

\$500,000,000



Royal Caribbean Cruises Ltd.

\$200,000,000 7% Senior Notes due 2007



Like no vacation on earth.

\$300,000,000 7½% Senior Debentures due 2027

Interest on the 7% Senior Notes due 2007 (the "Senior Notes") and the 7½% Senior Debentures due 2027 (the "Senior Debentures," and together with the Senior Notes, the "Senior Securities") of Royal Caribbean Cruises Ltd. (the "Company") will be payable semi-annually on April 15 and October 15 of each year, commencing April 15, 1998. The Senior Securities are not redeemable prior to maturity and do not provide for any sinking fund.

The Senior Securities of each series will be represented by a Global Security registered in the name of the nominee of The Depository Trust Company (the "Depository"). Beneficial interests in the Global Security will be shown on, and transfers thereof will be effected only through, records maintained by the Depository and its participants. Except as described herein, Senior Securities in definitive form will not be issued. See "Description of Senior Securities."

The Senior Securities will constitute unsecured and unsubordinated indebtedness of the Company and will rank on parity with the Company's other unsecured and unsubordinated indebtedness.

See "Risk Factors" beginning on page S-4 for a discussion of certain factors that should be considered in connection with an investment in the Senior Securities offered hereby.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS TO WHICH IT RELATES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

| | Price to Public (1) | Underwriting Discount (2) | Proceeds to Company (1) (3) |
|--|---------------------|---------------------------|-----------------------------|
| Per Senior Note <i>A.F.S.</i> | 99.708% | .65% | 99.058% |
| Total | \$199,416,000 | \$1,300,000 | \$198,116,000 |
| Per Senior Debenture ... <i>A.E.F.</i> | 98.591% | .875% | 97.716% |
| Total | \$295,773,000 | \$2,625,000 | \$293,148,000 |

- (1) Plus accrued interest, if any, from October 14, 1997.
- (2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."
- (3) Before deducting estimated expenses of \$300,000 payable by the Company.

The Senior Securities are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the Senior Securities will be made in book-entry form through the facilities of The Depository Trust Company on or about October 14, 1997.

Merrill Lynch & Co.
ABN AMRO Chicago Corporation
Chase Securities Inc.
Citicorp Securities, Inc.
NationsBanc Montgomery Securities, Inc.
Scotia Capital Markets

The date of this Prospectus Supplement is October 8, 1997.

CERTAIN PERSONS PARTICIPATING IN THE OFFERINGS OF THE SENIOR SECURITIES MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SENIOR SECURITIES. SUCH TRANSACTIONS MAY INCLUDE STABILIZING AND THE PURCHASE OF SENIOR SECURITIES TO COVER SYNDICATE SHORT POSITIONS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

INCORPORATION OF ADDITIONAL DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 20-F for the fiscal year ended December 31, 1996 (File No. 1-11884) has been filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is incorporated herein by reference. The Company's Form 6-Ks filed with the Commission on May 14, 1997, August 6, 1997, August 8, 1997 and August 20, 1997 pursuant to the Exchange Act are incorporated herein by reference.

THE COMPANY

Royal Caribbean Cruises Ltd., a Liberian corporation, and its subsidiaries (the "Company") is the world's second largest cruise company with 16 cruise ships (one of which has been sold and will operate under a charter agreement until early January, 1998) and a total of 28,000 berths. The Company operates more than 80 different itineraries that call on more than 140 destinations on five continents. At year end 1997, the Company's fleet will have an average age of five years, which the Company believes will be the youngest of any major cruise company. The Company's market share of North American passengers carried in 1996 is estimated to have been approximately 21% and, pro forma for the acquisition of Celebrity Cruise Lines Inc. ("Celebrity"), the Company's market share in 1996 is estimated to have been approximately 27%.

Since 1970, cruising has been one of the fastest growing sectors of the vacation market, as the number of North American passengers has grown to 4.7 million in 1996 from 0.5 million in 1970, a compound annual growth rate of approximately 9%, according to Cruise Lines International Association ("CLIA"). The Company has capitalized on the increasing popularity of cruises through an extensive fleet expansion program and the acquisition of Celebrity. The Company's revenues have increased at a compound annual growth rate of approximately 13% between 1988 and June 30, 1997.

