ROYAL CARIBBEAN CRUISES LTD
Form 6-K
May 03, 2004

**FORM 6-K**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**REPORT OF FOREIGN PRIVATE ISSUER**

**PURSUANT TO RULES 13a-16 OR 15d-16 OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**For the month of May, 2004**

**ROYAL CARIBBEAN CRUISES LTD.**

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

**(Address of principal executive offices)**

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F |X| Form 40-F |_|

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes |_| No |X|

[If "Yes" is marked indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-______.]

The following document is being furnished by Royal Caribbean Cruises Ltd. pursuant to this Report on Form 6-K:

Document No. 1 Royal Caribbean Cruises Ltd., 2003 Annual Report.

SIGNATURES

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

**ROYAL CARIBBEAN CRUISES LTD.**
(Registrant)

/S/ BONNIE S. BIUMI

Bonnie S. Biumi
Senior Vice President, Treasurer

Date: May 3, 2004

**DOCUMENT NO. 1**

# ROYAL CARIBBEAN CRUISES LTD.

## 2003 ANNUAL REPORT

(Picture)

**FINANCIAL HIGHLIGHTS**

*(dollars in thousands, except per share data)*

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Revenues | $ 3,784,249 | $ 3,434,347 | $ 3,145,250 |
| Operating Income | 526,185 | 550,975 | 455,605 |
| Net Income | 280,664 | 351,284 | 254,457 |
| Earnings Per Share* | $ 1.42 | $ 1.79 | $ 1.32 |
| Shareholders' Equity | $ 4,262,897 | $ 4,034,694 | $ 3,756,584 |

(*diluted)

ROYAL CARIBBEAN CRUISES LTD.

**CHAIRMAN S LETTER**

(Photo)

**Richard D. Fain**
*Chairman and CEO*

*April 22, 2004*

**DEAR SHAREHOLDERS:**

A well-known African proverb says, Smooth seas do not make for skillful sailors. If that is true, your company has certainly proven its seamanship during a very difficult period. We have come through a perfect storm war, terrorism, outbreaks of flu and SARS, and general economic malaise in remarkably shipshape condition. In 2003, Revenues climbed 10.2 percent to $3.8 billion and yields decreased less than 1 percent, a modest dip given the impact of these events on our business. We ended 2003 with Net Income of $280.7 million, or $1.42 per share, and we have predicted publicly that we will better that by 50 percent in 2004.

Any drop in yields is disappointing, but the fact that the decline was only 0.6 percent, on top of only 0.7 percent in 2002, is formidable evidence of our company s resilience and ability to absorb new capacity. In the two years following 9/11, we added 29 percent to our capacity and managed to fill that new capacity while maintaining yields within 1.3 percent of 2001. We have now experienced four consecutive years of double-digit growth in capacity. This newbuilding program enabled us to achieve a critical mass that now works powerfully in our favor in brand presence and economies of scale. Having this momentum, and assuming no external shocks, we are expecting significant improvements in both yields and profits going forward.

Capital expenditures, which exceeded $1.0 billion in each of the four years 2000-2003, will now be at levels below the company s anticipated cash-flow generation at least through 2006. Net debt-to-capital ratio was 56.4 percent and long-term debt was $5.8 billion at the end of 2003. We issued $600 million in senior unsecured notes in 2003, and as of March 31, we had liquidity of $1.8 billion, sustaining the strongest cash flow in our history and enabling us to pay down debt. We are striving to regain our investment grade rating, which we lost in the immediate aftermath of 9/11.

**NEWBUILDS AND HIGHER DEMAND**

The fundamental strengths of our business model remain very much intact strong brands with rising demand, favorable demographics in age and income, high satisfaction levels, and a modern, innovative fleet. Royal Caribbean International and Celebrity Cruises served three million guests in 2003 and topped 20 million passenger cruise days for the first time.

From the debut of *Voyager of the Seas* in November 1999 to the delivery of *Jewel of the Seas* in April 2004, we have doubled our capacity to over 60,000 lower berths. Royal Caribbean International s *Serenade of the Seas* and *Mariner of the Seas* arrived in 2003, with today s fleet standing at 29 ships. *Serenade of the Seas* is a stylish addition to the sleek and glittering Radiance class. *Mariner of the Seas*, enlivened with a pool deck-turned-art gallery by neo-pop artist Romero Britto, is the most perfect incarnation of the Voyager class, according to travel guru Arthur Frommer.

