and Ctrip.com International Ltd. ("Ctrip") announced the decision to end the Skysea Holding International Ltd. ("Skysea Holding") venture. Skysea Holding expects to cease business operations by the end of 2018. The Golden Era, the ship operated by SkySea Cruises and owned by a wholly owned subsidiary of Skysea Holding, is expected to be sold to an affiliate of TUI AG, our joint venture partner in TUI Cruises, and is expected to be delivered in December 2018. Refer to Note 5. Other Assets for further information regarding our investment in SkySea Holding.

On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruises Holding Ltd. ("Silversea Cruises"), a privately-owned ultra-luxury cruise line with nine ships operating in all seven continents, for approximately \$1.0 billion. Refer to Note 6. Long-Term Debt for information on debt issued to finance a portion of the acquisition. In addition to the purchase price, Manfredi Lefebvre D'Ovidio, Executive Chairman of Silversea Cruises, will qualify for contingent consideration of approximately 472,000 shares of our common stock, payable upon achievement of certain 2019-2020 performance metrics. For reporting purposes, we will account for this transaction under the provisions of Accounting Standard Codification ("ASC") 805, Business Combinations, and we expect to include Silversea Cruises’ results of operations on a three-month reporting lag beginning with the fourth quarter of 2018. During the subsequent measurement period, we expect to receive additional information to perform the purchase price allocation.

Basis for Preparation of Consolidated Financial Statements

The unaudited consolidated financial statements are presented pursuant to the rules and regulations of the Securities and Exchange Commission. In our opinion, these statements include all adjustments necessary for a fair statement of the results of the interim periods reported herein. Adjustments consist only of normal recurring items, except for any discussed in the notes below. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted as permitted by such rules and regulations. Estimates are required for the preparation of financial statements in accordance with GAAP and actual results could differ from these estimates. Refer to Note 2. Summary of Significant Accounting Policies in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of our significant accounting policies.

All significant intercompany accounts and transactions are eliminated in consolidation. We consolidate entities over which we have control, usually evidenced by a direct ownership interest of greater than 50%, and variable interest entities where we are

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determined to be the primary beneficiary. Refer to Note 5. Other Assets for further information regarding our variable interest entities. For affiliates we do not control but over which we have significant influence on financial and operating policies, usually evidenced by a direct ownership interest from 20% to 50%, the investment is accounted for using the equity method.

Note 2. Summary of Significant Accounting Policies

Adoption of Accounting Pronouncements

On January 1, 2018, we adopted the guidance in ASC 606, Revenue from Contracts with Customers, and applied the guidance to all contracts using the modified retrospective method. The new standard converged wide-ranging revenue recognition concepts and requirements that lead to diversity in application for particular industries and transactions into a single revenue standard containing comprehensive principles for recognizing revenue. The cumulative effect of applying the newly issued guidance was not material and accordingly there was no adjustment made to our retained earnings upon adoption on January 1, 2018. We do not expect the newly issued guidance to have a material impact on our consolidated financial statements on an ongoing basis. Due to the adoption of ASC 606, we currently present prepaid commissions as an asset within Prepaid expenses and other assets. In addition, we have reclassified prepaid commissions of \$64.6 million from Customer deposits to Prepaid expenses and other assets in our consolidated balance sheet as of December 31, 2017. Refer to Note 3. Revenues for disclosures with respect to our revenue recognition policies.

On January 1, 2018, we adopted the guidance in Accounting Standard Update ("ASU") 2016-16, Income Taxes 740: Intra-Entity Transfers of Assets Other Than Inventory, which requires the income tax consequences of an intra-entity transfer of an asset, other than inventory, to be recognized at the time that the transfer occurs, rather than when the asset is sold to an outside party. We adopted the standard using the modified retrospective method and recorded a cumulative-effect adjustment to reduce retained earnings as of January 1, 2018 by \$6.6 million, which reflects the elimination of the deferred tax asset related to intercompany asset transfers.

On January 1, 2018, we adopted the guidance in ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, that was issued to simplify and align the financial reporting of hedging relationships to the economic results of an entity's risk management activities. We adopted the amended guidance using the modified retrospective approach. Adoption of the guidance allowed us to modify the designated risk in our fair value interest rate hedges to the benchmark interest rate component, resulting in changes to the cumulative and ongoing fair value measurement for the hedged debt. Upon adoption, we also elected to hedge the contractually specified components of our commodities purchase contracts. For our cash flow hedges, there will be no periodic measurement or recognition of ineffectiveness. For all hedges, the earnings effect of the hedging instrument will be reported in the same period and in the same income statement line item in which the earnings effect of the hedged item is reported. As a result of the adoption of this guidance, we recorded a cumulative-effect adjustment to reduce retained earnings as of January 1, 2018 by \$16.9 million. The cumulative-effect adjustment includes an increase to the debt carrying value of \$14.4 million for our fair value interest rate hedges as of January 1, 2018, which reflects the cumulative fair value measurement change to debt at adoption resulting from the modified designated risk, and an increase to other comprehensive income of \$2.5 million, which represents an increase to the deferred gain on active cash flow hedges at adoption. Additionally, the new standard requires modifications to existing presentation and disclosure requirements on a prospective basis. As such, certain disclosures for the six months ended June 30, 2018 conform to these disclosure requirements. Refer to Note 9. Changes in Accumulated Other Comprehensive Income (Loss) and Note 10. Fair Value Measurements and Derivative Instruments for additional information.