On July 30, 1997, the Company acquired all of the outstanding stock of Celebrity for a purchase price of \$515 million payable in cash of \$245 million and 7,448,276 shares of the Company's Common Stock. Celebrity is a strong brand with a modern fleet that has built a well-known reputation for product quality in the premium market. The acquisition of Celebrity is expected to permit the Company to realize higher brand awareness, increased market presence and an ability to leverage the strengths of the respective brands in the marketplace. The Company believes the Celebrity acquisition will result in greater economies of scale and allow the Company to achieve further operating efficiencies with the integration of certain functions such as finance, human resources, information systems, reservations call centers and purchasing. The Company is proceeding with a formalized integration study to identify additional opportunities to ensure an efficient merger of the organizations without impacting the separate brands and cultures.

The Company intends to operate under two separate brands, the Royal Caribbean International brand ("Royal Caribbean") and the Celebrity Cruises brand ("Celebrity Cruises").

The Royal Caribbean International Brand

Royal Caribbean serves the volume market which it categorizes as the contemporary and premium segments. Royal Caribbean has positioned itself as a provider of quality contemporary cruise vacations using the tag line, "*Like no vacation on earth*". Royal Caribbean operates 12 cruise ships (one of which has been sold and will operate under a charter agreement until early January, 1998) with an aggregate of 21,700 berths, offering more than 50 different cruise itineraries, that range from three to 15 nights and call on more than 130 destinations on five continents.

Royal Caribbean's strategy is to attract a broad array of vacationing consumers in the contemporary segment of the volume market by providing a wide variety of itineraries, varying cruise lengths and multiple options for dining and entertainment aboard its vessels. The Company believes that the variety and quality of Royal Caribbean's product offering represent excellent value to consumers, especially to couples and families traveling with children. While Royal Caribbean is positioned at the upper end of the contemporary segment, the Company believes that Royal Caribbean's quality enables it to attract consumers from the premium segment as well, thereby achieving the broadest market coverage of any of the major brands in the cruise industry.

The Celebrity Cruises Brand

Celebrity Cruises primarily serves the premium cruise vacation market. Celebrity Cruises currently operates four ships. A new ship will enter service as part of the fleet in October 1997. When this new ship, *Mercury*, enters service, the five-ship fleet will have approximately 8,200 berths. Celebrity Cruises offers more than 40 different itineraries, that range from six to 18 nights, reaching over 50 ports of call in Alaska, Bermuda, the Caribbean and Trans-canal.

Celebrity Cruises' strategy is to attract consumers who want an enhanced cruise vacation in terms of modern vessels, fine dining and service, larger than average staterooms, a high staff to guest ratio, excellent spas and high technology. These are hallmarks of the premium cruise vacation market, which is Celebrity Cruises' primary target. One of Celebrity Cruises' principal objectives is to offer a premium cruise experience that reflects substantial value to the consumer. As such, it also attracts consumers from the contemporary and luxury cruise categories.

With modern fleets, each of the brands offers a wide array of shipboard activities, services and amenities including swimming pools, sun decks, beauty salons, exercise and massage facilities, gaming facilities, lounges, bars, show-time entertainment, retail shopping and cinemas. Although many of the shipboard activities are included in the base price of the cruise, revenues are also realized from gaming facilities, the sale of alcoholic and other beverages, retail sales and shore excursions.

RECENT DEVELOPMENTS

On September 16, 1997, the Company completed its offering of 10,350,000 shares of Common Stock at a public offering price of \$40-5/8 per share (the "Common Stock Offering"). Of the total shares sold, 996,285 shares were sold by a selling shareholder and the balance of 9,353,715 shares was sold by the Company. The net proceeds to the Company totalled \$365,269,878.

On September 29, 1997, a subsidiary of Celebrity consummated the sale of the 1,100-passenger cruise ship *Meridian* to a subsidiary of Metro Holdings Ltd. of Singapore. The sale price was approximately \$61.5 million.

On October 2, 1997, the Company sold the 714-passenger cruise ship *Sun Viking* to Star Cruises. The sale price was \$30 million and the Company will record a gain on the sale in the fourth quarter of 1997. Royal Caribbean will continue to operate *Sun Viking* until early January, 1998 under a charter agreement.