In our first firm order in 3½ years, we have now contracted for Ultra Voyager, for delivery in May 2006. As an enhancement to her five Voyager-class predecessors, this ship will provide for lower per-berth capital and operating costs with a 16 percent increase in the number of berths. Ultra Voyager will further bolster the industry-changing impact of our Voyager-class ships on consumers and travel agents.

**DIVERSIFYING OUR HOMEPORTS**

Our deployment strategy, particularly the use of homeports accessible to populous drive markets, has been especially effective the past two years. In 2003, we restored our short cruises in Los Angeles with a California-style refurbishment of *Monarch of the Seas* while Celebrity Cruises initiated winter sailings to the Mexican Riviera with *Mercury*. Most significantly, we assigned our newest Voyager-class ship, *Mariner of the Seas*, to Port Canaveral to capitalize on Central Florida s huge tourism market. In May, we will take a major step forward in serving our New York-based itineraries when *Voyager of the Seas* becomes the first of our 142,000-ton Voyager-class ships to sail from New York Harbor. She will sail from Cape Liberty Cruise Port, a new facility in Bayonne directly across the Hudson River south of Manhattan. The redeveloping new port is convenient to major transportation systems yet away from the congestion of Manhattan s West Side docks. A renovated/renamed *Empress of the Seas* (formerly *Nordic Empress*) also will cruise from Cape Liberty for her Bermuda season.

In Europe, we are very pleased to see strengthening demand. We have increased our European deployment this summer to a record six ships and have enacted broadly-based price increases across the fleet. We recently announced that *Legend of the Seas* will be based out of Southampton, England, for the 2005 summer season, offering 14-night cruises to U.K. customers.

**Assuming no external shocks, we are expecting significant improvements in both yields and profits going forward.**

This initiative represents a major step forward in our commitment to grow our international customer sourcing and to expand our global presence. We also expect Island Cruises, our joint venture with U.K. tour operator First Choice Holidays, to be profitable.

**BUILDING OUR BRANDS**

A truly gratifying development in 2003 was the revitalization of the Celebrity Cruises product. A new innovative marketing campaign depicted ordinary people being treated like celebrities. The campaign has significantly raised consumer awareness of a Brand Transformation that features dozens of enhancements to the onboard experience. These special touches included cushioned chairs and larger tables for dining on the veranda, cold towels for guests returning from tours, and soft bathrobes and fine shampoos and body lotions. A special ConciergeClass category also helped drive Celebrity pricing toward the premium levels it needs.

Celebrity also unveiled a breakthrough idea Celebrity Xpeditions, a program of special excursions and adventure sailings that will include the exotic Galapagos Islands, the Arctic Circle, the Antarctic, and other remote destinations. Celebrity Xpeditions begin in June 2004 with our newly acquired, 100-guest megayacht *Xpedition* sailing to seven islands in the Galapagos. These seven- to ten-night cruisetours in the land that inspired Darwin s discoveries will evolve into other unusual outings, such as race-car driving in Palm Beach, backstage visits to Cirque du Soleil, and sport fishing in British Columbia. Our goal is to have one Xpedition on every major itinerary.

Coupled with Royal Caribbean International s GOLD Anchor Service and long-established reputation for innovative programs, Celebrity s rejuvenation helps us solidify our brand positioning in the competitive cruise market. Fortunately, it has registered loud and clear with travel agents and consumers. Among the many awards and honors, Royal Caribbean International was named by *Travel Weekly* as the Best Overall Cruise Line. Royal Caribbean also has been named Best Large Ship Design, Best Caribbean Itinerary, and Best Family Cruise. In the 2003 prestigious Condè Nast Readers Choice Awards, Celebrity Cruises was selected as the Best Premium Brand in the industry. *Condè Nast Traveler* ranked all seven of the Celebrity ships that qualified among the top nine in the Best Large Ships category. Including Royal Caribbean International ships from the same poll, our brands had 17 of the top 30 places.

**PARTNERS IN PROGRESS**

In recent years, we have cultivated several brand partnerships that enhance the quality of our cruise vacations, whether it s a burger and shake at Johnny Rockets®, a double-fudge scoop of Ben & Jerry s® ice cream, or coffee from Seattle s Best Coffee®and Cova Café Milano. And our recent announcement that Celebrity Cruises will partner with Cirque du Soleil to enhance the entertainment on the Millennium-class ships has been extremely well-received by the travel trade and our loyal guest base. We believe these marketing alliances are providing great value to our onboard products.

We also have nurtured environmental partnerships since 1996 through our Ocean Fund, contributing $6.6 million to marine-conservation groups such as The Nature Conservancy, National Audubon Society, and World Wildlife Fund. Clearly, our stewardship in this critical area is making a difference in protecting our valuable marine resources.