Recent Accounting Pronouncements

Leases

In February 2016, amended GAAP guidance was issued to increase the transparency and comparability of lease accounting among organizations. For leases with a term greater than 12 months, the amendments require the lease rights and obligations arising from the leasing arrangements, including operating leases, to be recognized as assets and liabilities on the balance sheet. The amendments also expand the required disclosures surrounding leasing arrangements. The guidance must be applied using a retrospective application method and will be effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. We are currently evaluating the impact of adopting this guidance. In our evaluation, we have identified the contracts that provide an explicit right to use an asset and qualify as a leasing arrangement under the new guidance. We are currently evaluating certain contractual arrangements to determine if they contain an implicit or embedded right to use an asset that would qualify as a leasing arrangement under the new guidance. Upon implementation of the guidance, we expect an increase to both the assets and liabilities on our consolidated balance sheet to reflect

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the lease rights and obligations arising from our operating lease arrangements. In addition, we expect to include additional qualitative and quantitative disclosures regarding our leasing arrangements as required by the guidance.

Change in Accounting Principle - Stock-based Compensation

In January 2018, we elected to change our accounting policy for recognizing stock-based compensation expense from the graded attribution method to the straight-line attribution method for time-based stock awards. The adoption of the straight-line attribution method for time-based stock awards represents a change in accounting principle which we believe to be preferable because it is the predominant method used in our industry. A change in accounting principle requires retrospective application, if material. The impact of the adoption of the straight-line attribution method to our time-based awards was immaterial to prior periods and is expected to be immaterial for our fiscal year ended December 31, 2018. As a result, we have accounted for this change in accounting principle in our consolidated results for the six months ended June 30, 2018. The effect of this change was an increase to net income of \$9.2 million, or \$0.04 per share for each of basic and diluted earnings per share, for the six months ended June 30, 2018, which is reported within Marketing, selling and administrative expenses in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2018.

Note 3. Revenues

Revenue Recognition

Revenues are measured based on consideration specified in our contracts with customers and are recognized as the related performance obligations are satisfied.

The majority of our revenues are derived from passenger cruise contracts which are reported within Passenger ticket revenues in our consolidated statements of comprehensive income (loss). Our performance obligation under these contracts is to provide a cruise vacation in exchange for the ticket price. We satisfy this performance obligation and recognize revenue over the duration of each cruise, which generally range from two to 23 nights.

Passenger ticket revenues include charges to our guests for port costs that vary with passenger head counts. These type of port costs, along with port costs that do not vary by passenger head counts, are included in our operating expenses. The amounts of port costs charged to our guests and included within Passenger ticket revenues on a gross basis were \$151.4 million and \$143.4 million for the second quarter of 2018 and 2017, respectively, and \$288.1 million and \$277.9 million for the six months ended June 30, 2018 and 2017, respectively.

Our total revenues also include onboard and other revenues, which consist primarily of revenues from the sale of goods and services onboard our ships that are not included in passenger ticket prices. We receive payment before or concurrently with the transfer of these goods and services to passengers during a cruise and recognize revenue at the time of transfer over the duration of the related cruise.

As a practical expedient, we have omitted disclosures on our remaining performance obligations as the duration of our contracts with customers is less than a year.

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Disaggregated Revenues

The following table disaggregates our total revenues by geographic regions where we provide cruise itineraries (in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues by itinerary				
North America ⁽¹⁾	\$1,264,167	\$1,246,103	\$2,611,427	\$2,598,272
Asia/Pacific ⁽²⁾	283,198	300,891	816,177	826,747
Europe ⁽³⁾	597,399	467,829	597,399	467,829
Other regions	101,631	94,719	178,816	159,951
Total revenues by itinerary	2,246,395	2,109,542	4,203,819	4,052,799
Other revenues ⁽⁴⁾	91,210	85,732	161,542	151,035
Total revenues	\$2,337,605	\$2,195,274	\$4,365,361	\$4,203,834

(1) Includes the United States, Canada, Mexico and the Caribbean.

(2) Includes Southeast Asia (e.g., Singapore, Thailand and the Philippines), East Asia (e.g., China and Japan), South Asia (e.g., India and Pakistan) and Oceania (e.g., Australia and Fiji Islands) regions.

(3) Includes European countries (e.g., Nordics, Germany, France, Italy, Spain and the United Kingdom).

(4) Includes revenues primarily related to cancellation fees, vacation protection insurance and pre- and post-cruise tours. Amounts also include revenues related to our bareboat charter, procurement and management related services we perform on behalf of our unconsolidated affiliates. Refer to Note 5. Other Assets for more information on our unconsolidated affiliates.

Passenger ticket revenues are attributed to geographic areas based on where the reservation originates. For the quarters ended June 30, 2018 and 2017, our guests were sourced from the following areas:

	Quarter Ended June 30,	
	2018	2017
Passenger ticket revenues:		
United States	63%	63%
United Kingdom	10%	9%
All other countries ⁽¹⁾	27%	28%

For the six months ended June 30, 2018 and 2017, our guests were sourced from the following areas:

	Six Months Ended June 30,	
	2018	2017
Passenger ticket revenues:		
United States	62%	62%
All other countries ⁽¹⁾	38%	38%

(1) No other individual country's revenue exceeded 10% for the quarters and six months ended June 30, 2018 and 2017.

Customer Deposits and Contract Liabilities

Our payment terms generally require an upfront deposit to confirm a reservation, with the balance due prior to the cruise. Deposits received on sales of passenger cruises are initially recorded as Customer deposits in our consolidated balance sheets and subsequently recognized as passenger ticket revenues during the duration of the cruise. ASC 606 defines a “contract liability” as an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration from the customer. We do not consider customer deposits to be a contract liability until the customer no longer retains the unilateral right, resulting from the passage of time, to cancel such customer's reservation and receive a full refund. Customer deposits presented in our

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consolidated balance sheets include contract liabilities of \$2.0 billion and \$1.4 billion as of June 30, 2018 and December 31, 2017, respectively. Substantially all of our contract liabilities as of December 31, 2017 were expensed and reported within Total revenues in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2018.