RISK FACTORS

Prospective investors in the securities offered hereby should consider the specific risk factors set forth below as well as the other information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. This Prospectus Supplement and the accompanying Prospectus contain or incorporate statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those statements appear in a number of places in this Prospectus Supplement and the accompanying Prospectus and in the documents incorporated by reference and may include statements regarding, among other matters, the intent, belief or current expectations of the Company or its officers with respect to (i) the Company's operating strategies, (ii) the Company's capital expenditures, financing or other matters, and (iii) regulatory matters pertaining to the Company specifically and the industry in general, industry trends, competition and other factors affecting the Company's financial condition or results of operations. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. Such factors include inter alia general economic and business conditions, cruise industry competition, integration of Celebrity into the Company, the impact of tax laws and regulations affecting the Company and its principal shareholders, changes in other laws and regulations affecting the Company, delivery schedule of new vessels, emergency ship repairs, incidents involving cruise vessels at sea, changes in interest rates and weather. For purposes of the foregoing discussion, references to "the Company" means the Company and all of its subsidiaries.

Taxation of the Company

The Company and its wholly owned subsidiary, Celebrity Cruises Inc. ("CCI"), are foreign corporations that are engaged in a trade or business in the United States, and the Company's vessel-owning subsidiaries are foreign corporations that in many cases, depending upon their itineraries, receive income from sources within the United States. However, Drinker Biddle & Reath LLP, United States tax counsel to the Company, has delivered to the Company its opinion to the effect that, pursuant to Section 883 of the Internal Revenue Code (the "Code"), the income of the Company, CCI and the Company's vessel-owning subsidiaries, in each case derived from or incidental to the international operation of a ship or ships, is exempt from United States income tax. The Company believes that substantially all of its income and the income of CCI and the vessel-owning subsidiaries is derived from or incidental to the international operation of a ship or ships within the meaning of Section 883 of the Code.

Tax counsel is of the opinion based on certain representations and assumptions that the Company, CCI and the Company's vessel-owning subsidiaries currently qualify for the Section 883 exemption because each of them is incorporated in a qualifying jurisdiction and the Company's stock is primarily and regularly traded on an established securities market in the United States.

Tax counsel's opinion with respect to Section 883 of the Code is based in part upon its interpretation of regulations promulgated under other Code sections containing similar statutory language and counsel's views as to the modifications and interpretations of such regulations, which counsel believes should reasonably be adopted if regulations promulgated under Section 883 were to utilize a similar approach. No Treasury regulations or other definitive interpretations of the relevant portions of Section 883 have been promulgated. As noted in tax counsel's opinion, such regulations or official interpretations could differ materially from tax counsel's interpretation of this Code provision and, even in the absence of such regulations or official interpretations, the Internal Revenue Service might successfully challenge such interpretation. In addition, the provisions of Section 883 are subject to change at any time by legislation. Moreover, changes could occur in the future with respect to the identity, residence, or holdings of the Company's direct or indirect shareholders that could affect the Company's and its subsidiaries' eligibility for the Section 883 exemption. Accordingly, there can be no assurance that the Company and its subsidiaries are, and will in the future be, exempt from United States income tax on U.S.-source shipping income.

If the Company, CCI and the Company's vessel-owning subsidiaries were not entitled to the benefit of Section 883 of the Code, they would be subject to United States taxation on a portion of their income. See "Business — Taxation of the Company" for a discussion of the taxation of the Company, CCI and the Company's vessel-owning subsidiaries in the absence of an exemption under Section 883 of the Code including a discussion of the percentage of their income which the Company estimates would then be subject to United States income tax.