A separate initiative, in partnership with Conservation International and manufacturers of marine equipment, is now finalizing the development of a far more advanced wastewater-purification system. These AWP systems offer the potential of purifying these waste streams to near drinking-water levels of purity. We continue to test prototype systems and will have placed contracts for four additional systems in 2004 to determine their operational suitability. Last year we, along with other major cruise companies, committed to install them on all our ships, once the systems have been proven and meet our high purity standards.

**CORPORATE GOVERNANCE**

An important societal issue affecting everyone in business today is the subject of corporate governance. A number of horrific examples of improprieties have tarnished the image of businesses everywhere and demand that companies respond appropriately. The challenges are significant we, along with most businesses, already had high standards, and it s not obvious how to raise the bar in a reasonable manner. Nevertheless, our Board and our management have undertaken this responsibility in a serious and diligent way. In addition to all the new requirements established by the Sarbanes-Oxley Act, SEC, the New York Stock Exchange, the Oslo Stock Exchange, etc., we have reinvigorated and expanded our pre-existing ethics

**Celebrity's rejuvenation helps us solidify our brand positioning in the competitive cruise industry.**

policies and training; taken steps to ensure the independence of our Board of Directors and its committees; expanded our disclosures both in our public filings and on our website; and facilitated improved communication within our management and with our shareholders. One of the committees most impacted by our efforts in this area was the Audit Committee. Its mandate has been broadened and its responsibilities increased substantially. We are pleased that Bill Kimsey, a recently retired CEO of Ernst & Young LLP, has joined our Board and now chairs this important committee.

I believe that most business people and most regulators are struggling to implement significant changes in corporate governance in a very short timeframe. Such aggressive changes are always expensive and often entail their own risk of unintended consequences. Nevertheless, I believe that our Board and our executives have taken the need for this effort to heart and are implementing the necessary steps with a positive and constructive attitude. As a result, I believe the net effect of all these changes will be positive: they will build upon our historical high standards to reduce risk of significant problems and to enable us to better manage our business.

**APPRECIATION**

It is impossible to properly thank everyone responsible for our company s remarkable growth and promising future. We will have built 22 ships and 49,000 new berths in a mere decade while dramatically improving the quality of the product we offer and broadening its appeal to an ever-growing breadth of customer. We could not have done so without an extraordinarily capable and dedicated management team. More than 30,000 shipboard and shoreside employees of Royal Caribbean International, Celebrity Cruises, Celebrity Xpeditions, and Royal Celebrity Tours deliver our cruise vacation product daily with great skill and enthusiasm. And, we could not attract three million guests per year without the expertise and professionalism of the travel-agent community. Finally, we could not be daring and innovative without the support of our Board of Directors.

With so much on our horizon bright and promising, we are eager to sail there.

Sincerely,

/S/Richard D. Fain

RICHARD D. FAIN
*Chairman and Chief Executive Officer*

**BOARD OF DIRECTORS**

*(from left to right)*

WILLIAM L. KIMSEY
Ernst & Young (retired)

RICHARD D. FAIN
Royal Caribbean Cruises Ltd.

THOMAS J. PRITZKER
The Pritzker Organization

JOHN D. CHANDRIS
Chandris (UK) Limited

WILLIAM K. REILLY
Aqua International Partners

ARNE ALEXANDER WILHELMSEN
Anders Wilhelmson & Co. AS

ARVID GRUNDEKJOEN
Anders Wilhelmsen & Co. AS

EYAL OFFER
Carlye M.G. Limited

LAURA LAVIADA
Area Editores

BERNARD W. ARONSON
ACON Investments, LLC

TOR B. ARNEBERG
Nightingale & Associates, Inc.

GERT W. MUNTHE
Ferd Private Equity

EXECUTIVE OFFICERS

RICHARD D. FAIN
*Chairman and*
*Chief Executive Officer,*
Royal Caribbean Cruises Ltd.

JACK L. WILLIAMS
*President and*
*Chief Operating Officer,*
Royal Caribbean International &
Celebrity Cruises

LUIS E. LEON
*Executive Vice President*
*Chief Financial Officer,*
Royal Caribbean Cruises Ltd.