Contract Receivables and Contract Assets

Although we generally require full payment from our customers prior to their cruise, we grant credit terms to a relatively small portion of our revenue source in select markets outside of the United States. As a result, we have outstanding receivables from passenger cruise contracts in those markets. We also have receivables from credit card merchants for cruise ticket purchases and goods and services sold to guests during cruises that are collected before, during or shortly after the cruise voyage. In addition, we have receivables due from concessionaires onboard our vessels. These receivables are included within Trade and other receivables, net in our consolidated balance sheets. We have contract assets that are conditional rights to consideration for satisfying the construction services performance obligations under a service concession arrangement. As of June 30, 2018 and December 31, 2017, our contract assets were \$58.9 million and \$60.1 million, respectively, and were included within Other assets in our consolidated balance sheets. Given the short duration of our cruises and our collection terms, we do not have any other significant contract assets.

Assets Recognized from the Costs to Obtain a Contract with a Customer

Prepaid travel agent commissions are an incremental cost of obtaining contracts with customers that we recognize as an asset and include within Prepaid expenses and other assets in our consolidated balance sheets. Prepaid travel agent commissions were \$148.2 million and \$64.6 million as of June 30, 2018 and December 31, 2017, respectively. Substantially all of our prepaid travel agent commissions at December 31, 2017 were expensed and reported within Commissions, transportation and other in our consolidated statements of comprehensive income (loss) for the six months ended June 30, 2018.

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Note 4. Earnings Per Share

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income for basic and diluted earnings per share	\$466,295	\$369,526	\$684,948	\$584,252
Weighted-average common shares outstanding	211,673	215,085	212,139	214,978
Dilutive effect of stock-based awards and stock options	836	977	940	966
Diluted weighted-average shares outstanding	212,509	216,062	213,079	215,944
Basic earnings per share	\$2.20	\$1.72	\$3.23	\$2.72
Diluted earnings per share	\$2.19	\$1.71	\$3.21	\$2.71

There were no antidilutive shares for the quarters and six months ended June 30, 2018 and 2017.

Note 5. Other Assets

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

We have determined that TUI Cruises GmbH, our 50%-owned joint venture, which operates the brand TUI Cruises, is a VIE. As of June 30, 2018, the net book value of our investment in TUI Cruises was approximately \$537.4 million, primarily consisting of \$349.3 million in equity and a loan of €158.5 million, or approximately \$185.1 million based on the exchange rate at June 30, 2018. As of December 31, 2017, the net book value of our investment in TUI Cruises was approximately \$624.5 million, primarily consisting of \$422.8 million in equity and a loan of €166.5 million, or approximately \$199.8 million based on the exchange rate at December 31, 2017. The loan, which was made in connection with the sale of Splendour of the Seas in April 2016, accrues interest at a rate of 6.25% per annum and is payable over 10 years. This loan is 50% guaranteed by TUI AG, our joint venture partner in TUI Cruises, and is secured by a first priority mortgage on the ship. The majority of these amounts were included within Other assets in our consolidated balance sheets.

In addition, we and TUI AG have each guaranteed the repayment by TUI Cruises of 50% of a bank loan. As of June 30, 2018, the outstanding principal amount of the loan was €41.3 million, or approximately \$48.2 million based on the exchange rate at June 30, 2018. In April 2018, Mein Schiff 1 was sold to an affiliate of TUI AG. The proceeds were used to repay €44.2 million of the bank loan during the six months ended June 30, 2018 and secure the release of the first mortgage on Mein Schiff 1. The loan amortizes quarterly and is currently secured by a first mortgage on Mein Schiff 2. Based on current facts and circumstances, we do not believe potential obligations under our guarantee of this bank loan are probable. In addition to our guarantee of the bank loan, TUI Cruises has various ship construction and financing agreements which include certain restrictions on each of our and TUI AG’s ability to reduce our current ownership interest in TUI Cruises below 37.55% through May 2028.

Our investment amount, outstanding term loan and the potential obligations under the bank loan guarantee are substantially our maximum exposure to loss in connection with our investment in TUI Cruises. We have determined that we are not the primary beneficiary of TUI Cruises. We believe that the power to direct the activities that most significantly impact TUI Cruises’ economic performance are shared between ourselves and TUI AG. All the significant

operating and financial decisions of TUI Cruises require the consent of both parties, which we believe creates shared power over TUI Cruises. Accordingly, we do not consolidate this entity and account for this investment under the equity method of accounting.

In March 2009, we sold Celebrity Galaxy to TUI Cruises for €224.4 million or \$290.9 million to serve as the original Mein Schiff 1. Due to the related party nature of this transaction, the gain on the sale of the ship of \$35.9 million was deferred and being recognized over the remaining life of the ship which was estimated to be 23 years. As mentioned above, in April 2018, TUI Cruises sold the original Mein Schiff 1 and as a result we accelerated the recognition of the remaining balance of the deferred gain which was \$21.8 million. This amount is included within Other income (expense) in our consolidated statements of comprehensive income (loss) for the quarter and six months ended June 30, 2018.