Control By Principal Shareholders

As of September 22, 1997, A. Wilhelmsen AS., a Norwegian corporation indirectly beneficially owned by members of the Wilhelmsen family of Norway ("Wilhelmsen"), owned approximately 29.4% of the common stock of the Company (the "Common Stock") and Cruise Associates, a Bahamian general partnership indirectly beneficially owned by various trusts primarily for the benefit of certain members of the Pritzker family of Chicago, Illinois, a trust primarily for the benefit of certain members of the Ofer family and a corporation beneficially owned by members of the Ofer family ("Cruise Associates"), owned approximately 31.4% of the Common Stock. By owning a majority of the Common Stock, Wilhelmsen and Cruise Associates have the power to determine the policies of the Company and its subsidiaries, the persons constituting the directors and officers thereof and the outcome of various corporate actions requiring shareholder approval. Wilhelmsen and Cruise Associates are parties to a Shareholders Agreement dated as of February 1, 1993 (the "Shareholders Agreement") relating to the organization and operation of the Company and certain matters concerning their respective ownership of the Company's voting stock. Pursuant to the Shareholders Agreement, Wilhelmsen and Cruise Associates have agreed to vote their shares of Common Stock in favor of: (i) up to four nominees of Wilhelmsen (at least one of whom must be independent); (ii) up to four nominees of Cruise Associates (at least one of whom must be independent); and (iii) one nominee who must be Richard D. Fain or such other individual who is then employed as the Company's chief executive officer, in each case as directors of the Company. In connection with the Company's acquisition of Celebrity, Wilhelmsen and Cruise Associates have agreed to vote their shares of Common Stock in favor of the election of two additional directors, one to be nominated by each of the two former shareholders of Celebrity, Archinav Holdings, Ltd and Overseas Cruiseship, Inc., for a specified period of up to seven years from the date of the acquisition. In addition, until either of them should decide otherwise, Wilhelmsen and Cruise Associates have agreed to vote their shares of Common Stock in favor of Edwin W. Stephan as a director of the Company. The Company's Restated Articles of Incorporation provides that during the term of the Shareholders Agreement certain corporate actions require the approval of at least one director of the Company who was nominated by Wilhelmsen and one director of the Company who was nominated by Cruise Associates (in each case other than an independent nominee). Except as provided in the Shareholders Agreement or applicable law, the shareholders of the Company are not prohibited from engaging in any business that may be competitive with the Company. The failure of Wilhelmsen and Cruise Associates to continue to own a specified percentage of the Common Stock may result in a default under the Company's long-term indebtedness.

USE OF PROCEEDS

The net proceeds from the sale of the Senior Securities offered hereby are estimated to be \$491.0 million. The Company intends to use such net proceeds for general corporate purposes, including capital expenditures, and to repay a portion of indebtedness outstanding under its \$1.0 billion unsecured revolving credit facility (the "\$1.0 Billion Revolving Credit Facility") or a portion of Celebrity's secured indebtedness ("Celebrity Secured Indebtedness"). The \$1.0 Billion Revolving Credit Facility provides for unsecured, revolving credit indebtedness of up to \$1.0 billion, until June 2001, at contractual borrowing rates and facility fees varying with the Company's debt rating (currently 0.30% over the London Interbank Offered Rate ("LIBOR") and 0.15% respectively). The Celebrity Secured Indebtedness consists of fixed rate loans bearing interest substantially at 8% due through 2005 and variable rate loans bearing interest at rates ranging from LIBOR plus .75% to 1.25% due through 2008. As of September 30, 1997, the outstanding balance under the \$1.0 Billion Revolving Credit Facility was \$485.0 million and the effective interest rate was 6.14%.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratio of earnings to fixed charges for the Company for the six months ended June 30, 1997 and each of the last five fiscal years prior thereto. For the purpose of calculating such ratio, earnings include net income plus fixed charges, excluding capitalized interest. Fixed charges include gross interest expense, amortization of deferred financing expenses and an amount equivalent to interest included in rental charges. The Company has assumed that one-third of rental expense is representative of the interest factor. There was no Preferred Stock outstanding for each of the last five fiscal years. Accordingly, the ratio of earnings to combined fixed charges and preferred stock dividends is identical to the ratio of earnings to fixed charges for those periods

| Six Months Ended June 30, 1997* | Fiscal Year | | | | |
|---------------------------------------|-------------|------|------|------|------|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| 2.4 | 2.4 | 2.9 | 3.6 | 2.8 | 1.7 |

* The ratio of earnings to combined fixed charges and preferred stock dividends for the six months ended June 30, 1997 is 2.2.

CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company (i) as of June 30, 1997, (ii) pro forma for the acquisition of Celebrity, (iii) pro forma for the issuance of Common Stock pursuant to the Common Stock Offering and the application of the net proceeds thereof and for the acquisition of Celebrity and (iv) pro forma to give effect to the issuance and sale of the Senior Securities pursuant to the Offerings and the application of the net proceeds thereof, the issuance of Common Stock pursuant to the Common Stock Offering and the application of the net proceeds thereof and for the acquisition of Celebrity. See "Use of Proceeds." This table should be read in conjunction with the Company's unaudited consolidated financial statements incorporated herein by reference.