ADAM M. GOLDSTEIN
*Executive Vice President*
*Brand Operations*
Royal Caribbean International

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Certain statements under this caption Management s Discussion and Analysis of Financial Condition and Results of Operations, in our letter to shareholders and elsewhere in this document constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. 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:

- general economic and business conditions,
- vacation industry competition, including cruise industry competition,
- changes in vacation industry capacity, including cruise capacity,
- the impact of tax 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,
- the delivery of scheduled new ships,
- emergency ship repairs,
- incidents involving cruise ships,
- reduced consumer demand for cruises as a result of any number of reasons, including armed conflict, terrorist attacks, geo-political and economic uncertainties or the unavailability of air service,
- changes in our stock price, interest rates or oil prices, and
- 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. (See Note 1. General and Note 2. Summary of Significant Accounting Policies.) 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 estimates and disclosures 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 we state them at cost less accumulated depreciation or amortization. Depreciation of ships, which includes amortization of ships under capital leases, is 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 refurbished or replaced ship components are written-off and any resulting gain or loss is recognized in operating expenses. Repairs and maintenance activities are charged to expense as incurred.

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 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.

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 2003 would have increased by approximately \$10 million. Further, if our ships were estimated to have no residual value, depreciation expense for 2003 would have increased by approximately \$60 million.

**VALUATION OF LONG-LIVED ASSETS AND GOODWILL**

We review 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 our asset based on our estimate of its undiscounted future cash flows. If these estimated future cash flows were less than the carrying value of the asset, an impairment charge would be recognized for the difference between the asset s estimated fair value and its carrying value.

The determination of fair value is based on quoted market prices in active markets, if available. Such markets are often not available for used cruise ships. Accordingly, we also 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 our business risk. The estimation of fair value utilizing discounted forecasted cash flows includes numerous uncertainties which require our significant judgment when making assumptions of revenues, operating costs, marketing, selling and administrative expenses, interest rates, ship additions and retirements, cruise industry competition and general economic and business conditions, among other factors.

Goodwill is reviewed annually or whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be fully recoverable. The impairment review consists of comparing the fair value of goodwill to the carrying value. If the carrying value exceeds the fair value, an impairment charge would be recognized for the difference between the carrying value and the fair value. We use the market capitalization method in determining the fair value of our goodwill. If, under certain circumstances, this method is not representative of fair value, we use a present value of future cash flows approach.

We believe we have made reasonable estimates and judgments in determining whether our long-lived assets and goodwill have been impaired; however, 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.

**PROPOSED STATEMENT OF POSITION**

On June 29, 2001, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ( AcSEC ) issued a proposed Statement of Position ( SOP ), Accounting for Certain Costs and Activities Related to Property, Plant and Equipment. Under the proposed SOP, we would be required to adopt a component method of accounting for our ships. Using this method, each component of a ship would be identified as an asset and depreciated over its own separate expected useful life. In addition, we would have to expense drydocking costs as incurred which differs from our current policy of accruing future drydocking costs evenly over the period to the next scheduled drydocking. Lastly, liquidated damages received from shipyards as mitigation of consequential economic costs incurred as a result of the late delivery of a new ship would have to be recorded as a reduction of the ship s cost basis versus our current treatment of recording liquidated damages as nonoperating income.

In late 2003, AcSEC revised the SOP, which would allow us to choose the level of componentization for our ships. The level of componentization elected could result in changes in the amount and timing of depreciation, repair and maintenance expenses and any write-offs that may be recognized on the replacement of ship components. Alternatively, the draft SOP allows us to identify each ship as a single component; however, this would require us to expense all subsequent replacements and refurbishments as incurred.

On April 14, 2004, the Financial Accounting Standards Board decided not to approve the SOP; instead, the issues addressed by the SOP will be included in the short-term international convergence project in 2005. We will continue to monitor progress on this project to determine the impact, if any, on our results of operations or financial position.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

## TERMINOLOGY

Available Passenger Cruise Days represent double occupancy per cabin multiplied by the number of cruise days for the period.

Gross Cruise Costs represent total operating expenses and marketing, selling and administrative expenses.

Gross Yields represent total revenues per Available Passenger Cruise Day.

Net Cruise Costs represent payroll and related, food and other operating expenses (each of which are described below under the Results of Operations heading) and marketing, selling and administrative expenses.

Net Yields represent total revenues less commissions, transportation and other, and onboard and other expenses (each of which are described below under the Results of Operations heading) per Available Passenger Cruise Day.

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

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

## RESULTS OF OPERATIONS

For the year ended December 31, 2003, we changed the reporting format of our consolidated statements of operations to separately present our significant sources of revenue and their directly related variable costs and expenses. We have also separately identified certain ship operating expenses, such as payroll and related expenses and food costs. In connection with this change, we have included port costs that vary with passenger head counts in the expense category attributable to passenger ticket revenues, which resulted in a change to Net Yields. All prior periods were reclassified to conform to the current year presentation.