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We have determined that Pullmantur Holdings S.L. ("Pullmantur Holdings"), in which we have a 49% noncontrolling interest, is a VIE for which we are not the primary beneficiary, as we do not have the power to direct the activities that most significantly impact the entity's economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. As of June 30, 2018, our maximum exposure to loss in Pullmantur Holdings was approximately \$58.8 million consisting of loans and other receivables. As of December 31, 2017, our maximum exposure to loss in Pullmantur Holdings was approximately \$53.7 million consisting of loans and other receivables. These amounts were included within Trade and other receivables, net and Other assets in our consolidated balance sheets.

We have provided a non-revolving working capital facility to a Pullmantur Holdings subsidiary in the amount of up to €15.0 million or approximately \$17.5 million based on the exchange rate at June 30, 2018. Proceeds of the facility, which may be drawn through December 2018, will bear interest at the rate of 6.5% per annum and are payable through 2022. Springwater Capital LLC, 51% owner of Pullmantur Holdings, has guaranteed repayment of 51% of the outstanding amounts under the facility. As of June 30, 2018, €8.0 million, or approximately \$9.3 million, based on the exchange rate at June 30, 2018, was drawn on this facility.

We have determined that Grand Bahama Shipyard Ltd. ("Grand Bahama"), a ship repair and maintenance facility in which we have a 40% noncontrolling interest, is a VIE. This facility serves cruise and cargo ships, oil and gas tankers and offshore units. We utilize this facility, among other ship repair facilities, for our regularly scheduled drydocks and certain emergency repairs as may be required. During the quarter and six months ended June 30, 2018, we made payments of \$1.9 million and \$24.3 million respectively, to Grand Bahama for ship repair and maintenance services. During the quarter and six months ended June 30, 2017, we made payments of \$3.9 million and \$5.5 million, respectively, to Grand Bahama for ship repair and maintenance services. We have determined that we are not the primary beneficiary of this facility as we do not have the power to direct the activities that most significantly impact the facility's economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. As of June 30, 2018, the net book value of our investment in Grand Bahama was approximately \$58.7 million, consisting of \$44.6 million in equity and a loan of \$14.1 million. As of December 31, 2017, the net book value of our investment in Grand Bahama was approximately \$49.4 million, consisting of \$32.4 million in equity and a loan of \$17.0 million. These amounts represent our maximum exposure to loss related to our investment in Grand Bahama. Our loan to Grand Bahama matures in March 2025 and bears interest at the lower of (i) LIBOR plus 3.50% and (ii) 5.5%. Interest payable on the loan is due on a semi-annual basis. We have experienced strong payment performance on the loan since its amendment in 2016, and as a result completed an evaluation and review of the loan resulting in a reclassification of the loan to accrual status as of October 2017. During the quarter and six months ended June 30, 2018, we received principal and interest payments of approximately \$11.2 million and \$14.2 million, respectively. During the quarter and six months ended June 30, 2017, we received principal payments of approximately \$3.9 million and \$4.2 million, respectively. The loan balance is included within Other assets in our consolidated balance sheets. The loan is currently accruing interest under the effective yield method, which includes the recognition of previously unrecognized interest that accumulated while the loan was in non-accrual status.

We monitor credit risk associated with the loan through our participation on Grand Bahama's board of directors along with our review of Grand Bahama's financial statements and projected cash flows. Based on this review, we believe the risk of loss associated with the outstanding loan is not probable as of June 30, 2018.

We have determined that Skysea Holding International Ltd. ("Skysea Holding"), in which we currently have a 36% noncontrolling interest, is a VIE for which we are not the primary beneficiary, as we do not have the power to direct the activities that most significantly impact the entity's economic performance. Accordingly, we do not consolidate this entity and we account for this investment under the equity method of accounting. In December 2014, we and Ctrip, which also owns 36% of Skysea Holding, each provided a debt facility to a wholly owned subsidiary of Skysea

Holding in the amount of \$80.0 million, with an applicable interest rate of 6.5% per annum, which originally matured in January 2030. The facilities, which are pari passu to each other, are each 100% guaranteed by Skysea Holding and are secured by first priority mortgages on the ship, Golden Era. Due to payment performance, the loans were classified to non-accrual status in 2017.

In March 2018, Skysea Holding's board of directors agreed to exit the business given increasing challenges faced by the brand. We expect Skysea Holding will cease business operations by the end of 2018. In connection with the decision to dissolve the brand, SkySea Holding has agreed to sell the Golden Era to an affiliate of TUI AG, our joint venture partner in TUI Cruises.

We review our equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. Given SkySea Holding's planned dissolution and sale of Golden Era, we reviewed the recoverability of our investment, debt facility and other receivables due from the brand. As a result of this analysis, we determined that our investment in SkySea Holding and the carrying value of our debt facility and other receivables due from the brand were impaired as of March 31, 2018 and recognized an impairment charge of \$23.3 million. The charge reflected a full impairment of our investment in SkySea Holding and reduced the debt facility and other receivables due to us to their net realizable value as of March 31, 2018. This impairment charge was recognized in Other income (expense) within our consolidated statements

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of comprehensive income (loss) for the six months ended June 30, 2018. Refer to Note 10. Fair Value Measurements and Derivative Instruments for further information on the fair value calculation of the debt facility.

As of June 30, 2018, the net book value of our investment in Skysea Holding and its subsidiaries was approximately \$64.7 million, consisting of the net book value of the \$80.0 million debt facility, its related accrued interest and other receivables due from Skysea Holding. Due to the expected sale of Golden Era in December of 2018, the amount was included within Trade and other receivables, net in our consolidated balance sheets and represents our maximum exposure to loss related to our investment in Skysea Holding as of June 30, 2018. As of December 31, 2017, the net book value of our investment in Skysea Holding and its subsidiaries was approximately \$96.0 million, which consisted of \$4.4 million in equity and loans and other receivables of \$91.6 million. The majority of these amounts were included within Other assets in our consolidated balance sheets and represented our maximum exposure to loss related to our investment in Skysea Holding as of December 31, 2017.