| | As of June 30, 1997 | | | |
|--|---------------------------|----------------------------------|--|---|
| | Actual | Pro forma for Celebrity(1) | Pro forma for Common Stock Offering and Celebrity(1) | Pro forma for the Offerings, the Common Stock Offering and Celebrity(1) |
| | (unaudited, in thousands) | | | |
| Current Portion of Long-Term Debt | \$ 13,571 | \$ 103,303 | \$ 103,303 | \$ 103,303 |
| Long-Term Debt: | | | | |
| Revolving Credit Facilities(2) | \$ 368,000 | \$ 613,000 | \$ 248,130 | \$ — |
| 7¼% Senior Notes due 2002 | 149,178 | 149,178 | 149,178 | 149,178 |
| 8¼% Senior Notes due 2004 | 123,695 | 123,695 | 123,695 | 123,695 |
| 8¼% Senior Notes due 2005 | 149,104 | 149,104 | 149,104 | 149,104 |
| 7¼% Senior Notes due 2006 | 172,881 | 172,881 | 172,881 | 172,881 |
| 7% Senior Notes due 2007(3) | — | — | — | 199,416 |
| 7½% Senior Debentures due 2027(4) | — | — | — | 295,773 |
| Capital Lease Obligation — <i>Legend of the Seas</i> | 227,919 | 227,919 | 227,919 | 227,919 |
| Capital Lease Obligation — <i>Splendour of the Seas</i> | 238,527 | 238,527 | 238,527 | 238,527 |
| Secured Debt(5) | — | 810,479 | 810,479 | 810,479 |
| Total Long-Term Debt | <u>1,429,304</u> | <u>2,484,783</u> | <u>2,119,913</u> | <u>2,366,972</u> |
| Shareholders' Equity: | | | | |
| Preferred Stock; \$.01 par value; 20,000,000 shares authorized; \$3.625 Convertible, Series A; \$50 liquidation preference; 3,450,000 issued and outstanding | 172,500 | 172,500 | 172,500 | 172,500 |
| Common Stock; \$.01 par value; 100,000,000 authorized; 64,006,240, 71,454,516 and 80,808,231 shares issued, respectively (6)(7)(8) .. | 640 | 714 | 808 | 808 |
| Paid-in Capital(6)(7) | 550,235 | 820,161 | 1,184,937 | 1,184,937 |
| Retained Earnings | 591,508 | 591,508 | 591,508 | 591,508 |
| Treasury Stock (146,988 shares of Common Stock at cost) | (4,079) | (4,079) | (4,079) | (4,079) |
| Total Shareholders' Equity | <u>1,310,804</u> | <u>1,580,804</u> | <u>1,945,674</u> | <u>1,945,674</u> |
| Total Long-Term Debt and Shareholders' Equity | <u>\$2,740,108</u> | <u>\$4,065,587</u> | <u>\$4,065,587</u> | <u>\$ 4,312,646</u> |

- (1) The pro forma data gives effect to the acquisition of Celebrity on July 30, 1997 as if it had occurred on June 30, 1997.
- (2) The Company's revolving credit facilities consist of a \$1.0 Billion Revolving Credit Facility and a \$300 million revolving credit facility (the "\$300 Million Revolving Credit Facility"). In July 1997, the Company entered into the \$300 Million Revolving Credit Facility which provides for unsecured, revolving credit indebtedness of up to \$300 million until July 1998 and thereafter, at the Company's option, amounts outstanding can be converted to a two year term loan repayable in a lump sum on July 2000. Contractual borrowing rates and facility fees vary with the Company's debt rating (currently .25% over the LIBOR and .10%, respectively). Both the \$300 Million Revolving Credit Facility and the \$1.0 Billion Revolving Credit Facility contain a competitive bid provision which may allow the Company to borrow funds at less than the contractual interest rate. Celebrity has several facilities which provide for unsecured revolving credit indebtedness and guarantees of up to \$55 million and \$70 million, respectively. Contractual borrowing rates vary with Celebrity's credit rating or financial ratios. Facility fees range from .125% - .375% and guarantee fees range from .50% - .625%.
- (3) Reflects unamortized debt discount of \$584,000.
- (4) Reflects unamortized debt discount of \$4,227,000.
- (5) Consists of fixed rate loans bearing interest substantially at 8% due through 2005 and variable rate loans bearing interest at rates ranging from LIBOR plus .75% to 1.25% due through 2008. These bank term loans are secured by Celebrity's vessels and are guaranteed by a subsidiary of Celebrity.
- (6) 7,448,276 shares of Common Stock were issued as part of the purchase price of Celebrity.
- (7) 9,353,715 shares of Common Stock were issued on September 16, 1997 in connection with the Common Stock Offering.
- (8) Excludes an aggregate of 2,506,484 shares of Common Stock issuable pursuant to stock options outstanding at June 30, 1997.