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 our ships.

Onboard and other revenues consist primarily of revenues from the sale of goods and/or services onboard our ships, cancellation fees, sales of vacation protection insurance and pre and post tours. 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 activities onboard our ships.

Our 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 tours and related credit card fees. Concession revenues have minimal costs associated with them, as the costs related to these activities are incurred by the concessionaires.

Payroll and related expenses consist of costs for shipboard personnel, including officers, crew, hotel and administrative employees.

Food expenses include costs for both passengers and crew.

Other operating expenses consist of operating costs such as fuel, repairs and maintenance, port costs that do not vary with passenger head counts, insurance, entertainment and all other operating costs.

We do not allocate payroll and related costs, food 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

**Summary**

We reported 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, | | |
|---|---|---|---|
| | **2003** | 2002 | 2001 |
| Total Revenues | **$ 3,784,249** | $ 3,434,347 | $ 3,145,250 |
| Operating Income | **526,185** | 550,975 | 455,605 |
| Net Income | **280,664** | 351,284 | 254,457 |
| Basic Earnings Per Share | **$ 1.45** | $ 1.82 | $ 1.32 |
| Diluted Earnings Per Share | **$ 1.42** | $ 1.79 | $ 1.32 |

Unaudited selected statistical information is shown in the following table:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2003** | 2002 | 2001 |
| Passengers Carried | **2,990,607** | 2,768,475 | 2,438,849 |
| Passenger Cruise Days | **20,064,702** | 18,112,782 | 15,341,570 |
| Available Passenger Cruise Days | **19,439,238** | 17,334,204 | 15,067,605 |
| Occupancy Percentage | **103.2 %** | 104.5 % | 101.8 % |

The following table presents operating data as a percentage of total revenues:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2003** | 2002 | 2001 |
| Passenger ticket revenues | **73.3** | 75.4 | 77.2 |
| Onboard and other revenues | **26.7** | 24.6 | 22.8 |
| Total revenues | **100.0 %** | 100.0 % | 100.0 % |

| | | | |
|---|---|---|---|
| Operating expenses | | | |
| Commissions, transportation and other | **18.1** | 19.5 | 23.1 |
| Onboard and other | **6.6** | 6.1 | 5.7 |
| Payroll and related | **11.3** | 9.2 | 9.0 |
| Food | **6.3** | 7.4 | 6.9 |
| Other operating | **20.6** | 19.3 | 16.8 |
| Total operating expenses | **62.9** | 61.5 | 61.5 |
| Marketing, selling and administrative expenses | **13.6** | 12.6 | 14.4 |
| Depreciation and amortization expenses | **9.6** | 9.9 | 9.6 |
| Operating Income | **13.9** | 16.0 | 14.5 |
| Other Income (Expense) | **(6.5)** | (5.8) | (6.4) |
| Net Income | **7.4 %** | 10.2 % | 8.1 % |

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

Several external events and factors have impacted our operating environment over the last three years. Consumer concerns regarding the terrorist attacks of September 11, 2001, the war in Iraq, the economy, Severe Acute Respiratory Syndrome ( SARS ) and noroviruses had adverse impacts on our business. As a result, we experienced lower cruise ticket prices attributed to consumer apprehension towards travel. Net income was $280.7 million or $1.42 per share on a diluted basis in 2003, compared to $351.3 million or $1.79 per share in 2002 and $254.5 million or $1.32 per share in 2001. Net income in 2002 included a charge of approximately $20.0 million recorded in connection with a litigation settlement. In 2003, we reduced the amount of the charge by approximately $5.8 million. (See Note 12. Commitments and Contingencies.) Net income in 2002 also included net proceeds of $33.0 million received in connection with the termination of our merger agreement with P&O Princess Cruises plc ( P&O Princess ). (See Note 3. Termination of Proposed Combination with P&O Princess Cruises plc.) The events of September 11, 2001 adversely affected our 2001 net income by approximately $47.7 million due to lost revenues and extra costs directly associated with passengers not being able to reach their departure ports during the weeks following the attacks. We incurred additional costs associated with business decisions taken in the aftermath of the attacks, including itinerary changes, charges related to office closures and severance costs due to a reduction in force.