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

	Quarter Ended June 30, 2018	Quarter Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Share of equity income from investments	\$44,311	\$23,359	\$73,063	\$35,239
Dividends received	\$121,024	\$29,405	\$158,942	\$57,402

	As of June 30, 2018	As of December 31, 2017
Total notes receivable due from equity investments	\$277,635	\$314,323
Less-current portion ⁽¹⁾	89,632	38,658
Long-term portion ⁽²⁾	\$188,003	\$275,665

(1)Included within Trade and other receivables, net in our consolidated balance sheets.

(2)Included within Other assets in our consolidated balance sheets.

We also provide ship management services to TUI Cruises GmbH, Pullmantur Holdings and Skysea Holding. Additionally, we bareboat charter to Pullmantur Holdings the vessels currently operated by its brands, which were retained by us following the sale of our 51% interest in Pullmantur Holdings. We recorded the following as it relates to these services in our operating results within our consolidated statements of comprehensive income (loss) (in thousands):

	Quarter Ended June 30, 2018	Quarter Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenues	\$14,157	\$13,318	\$28,230	\$25,933
Expenses	\$3,270	\$4,020	\$6,908	\$7,733

Note 6. Long-Term Debt

In June 2018, we entered into a credit agreement for the financing of a portion of the purchase price payable for the Silversea Cruises acquisition and to pay related fees and expenses. This agreement makes available to us an unsecured U.S. dollar denominated term loan with a maximum aggregate principal amount of \$700 million. On July 31, 2018, we closed on the Silversea Cruises acquisition and subsequently drew in full on this credit agreement. The loan is due in July 2019 and we are required to prepay the loan with the proceeds of certain debt issuances prior to maturity. Interest on the loan will accrue at a floating rate based on LIBOR plus a margin that varies with our credit rating and which is currently 1.00%.

In June 2018, we established a commercial paper program pursuant to which we may issue short-term unsecured notes from time to time in an aggregate amount of up to \$1.2 billion. The commercial paper issued will be backstopped by our revolving credit facilities. As of June 30, 2018, we had not issued any notes under this program and as of July 31, 2018, we had \$415.0 million of commercial paper notes outstanding.

In March 2018, we took delivery of Symphony of the Seas. We had previously entered into a financing arrangement for the United States dollar financing of this ship in January 2015. Through the financing arrangement, we had the right, but not the obligation, to satisfy the obligations to be incurred upon delivery and acceptance of the vessel under the shipbuilding contract by

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assuming through a novation agreement, at delivery and acceptance, the debt indirectly incurred by the shipbuilder during the construction of the ship. We borrowed a total of \$1.2 billion under our previously committed unsecured term loan, which includes the execution of the novation to satisfy a portion of our final obligation under our shipbuilding agreement. The loan amortizes semi-annually over 12 years and bears interest at a fixed rate of 3.82%. In our consolidated statement of cash flows for the six months ended June 30, 2018, the acceptance of the ship and satisfaction of our obligation under the shipbuilding contract was classified as an outflow and constructive disbursement within Investing Activities while the amounts novated and effectively advanced from our lender under our previously committed unsecured term loan were classified as an inflow and constructive receipt within Financing Activities.

In March 2018, we entered into and drew in full on a credit agreement in the amount of \$130.0 million due February 2023. The loan accrues interest at a floating rate of LIBOR plus an applicable margin. The applicable margin varies with our debt rating and was 1.195% as of June 30, 2018. Amounts from the issuance of this loan were used for capital expenditures.

Note 7. Commitments and Contingencies

Ship Purchase Obligations

Our future capital commitments consist primarily of new ship orders. As of June 30, 2018, we had two Quantum-class ships, one Oasis-class ship and two ships of a new generation of ships, known as our Icon-class, on order for our Royal Caribbean International brand with an aggregate capacity of approximately 25,300 berths. Additionally, as of June 30, 2018, we have four ships of a new generation of ships, known as our Edge-class, and a ship designed for the Galapagos Islands on order for our Celebrity Cruises brand with an aggregate capacity of approximately 12,300 berths.

As of June 30, 2018, the aggregate cost of our ships on order, not including any ships on order by our Partner Brands, was approximately \$11.4 billion, of which we had deposited \$586.1 million. Approximately 54.3% of the aggregate cost was exposed to fluctuations in the Euro exchange rate at June 30, 2018. Refer to Note 10. Fair Value Measurements and Derivative Instruments for further information.

Litigation

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

Other

In July 2016, we executed an agreement with Miami Dade County (“MDC”), which was simultaneously assigned to Sumitomo Banking Corporation (“SMBC”), to lease land from MDC and construct a new cruise terminal at PortMiami in Miami, Florida. The terminal is expected to be approximately 170,000 square feet and will serve as a homeport. During the construction period, SMBC will fund the costs of the terminal’s construction and land lease. Upon completion of the terminal’s construction, which is expected to occur during the fourth quarter of 2018, we will operate and lease the terminal from SMBC for a five-year term. We determined that the lease arrangement between SMBC and us should be accounted for as an operating lease upon completion of the terminal.

If any person acquires ownership of more than 50% of our common stock or, subject to certain exceptions, during any 24-month period, a majority of our board of directors is no longer comprised of individuals who were members of our

board of directors on the first day of such period, we may be obligated to prepay indebtedness outstanding under our credit facilities, which we may be unable to replace on similar terms. Our public debt securities also contain change of control provisions that would be triggered by a third-party acquisition of greater than 50% of our common stock coupled with a ratings downgrade. If this were to occur, it would have an adverse impact on our liquidity and operations.