SELECTED FINANCIAL DATA

The following selected financial data are for each of the fiscal years in the period 1992 through 1996 and the first six months of 1997 and 1996 and as of the end of each such fiscal year and six month period. The financial information presented for fiscal years 1996, 1995 and 1994 and the first six months of 1997 and 1996 and as of the end of such fiscal years and six month periods is derived from the consolidated financial statements of the Company and should be read in conjunction with such consolidated financial statements and the related notes thereto contained in the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 1996 and which is incorporated herein by reference. The Company's operating results and other data in respect of a specific year prior to 1994, shall be references to the 52- or 53-week period ended on the Friday nearest December 31 of such year (e.g., "fiscal 1993" or "1993" shall mean the Company's fiscal year ended December 31, 1993). Effective January 1, 1994, the Company changed to calendar years and quarters. The information presented for the first six months of 1997 and 1996 and the passenger data presented for all periods are unaudited and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such data. The results for the first six months of 1997 are not necessarily indicative of the results to be expected for the entire year.

The following should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | First Six Months | | Fiscal Years | | | | |
|--|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 1997 | 1996 | 1996 | 1995 | 1994 | 1993 | 1992 |
| | (dollars in thousands, except per share data) | | | | | | |
| Operating Data: | | | | | | | |
| Revenues | \$ 798,057 | \$ 672,614 | \$ 1,357,325 | \$ 1,183,952 | \$ 1,171,423 | \$ 1,112,791 | \$ 1,012,815 |
| Expenses: | | | | | | | |
| Operating | 505,707 | 424,834 | 854,478 | 742,467 | 728,760 | 696,437 | 635,690 |
| Marketing, selling and administrative | 110,883 | 94,997 | 194,629 | 177,481 | 179,051 | 168,355 | 160,777 |
| Depreciation and amortization(1) | 53,433 | 44,689 | 91,185 | 80,071 | 77,892 | 86,509 | 78,004 |
| Operating Income | 128,034 | 108,094 | 217,033 | 183,933 | 185,720 | 161,490 | 138,344 |
| Interest Income | 962 | 526 | 2,278 | 965 | 879 | 1,130 | 2,105 |
| Interest Expense(2) | (43,246) | (35,516) | (76,540) | (54,844) | (43,349) | (54,372) | (82,239) |
| Other Income (Expense) (3) | (1,351) | (2,085) | 8,095 | 18,904 | (925) | (1,510) | 2,397 |
| Income Before Extraordinary Item | 84,399 | 71,019 | 150,866 | 148,958 | 142,325 | 106,738 | 60,607 |
| Extraordinary Item(4) | (7,558) | — | — | — | (5,700) | — | — |
| Net Income | <u>\$ 76,841</u> | <u>\$ 71,019</u> | <u>\$ 150,866</u> | <u>\$ 148,958</u> | <u>\$ 136,625</u> | <u>\$ 106,738</u> | <u>\$ 60,607</u> |
| Per Share Data: | | | | | | | |
| Income Before Extraordinary Item | \$ 1.25 | \$ 1.12 | \$ 2.37 | \$ 2.35 | \$ 2.25 | \$ 1.80 | \$ 1.17 |
| Extraordinary Item(4) | (0.12) | — | — | — | (0.09) | — | — |
| Net Income(5) | <u>\$ 1.13</u> | <u>\$ 1.12</u> | <u>\$ 2.37</u> | <u>\$ 2.35</u> | <u>\$ 2.16</u> | <u>\$ 1.80</u> | <u>\$ 1.17</u> |
| Common Stock Dividends(6) | <u>\$ 0.28</u> | <u>\$ 0.26</u> | <u>\$ 0.54</u> | <u>\$ 0.48</u> | <u>\$ 0.40</u> | <u>\$ 0.56</u> | <u>\$ —</u> |
| Weighted Average Number of Shares | | | | | | | |
| Outstanding | 63,897,885 | 63,585,977 | 63,647,490 | 63,517,643 | 63,367,290 | 59,434,097 | 51,785,706 |
| Passenger Data: | | | | | | | |
| Passengers Carried | 607,091 | 478,624 | 973,602 | 873,515 | 866,288 | 852,717 | 829,321 |
| Percentage of Total Capacity(7) | 104.1% | 101.6% | 101.3% | 100.5% | 100.8% | 98.8% | 99.2% |
| Weighted Average Berths(8) | 18,773 | 15,922 | 16,536 | 14,672 | 14,228 | 14,228 | 13,443 |
| Passenger Cruise Days(9) | 3,454,955 | 2,946,615 | 6,055,068 | 5,224,655 | 5,180,426 | 5,074,830 | 4,840,645 |
| Balance Sheet and Other Data: | | | | | | | |
| Vessels Under Capital Leases and Property and Equipment, Net | \$2,745,530 | | \$2,378,934 | \$1,758,446 | \$1,384,814 | \$1,355,388 | \$1,351,668 |
| Total Assets | 3,211,815 | | 2,842,299 | 2,203,243 | 1,865,004 | 1,811,836 | 1,841,726 |
| Total Debt, including Capital Leases | 1,442,875 | | 1,366,967 | 935,692 | 747,107 | 798,163 | 1,120,979 |
| Shareholders' Equity | 1,310,804 | | 1,084,934 | 965,088 | 845,622 | 732,756 | 464,485 |
| Capital Expenditures(10) | <u>\$ 412,660</u> | <u>\$ 345,634</u> | <u>\$ 722,389</u> | <u>\$ 427,535</u> | <u>\$ 145,453</u> | <u>\$ 80,504</u> | <u>\$ 268,248</u> |