**OUTLOOK**

On January 29, 2004, we announced that we expected Net Yields for the first quarter of 2004 to increase in the range of 5% to 7% and that Net Yields in the second quarter would increase more than in the first quarter. On March 15, 2004, we stated that we expect Net Yields for the first quarter of 2004 to be at the low end of this range. Limited visibility and prior year comparisons make forecasting Net Yields for the full year difficult. Assuming there are no external events and positive booking trends continue, we expect Net Yields for the full year 2004 to increase in the range of 5% to 7%. We utilize Net Yields for revenue management purposes and believe that it is the most relevant measure of our pricing performance. 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. We utilize Net Yields to manage our business on a day-to-day basis and believe it is a more relevant measure of our performance. As such, we do not believe that reconciling information is meaningful.

On March 15, 2004, we stated that Net Cruise Costs per Available Passenger Cruise Day for the full year 2004 were expected to increase approximately 1% to 2%. The increase in Net Cruise Costs was primarily attributable to increases in fuel prices, insurance expenses and port expenses (the latter associated with itinerary changes, increased occupancy levels, and other increases). Based upon year-over-year comparisons, we expected Net Cruise Costs, on an Available Passenger Cruise Day basis, to increase in the first half of the year and decrease in the second half of the year. 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. 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. We utilize Net Cruise Costs to manage our business on a day-to-day basis and believe it is a more relevant measure of our performance. As such, we do not believe that reconciling information is meaningful.

On March 12, 2004, we announced the cancellation of a one-week sailing due to the unanticipated drydock of one ship, which we estimate will negatively impact net income by approximately $0.02 to $0.03 per share.

Internal Revenue Code Section 883 provides an exemption from United States income taxes on certain income derived from or incidental to the international operation of ships. Final regulations under Section 883 were published on August 26, 2003. These regulations confirm that we qualify for the exemption provided by Section 883. The final regulations narrowed the scope of activities which 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 other transportation such as transfers, shore excursions and pre and post tours. To the extent the income from such activities is earned from sources within the United States, such income will be subject to United States taxation. These regulations will be effective for our 2004 fiscal year. On March 15, 2004, we stated that we estimated the application of these regulations would reduce our 2004 earnings by approximately $0.04 to $0.05 per share.

On March 15, 2004, we stated that our zero coupon convertible notes could become convertible during the first quarter of 2004 if the share price of our common stock closed above $34.27 for 20 days out of the last 30 trading days of the quarter. If the notes became convertible, we expected earnings per share for the quarter to be reduced by approximately $0.01. If the share price of our common stock closes above $34.68, $35.09 and $35.50 for 20 days out of the last 30 trading days of the second, third and fourth quarters, respectively, our zero coupon convertible notes will continue to be convertible. If the notes continue to be convertible for the remainder of the year, full year earnings per share would be reduced by approximately $0.06.

Based on the above, we expect 2004 earnings per share to be in the range of $2.10 to $2.30.

Our Liquid Yield Option Notes become convertible during the second, third and fourth quarters of 2004 if the share price of our common stock closes above $46.08, $46.64 and $47.20, respectively, for 20 days out of the last 30 trading days of each quarter. If the notes become convertible, full year earnings per share would be reduced by approximately $0.02.

**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**

**REVENUES**

Passenger ticket revenues increased 7.1% to $2.8 billion in 2003 compared to $2.6 billion in 2002. The increase in passenger ticket revenues was primarily due to a 12.1% increase in capacity, partially offset by lower cruise ticket prices and occupancy levels. The increase in capacity was primarily associated with the full year effect of the additions of *Constellation, Brilliance of the Seas* and *Navigator of the Seas* and the deliveries of *Serenade of the Seas* and *Mariner of the Seas* in 2003. The increase in capacity was partially offset by the cancellation of sailings due to the unanticipated drydock of two ships in 2003 and the transfer of *Viking Serenade* to Island Cruises, our joint venture with First Choice Holidays PLC, in 2002. Lower cruise ticket prices and occupancy levels were attributable to consumer apprehension towards travel prior to and during the war in Iraq and continued economic uncertainty. Occupancy in 2003 was 103.2% compared to 104.5% in 2002.

Onboard and other revenues increased 19.5% to $1.0 billion in 2003 compared to $0.8 billion in 2002. The increase was mainly attributable to a 19.8% increase in shipboard revenues resulting primarily from an increase in capacity and the assumption of certain onboard functions previously handled by a concessionaire. Included in onboard and other revenues were concession revenues of $163.0 million and $162.0 million in 2003 and 2002, respectively.

Gross Yields and Net Yields for 2003 decreased 1.7% and 0.6%, respectively, compared to 2002, primarily due to lower cruise ticket prices and occupancy levels.