Note 8. Shareholders' Equity

During both first and second quarters of 2018, we declared a cash dividend on our common stock of \$0.60 per share which was paid in April 2018 and July 2018, respectively. During the first quarter of 2018, we also paid a cash dividend on our common stock of \$0.60 per share which was declared during the fourth quarter of 2017.

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

In May 2018, our board of directors authorized a 24-month common stock repurchase program for up to \$1.0 billion. The timing and number of shares to be repurchased will depend on a variety of factors, including price and market conditions. Repurchases under the program may be made at management's discretion from time to time on the open market or through privately negotiated transactions. During the second quarter of 2018, we repurchased 1.3 million shares of our common stock under this program for a total of \$137.5 million in open market transactions that were recorded within Treasury stock in our consolidated balance sheet. In July 2018, we repurchased an additional 1.5 million shares for a total of \$162.5 million in open market transactions.

In April 2017, our board of directors authorized a 12-month common stock repurchase program for up to \$500.0 million that was completed in February 2018. During the first quarter of 2018, we repurchased 2.1 million shares of our common stock for a total of \$275.0 million in open market transactions that were recorded within Treasury stock in our consolidated balance sheet. Our repurchases under this program, including the 1.8 million shares repurchased for \$225.0 million during 2017, totaled \$500.0 million.

Note 9. Changes in Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) by component for the six months ended June 30, 2018 and 2017 (in thousands):

	Accumulated Other Comprehensive Income (Loss) for the Six Months Ended June 30, 2018				Accumulated Other Comprehensive Income (Loss) for the Six Months Ended June 30, 2017			
	Changes related to cash flow derivative hedges	Changes in defined benefit plans	Foreign currency translation adjustments	Accumulated other comprehensive loss	Changes related to cash flow derivative hedges	Changes in defined benefit plans	Foreign currency translation adjustments	Accumulated other comprehensive loss
Accumulated comprehensive loss at beginning of the year	\$ (250,355)	\$ (33,666)	\$ (50,244)	\$ (334,265)	\$ (820,850)	\$ (28,083)	\$ (67,551)	\$ (916,484)
Other comprehensive income (loss) before reclassifications	69,932	5,082	(10,361)	64,653	43,408	(4,847)	8,321	46,882
Amounts reclassified from accumulated other comprehensive loss	3,698	714	—	4,412	108,007	557	—	108,564
Net current-period other comprehensive income (loss)	73,630	5,796	(10,361)	69,065	151,415	(4,290)	8,321	155,446

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Ending balance \$(176,725) \$(27,870) \$(60,605) \$(265,200) \$(669,435) \$(32,373) \$(59,230) \$(761,038)

The following table presents reclassifications out of accumulated other comprehensive income (loss) for the quarters and six months ended June 30, 2018 and 2017 (in thousands):

Details About Accumulated Other Comprehensive Income (Loss) Components	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income				Affected Line Item in Statements of Comprehensive Income (Loss)
	Quarter Ended June 30, 2018	Quarter Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	
Gain (loss) on cash flow derivative hedges:					
Interest rate swaps	\$(2,138)	\$(7,863)	\$(8,976)	\$(16,720)	Interest expense, net of interest capitalized
Foreign currency forward contracts	(3,156)	(2,710)	(6,468)	(5,420)	Depreciation and amortization expenses
Foreign currency forward contracts	14,601	(4,105)	14,643	(7,675)	Other income (expense)
Foreign currency collar options	—	(602)	—	(1,204)	Depreciation and amortization expenses
Fuel swaps	(133)	2,498	192	4,775	Other income (expense)
Fuel swaps	2,043	(41,835)	(3,089)	(81,763)	Fuel
	11,217	(54,617)	(3,698)	(108,007)	
Amortization of defined benefit plans:					
Actuarial loss	(372)	(293)	(714)	(557)	Payroll and related
	(372)	(293)	(714)	(557)	
Total reclassifications for the period	\$10,845	\$(54,910)	\$(4,412)	\$(108,564)	

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Note 10. Fair Value Measurements and Derivative Instruments

Fair Value Measurements

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

Description	Fair Value Measurements at June 30, 2018 Using				Fair Value Measurements at December 31, 2017 Using					
	Total Carrying Amount	Total Fair Value	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total Carrying Amount	Total Fair Value	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾
Assets:										
Cash and cash equivalents ⁽⁴⁾	\$108,998	\$108,998	\$108,998	\$—	\$—	\$—120,112	\$120,112	\$120,112	\$—	\$—
Total Assets	\$108,998	\$108,998	\$108,998	\$—	\$—	\$—120,112	\$120,112	\$120,112	\$—	\$—
Liabilities:										
Long-term debt (including current portion of long-term debt) ⁽⁵⁾	\$8,474,818	\$8,964,142	\$—	\$8,964,142	\$—	\$—7,506,312	\$8,038,092	\$—	\$8,038,092	\$—
Total Liabilities	\$8,474,818	\$8,964,142	\$—	\$8,964,142	\$—	\$—7,506,312	\$8,038,092	\$—	\$8,038,092	\$—

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

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

(3) Inputs that are unobservable. The Company did not use any Level 3 inputs as of June 30, 2018 and December 31, 2017.

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

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

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Other Financial Instruments

The carrying amounts of accounts receivable, accounts payable, accrued interest and accrued expenses approximate fair value at June 30, 2018 and December 31, 2017.