(Footnotes on following page)

Footnotes

- (1) Effective January 1, 1994, the Company revised its depreciation policy to recognize extended estimated service lives from 25 to 30 years and higher residual values on certain of its vessels. The change in vessel depreciation reduced depreciation expense and increased net income by approximately \$10.0 million, or \$0.16 per share, during 1994.
- (2) Interest expense is net of capitalized interest of \$8.6 million and \$8.0 million for the first six months of 1997 and 1996, respectively, and \$15.9 million, \$14.1 million, \$7.3 million, \$1.7 million and \$2.7 million for fiscal years 1996, 1995, 1994, 1993 and 1992, respectively.
- (3) Includes a charge of \$2.0 million, or \$0.03 per share, for expenses incurred in evaluating a potential transaction in the first six months of 1996, a gain of \$10.3 million, or \$0.16 per share, on the sale of *Song of Norway* in 1996 and a gain on the sale of *Nordic Prince* of \$19.2 million, or \$0.30 per share, in 1995.
- (4) During the first six months of 1997 and fiscal year 1994, the Company prepaid a portion of its indebtedness resulting in extraordinary items of \$7.6 million, or \$0.12 per share, and \$5.7 million, or \$0.09 per share, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations."
- (5) Net income per share is computed by dividing net income, after deducting preferred stock dividends accumulated during the period, by the weighted average number of shares of Common Stock outstanding during each period.
- (6) Fiscal year 1993 includes a \$0.29 per share cash dividend to the Company's shareholders for fiscal 1992.
- (7) In accordance with cruise industry practice, total capacity is calculated based on two passengers per cabin even though some cabins accommodate three or four passengers. A percentage in excess of 100% indicates that more than two passengers occupied some cabins.
- (8) Represents double occupancy per cabin multiplied by the ratio of actual operating days to total days during the period.
- (9) Represents the number of passengers carried multiplied by the number of days of their respective cruises.
- (10) Includes final payment for *Rhapsody of the Seas*, deposits on *Vision of the Seas*, Eagle-class vessel No. 1 and Eagle-class vessel No. 2 for the first six months of 1997; final payment for *Splendour of the Seas*, deposits on *Grandeur of the Seas* and *Rhapsody of the Seas* for the first six months of 1996; final payment for *Grandeur of the Seas* and *Splendour of the Seas*, deposits on *Grandeur of the Seas*, *Enchantment of the Seas*, *Rhapsody of the Seas* and *Vision of the Seas* in 1996; final payment for *Legend of the Seas* and deposits on *Splendour of the Seas*, *Grandeur of the Seas*, *Rhapsody of the Seas*, *Enchantment of the Seas* and *Vision of the Seas* in 1995; deposits on *Legend of the Seas*, *Grandeur of the Seas*, *Rhapsody of the Seas* and *Enchantment of the Seas* in 1994; deposits on *Legend of the Seas* and *Splendour of the Seas* in 1993; final payment for *Majesty of the Seas* in 1992; and progress payments for ships, refurbishment of vessels and capital expenditures for shoreside operations during all periods.