**EXPENSES**

Operating expenses increased 12.7% to $2.4 billion in 2003 compared to $2.1 billion in 2002. The increase was primarily due to costs associated with an increase in capacity, the assumption of certain onboard functions previously handled by a concessionaire, fuel costs and the *Brilliance of the Seas* lease. The change in the concession arrangement resulted in higher payroll and related expenses and onboard and other expenses, partially offset by a decrease in food costs. Fuel costs as a percentage of total revenues were 5.2% and 4.5% for 2003 and 2002, respectively. Included in other operating expenses in 2002 was a charge of $20.0 million recorded in connection with a litigation settlement. In 2003, we reduced the amount of the charge by approximately $5.8 million based on the actual number of claims filed in these actions. (See Note 12. Commitments and Contingencies.) Operating expenses per Available Passenger Cruise Day increased 0.5% in 2003 compared to 2002.

Marketing, selling and administrative expenses increased 19.3% to $514.3 million in 2003 compared to $431.1 million in 2002. The increase in 2003 was primarily attributable to new initiatives associated with the Celebrity Cruises marketing campaign and a return to more normalized spending levels. The year 2002 reflected lower spending levels as a result of business decisions taken subsequent to the events of September 11, 2001. Marketing, selling and administrative expenses as a percentage of total revenues were 13.6% and 12.6% in 2003 and 2002, respectively. On a per Available Passenger Cruise Day basis, marketing, selling and administrative expenses in 2003 increased 6.4% from 2002.

Net Cruise Costs per Available Passenger Cruise Day increased 4.9% in 2003 compared to 2002. The increase in 2003 was primarily attributed to higher payroll and related expenses, fuel costs, *Brilliance of the Seas* lease payments, marketing costs associated with the Celebrity Cruises marketing campaign and a return to more normalized spending levels, partially offset by the reduction in the litigation settlement charge and a decrease in food costs.

Depreciation and amortization expenses increased 7.0% to $362.7 million in 2003 from $339.1 million in 2002. The increase was primarily due to incremental depreciation associated with the addition of new ships.

**OTHER INCOME (EXPENSE)**

Gross interest expense decreased to $284.3 million in 2003 from $290.3 million in 2002. The decrease was primarily attributable to lower interest rates. Capitalized interest decreased to $15.9 million in 2003 from $23.4 million in 2002 due to a lower average level of investment in ships under construction and lower interest rates.

Included in other income (expense) in 2002 was $33.0 million of net proceeds received in connection with the termination of the P&O Princess merger agreement and $12.3 million of compensation from shipyards related to the late delivery of ships.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

**Year Ended December 31, 2002 Compared to Year Ended December 31, 2001**

**REVENUES**

Passenger ticket revenues increased 6.7% to $2.6 billion compared to $2.4 billion in 2001. The increase in passenger ticket revenues was primarily due to a 15.0% increase in capacity, partially offset by a lower percentage of passengers who chose to book their air passage through us and lower cruise ticket prices. The increase in capacity was associated with the full year effect of the additions of *Infinity, Radiance of the Seas, Summit* and *Adventure of the Seas* and the deliveries of *Constellation, Brilliance of the Seas* and *Navigator of the Seas* in 2002. The increase in capacity was partially offset by the transfer of *Viking Serenade* to Island Cruises, our joint venture with First Choice Holidays PLC in 2002. Lower cruise ticket prices were attributed to the events of September 11, 2001, a general softness in the United States economy and an increase in industry capacity. Occupancy for 2002 was 104.5% compared to 101.8% in 2001.

Onboard and other revenues increased 17.7% to $0.8 billion in 2002 compared to $0.7 billion in 2001. The increase was mainly attributable to a 20.7% increase in shipboard revenues resulting primarily from an increase in capacity. Included in onboard and other revenues were concession revenues of $162.0 million and $131.6 million in 2002 and 2001, respectively.

Gross Yields and Net Yields for 2002 decreased 5.1% and 0.7%, respectively, compared to 200l, primarily due to lower cruise ticket prices. In addition, the decline in Gross Yields was also due to a lower percentage of passengers who chose to book their air passage through us.

**EXPENSES**

Operating expenses increased 9.2% to $2.1 billion in 2002 compared to $1.9 billion in 2001. Included in other operating expenses in 2002 was a charge of $20.0 million recorded in connection with a litigation settlement. (See Note 12. Commitments and Contingencies.) Operating expenses per Available Passenger Cruise Day in 2002 decreased 5.0% compared to 2001. The decline on a per Available Passenger Cruise Day basis was associated with fewer passengers purchasing air passage through us and lower commissions resulting from reduced cruise ticket prices.