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

Description	Fair Value Measurements at June 30, 2018 Using			Fair Value Measurements at December 31, 2017 Using					
	Total	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	
Assets:									
Derivative financial instruments ⁽⁴⁾	\$296,646	\$	—\$296,646	\$	—\$320,385	\$	\$320,385	\$	—
Investments ⁽⁵⁾	—	—	—	—	3,340	3,340	—	—	—
Total Assets	\$296,646	\$	—\$296,646	\$	—\$323,725	\$ 3,340	\$320,385	\$	—
Liabilities:									
Derivative financial instruments ⁽⁶⁾	\$103,206	\$	—\$103,206	\$	—\$115,961	\$	\$115,961	\$	—
Total Liabilities	\$103,206	\$	—\$103,206	\$	—\$115,961	\$	\$115,961	\$	—

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

(2) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For foreign currency forward contracts, interest rate swaps and fuel swaps, fair value is derived using valuation models that utilize the income valuation approach. These valuation models take into account the contract terms, such as maturity, as well as other inputs, such as foreign exchange rates and curves, fuel types, fuel curves and interest rate yield curves. All derivative instrument fair values take into account the creditworthiness of the counterparty and the Company.

(3) Inputs that are unobservable. The Company did not use any Level 3 inputs as of June 30, 2018 and December 31, 2017.

(4) Consists of foreign currency forward contracts, interest rate swaps and fuel swaps. Refer to the "Fair Value of Derivative Instruments" table for breakdown by instrument type.

(5) Consists of exchange-traded equity securities and mutual funds reported within Other assets in our consolidated balance sheets.

(6) Consists of foreign currency forward contracts, interest rate swaps and fuel swaps. Refer to the "Fair Value of Derivative Instruments" table for breakdown by instrument type.

The reported fair values are based on a variety of factors and assumptions. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of June 30, 2018 or December 31, 2017, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement.

The following table presents information about the fair value of our equity method investment and note and other receivables due related to SkySea Holding, further discussed in Note 5. Other Assets, recorded at fair value on a nonrecurring basis (in thousands):

Fair Value Measurements at June 30,
2018 Using

Description	Total Carrying Amount	Total Fair Value	Level 3	Total Impairment
Equity-method investment - SkySea Holding ⁽¹⁾	\$—	\$—	\$—	\$ 509
Debt facility and other receivables due from Skysea Holding ⁽²⁾	64,667	64,667	64,667	22,834
Total	\$64,667	\$64,667	\$64,667	\$ 23,343

(1) Due to the expectation that Skysea Holding will cease business operations by the end of 2018, we do not deem our investment balance to be recoverable and therefore, we estimated the fair value of our investment to be zero. The fair value of our equity investment in Skysea Holding was estimated as of March 31, 2018, the date of the last impairment test, at which point the investment was fully impaired.

(2) We estimated the fair value of our debt facility and other receivables due from Skysea Holding based on the fair value of the collateral of the debt facility, Skysea Holding's ship, Golden Era, as of March 31, 2018, the date of the last impairment test, adjusted for foreign exchange rates as of June 30, 2018. We believe this amount estimates fair value as of June 30, 2018. The fair value of the ship represents the net realizable value based on the agreed upon sale price of the ship, which is expected to be completed in December 2018. For further information on the Skysea Holding impairment, refer to Note 5. Other Assets.

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We have master International Swaps and Derivatives Association (“ISDA”) agreements in place with our derivative instrument counterparties. These ISDA agreements provide for final close out netting with our counterparties for all positions in the case of default or termination of the ISDA agreement. We have determined that our ISDA agreements provide us with rights of setoff on the fair value of derivative instruments in a gain position and those in a loss position with the same counterparty. We have elected not to offset such derivative instrument fair values in our consolidated balance sheets.

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

The following table presents information about the Company’s offsetting of financial assets under master netting agreements with derivative counterparties (in thousands):

	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements				As of December 31, 2017			
	As of June 30, 2018				As of December 31, 2017			
	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Received	Net Amount of Derivative Assets	Gross Amount of Derivative Assets Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Received	Net Amount of Derivative Assets
Derivatives subject to master netting agreements	\$ 296,646	\$(91,084)	\$ —	—\$ 205,562	\$ 320,385	\$(104,751)	\$ —	—\$ 215,634
Total	\$ 296,646	\$(91,084)	\$ —	—\$ 205,562	\$ 320,385	\$(104,751)	\$ —	—\$ 215,634

The following table presents information about the Company’s offsetting of financial liabilities under master netting agreements with derivative counterparties (in thousands):

	Gross Amounts not Offset in the Consolidated Balance Sheet that are Subject to Master Netting Agreements				As of December 31, 2017			
	As of June 30, 2018				As of December 31, 2017			
	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Assets	Cash Collateral Pledged	Net Amount of Derivative Liabilities	Gross Amount of Derivative Liabilities Presented in the Consolidated Balance Sheet	Gross Amount of Eligible Offsetting Recognized Derivative Liabilities	Cash Collateral Pledged	Net Amount of Derivative Liabilities
Derivatives subject to master netting agreements	\$(103,206)	\$ 91,084	\$ —	—\$(12,122)	\$(115,961)	\$ 104,751	\$ —	—\$(11,210)
Total	\$(103,206)	\$ 91,084	\$ —	—\$(12,122)	\$(115,961)	\$ 104,751	\$ —	—\$(11,210)