Marketing, selling and administrative expenses decreased 5.1% to $431.1 million in 2002 compared to $454.1 million in 2001. Marketing, selling and administrative expenses as a percentage of revenues were 12.6% and 14.4% in 2002 and 2001, respectively. Included in 2001 were charges associated with business decisions taken subsequent to the events of September 11, 2001 involving itinerary changes, office closures and severance costs related to a reduction in force. On a per Available Passenger Cruise Day basis, marketing, selling and administrative expenses in 2002 decreased 17.5% from 2001 primarily due to economies of scale and cost reduction initiatives.

Net Cruise Costs per Available Passenger Cruise Day decreased 2.2% in 2002 compared to 2001. The decrease in 2002 was primarily due to cost reduction initiatives subsequent to the events of September 11, 2001.

Depreciation and amortization expenses increased 12.6% to $339.1 million in 2002 from $301.2 million in 2001. The increase was primarily due to incremental depreciation associated with the addition of new ships, partially offset by the elimination of $10.4 million of goodwill amortization in 2002. (See Note 2. Summary of Significant Accounting Policies.)

**OTHER INCOME (EXPENSE)**

Gross interest expense, was $290.3 million in 2002, essentially unchanged from 2001. The increase in the average debt level associated with our fleet expansion program was offset by a decrease in interest rates. Capitalized interest decreased to $23.4 million in 2002 from $37.0 million in 2001 due to a lower average level of investment in ships under construction and lower interest rates.

Included in other income (expense) in 2002 was $33.0 million of net proceeds received in connection with the termination of the P&O Princess merger agreement. Also included in other income (expense) in 2002 and 2001 was $12.3 million and $7.2 million, respectively, of compensation from shipyards related to the late delivery of ships.

**LIQUIDITY AND CAPITAL RESOURCES**

**SOURCES AND USES OF CASH**

Net cash provided by operating activities was $857.8 million in 2003 compared to $870.5 million in 2002 and $633.7 million in

2001. The change in each year was primarily due to the timing of cash receipts related to customer deposits and fluctuations in net income.

During the year ended December 31, 2003, our capital expenditures were approximately $1.0 billion compared to approximately $1.0 billion in 2002 and $2.1 billion in 2001. Capital expenditures were primarily related to the deliveries of *Serenade of the Seas* and *Mariner of the Seas* in 2003; *Constellation* and *Navigator of the Seas* in 2002; and *Infinity, Radiance of the Seas, Summit* and *Adventure of the Seas* in 2001, as well as progress payments for ships under construction in all years.

Capitalized interest decreased to $15.9 million in 2003 from $23.4 million in 2002 and $37.0 million in 2001 due to a lower average level of investment in ships under construction and lower interest rates.

In July 2002, we financed the addition of *Brilliance of the Seas* to our fleet by novating our original ship building contract and entering into an operating lease denominated in British pound sterling. In connection with the novation of the contract, we received $77.7 million for reimbursement of shipyard deposits previously made. (See Note 12. Commitments and Contingencies.)

During 2003, we received net cash proceeds of $0.6 billion from the issuance of senior unsecured notes due through 2013. During 2002, we obtained financing of $0.3 billion related to the acquisition of *Constellation*. During 2001, we received net cash proceeds of $1.8 billion from the issuance of Liquid Yield Option Notes, senior notes, term loans, zero coupon convertible notes and drawings on our revolving credit facility as well as obtained financing of $0.3 billion related to the acquisition of *Summit*. (See Note 6. Long-Term Debt.)

We made principal payments totaling approximately $231.1 million, $603.3 million and $45.6 million under various term loans, senior notes, revolving credit facilities and capital leases during 2003, 2002 and 2001, respectively.

During 2003, 2002 and 2001, we paid quarterly cash dividends on our common stock totaling $98.3 million, $100.1 million and $100.0 million, respectively.

**FUTURE CAPITAL COMMITMENTS**

We have two ships on order designated for the Royal Caribbean International fleet. We are scheduled to take delivery of *Jewel of the Seas*, a Radiance-class ship, in the second quarter of 2004. In September 2003, we entered into an agreement with a shipyard to purchase an Ultra-Voyager ship scheduled for delivery in the second quarter of 2006. We have an option, exercisable through August 2004, to purchase an additional Ultra-Voyager ship for delivery, subject to certain conditions, in 2007. The option has a price of approximately 0.6 billion euros.