Concentrations of Credit Risk

We monitor our credit risk associated with financial and other institutions with which we conduct significant business and, to minimize these risks, we select counterparties with credit risks acceptable to us and we seek to limit our exposure to an individual counterparty. Credit risk, including but not limited to counterparty nonperformance under derivative instruments, our credit facilities and new ship progress payment guarantees, is not considered significant, as we primarily conduct business with large, well-established financial institutions, insurance companies and export credit agencies many of which we have long-term relationships with and which have credit risks acceptable to us or where the credit risk is spread out among a large number of counterparties. As of June 30, 2018 and December 31, 2017, we had counterparty credit risk exposure under our derivative instruments of approximately \$205.6 million and \$212.8 million, respectively, which were limited to the cost of replacing the contracts in the event of non-performance by the counterparties to the contracts, the majority of which are currently our lending banks. We do not anticipate nonperformance by any of our significant counterparties. In addition, we have established guidelines we follow regarding credit ratings and instrument maturities to maintain safety and liquidity. We do not normally require collateral or other security to support credit relationships; however, in certain circumstances this option is available to us.

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Derivative Instruments

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

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

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

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

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

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

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

classify derivative instrument cash flows from hedges of foreign currency risk on our newbuild ship payments as investing activities and derivative instrument cash flows from hedges of foreign currency risk on debt payments as financing activities.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates to our long-term debt obligations including future interest payments. At June 30, 2018 and December 31, 2017, approximately 60.6% and 57.4%, respectively, of our long-term debt was effectively fixed. We use interest rate swap agreements to modify our exposure to interest rate movements and to manage our interest expense.

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Market risk associated with our long-term fixed rate debt is the potential increase in fair value resulting from a decrease in interest rates. We use interest rate swap agreements that effectively convert a portion of our fixed-rate debt to a floating-rate basis to manage this risk. At June 30, 2018 and December 31, 2017, we maintained interest rate swap agreements on the following fixed-rate debt instruments:

Debt Instrument	Swap Notional as of June 30, Maturity 2018 (In thousands)	Debt Fixed Rate	Swap Floating Rate: LIBOR plus	All-in Swap Floating Rate as of June 30, 2018	
Oasis of the Seas term loan	\$ 122,500	October 2021	5.41%	3.87%	6.39%
Unsecured senior notes	650,000	November 2022	5.25%	3.63%	5.97%
	\$ 772,500				

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

Market risk associated with our long-term floating rate debt is the potential increase in interest expense from an increase in interest rates. We use interest rate swap agreements that effectively convert a portion of our floating-rate debt to a fixed-rate basis to manage this risk. At June 30, 2018 and December 31, 2017, we maintained interest rate swap agreements on the following floating-rate debt instruments:

Debt Instrument	Swap Notional as of June 30, Maturity 2018 (In thousands)	Debt Floating Rate	All-in Swap Fixed Rate
Celebrity Reflection term loan	\$354,521	October 2024 LIBOR plus 0.40%	2.85%
Quantum of the Seas term loan	520,625	October 2026 LIBOR plus 1.30%	3.74%
Anthem of the Seas term loan	543,750	April 2027 LIBOR plus 1.30%	3.86%
Ovation of the Seas term loan	691,667	April 2028 LIBOR plus 1.00%	3.16%
Harmony of the Seas term loan ⁽¹⁾	674,563	May 2028 EURIBOR plus 1.15%	2.26%
	\$2,785,126		

(1) Interest rate swap agreements hedging the Euro-denominated term loan for Harmony of the Seas include EURIBOR zero-floor matching the hedged debt EURIBOR zero-floor. Amount presented is based on the exchange rate as of June 30, 2018.

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

The notional amount of interest rate swap agreements related to outstanding debt as of June 30, 2018 and December 31, 2017 was \$3.6 billion and \$3.8 billion, respectively.

Foreign Currency Exchange Rate Risk

Derivative Instruments

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

of June 30, 2018, the aggregate cost of our ships on order, not including any ships on order by our Partner Brands, was approximately \$11.4 billion, of which we had deposited \$586.1 million. At June 30, 2018 and December 31, 2017, approximately 54.3% and 54.0%, respectively, of the aggregate cost of the ships under construction was exposed to fluctuations in the Euro exchange rate. The majority of our foreign currency forward contracts, collar options and cross currency swap agreements are accounted for as cash flow, fair value or net investment hedges depending on the designation of the related hedge.

On a regular basis, we enter into foreign currency forward contracts and, from time to time, we utilize cross-currency swap agreements to minimize the volatility resulting from the remeasurement of net monetary assets and liabilities denominated in a currency other than our functional currency or the functional currencies of our foreign subsidiaries. During the second quarter of 2018, we maintained an average of approximately \$733.6 million of these foreign currency forward contracts. These instruments are not designated as hedging instruments. For the quarters ended June 30, 2018 and 2017, changes in the fair value of the foreign currency forward contracts resulted in a (loss) gain of \$(36.9) million and \$21.3 million, respectively. For the six months ended June 30, 2018 and 2017, changes in the fair value of the foreign currency forward contracts resulted in a (loss) gain of \$(31.3) million and \$35.1 million, respectively. These amounts were recognized in earnings within Other income (expense) in our consolidated statements of comprehensive income (loss).

We consider our investments in our foreign operations to be denominated in relatively stable currencies and of a long-term nature. As of June 30, 2018, we maintained foreign currency forward contracts and designated them as hedges of a portion of our net investments primarily in

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TUI Cruises of €101.0 million, or approximately \$117.9 million based on the exchange rate at June 30, 2018. These forward currency contracts mature in October 2021.

The notional amount of outstanding foreign exchange contracts, excluding the forward contracts entered into to minimize remeasurement volatility, as of June 30, 2018 and December 31, 2017 was \$3.8 billion and \$4.6 billion, respectively.