PRO FORMA SELECTED FINANCIAL DATA

On July 30, 1997, the Company acquired all of the outstanding stock of Celebrity for a purchase price of \$515 million, payable in cash of \$245 million and 7,448,276 shares of the Company's Common Stock. The following summary financial data gives effect to the acquisition of Celebrity as if it had occurred on January 1, 1996 for operating data and June 30, 1997 for balance sheet data. This summary financial data does not give effect to the Common Stock Offering. This information is derived from the unaudited pro forma condensed combined financial statements and related notes thereto in the Company's report on Form 6-K filed with the Commission on August 8, 1997 which is incorporated herein by reference.

| | First Six Months 1997 | Fiscal Year 1996 |
|---|----------------------------------|-----------------------------|
| <small>(unaudited, dollars in thousands, except per share data)</small> | | |
| Operating Data: | | |
| Revenues | \$ 1,055,621 | \$ 1,769,216 |
| Expenses: | | |
| Operating | 669,999 | 1,117,158 |
| Marketing, selling and administrative | 152,875 | 274,149 |
| Depreciation and amortization | 79,450 | 131,475 |
| Operating Income | <u>153,297</u> | <u>246,434</u> |
| Interest Income | 3,091 | 5,941 |
| Interest Expense | (77,128) | (124,390) |
| Other Income (Expense) | (3,140) | 8,513 |
| Income Before Extraordinary Item | <u>\$ 76,120</u> | <u>\$ 136,498</u> |
| Per Share Data: | | |
| Income Before Extraordinary Item | <u>\$ 1.00</u> | <u>\$ 1.92</u> |
| Weighted Average Number of Shares Outstanding | 71,346,161 | 71,095,766 |
| Balance Sheet Data: | | |
| Vessels Under Capital Leases and Property and Equipment, net | \$ 4,263,317 | |
| Total Assets | 4,848,342 | |
| Total Debt, including Capital Leases | 2,588,086 | |
| Shareholders' Equity | 1,580,804 | |

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

Certain statements under this caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," may constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. Such factors include inter alia general economic and business conditions, cruise industry competition, integration of Celebrity into the Company, the impact of tax laws and regulations affecting the Company and its principal shareholders, changes in other laws and regulations affecting the Company, delivery schedule of new vessels, emergency ship repairs, incidents involving cruise vessels at sea, changes in interest rates and weather.

For purposes of "Management's Discussion and Analysis of Financial Condition and Results of Operations," references to "the Company" do not include Celebrity, except for the subsection entitled "Liquidity and Capital Resources."

Results of Operations:

The following table presents summary information from the Company's Consolidated Statements of Operations:

| | First Six Months(1) | | Fiscal Years | | |
|--|--|-----------|--------------|-------------|-------------|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (dollars in thousands, except per share amounts) | | | | |
| Summary Consolidated Statements of Operations: | | | | | |
| Revenues | \$798,057 | \$672,614 | \$1,357,325 | \$1,183,952 | \$1,171,423 |
| Operating Income | 128,034 | 108,094 | 217,033 | 183,933 | 185,720 |
| Income Before Extraordinary Item(2) .. | 84,399 | 71,019 | 150,866 | 148,958 | 142,325 |
| Net Income | 76,841 | 71,019 | 150,866 | 148,958 | 136,625 |
| Earnings Per Share | \$ 1.13 | \$ 1.12 | \$ 2.37 | \$ 2.35 | \$ 2.16 |
| Operating Data as a Percentage of Total Revenues: | | | | | |
| Revenues | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Expenses: | | | | | |
| Operating | 63.4 | 63.2 | 63.0 | 62.7 | 62.2 |
| Marketing, Selling and Administrative | 13.9 | 14.1 | 14.3 | 15.0 | 15.3 |
| Depreciation and Amortization | 6.7 | 6.6 | 6.7 | 6.8 | 6.6 |
| Operating Income | 16.0 | 16.1 | 16.0 | 15.5 | 15.9 |
| Other Income (Expense)(3) | (5.5) | (5.5) | (4.9) | (2.9) | (3.8) |
| Income Before Extraordinary Item | 10.5 | 10.6 | 11.1 | 12.6 | 12.1 |
| Extraordinary Item | (0.9) | — | — | — | (0.5) |
| Net Income | 9.6% | 10.6% | 11.1% | 12.6% | 11.6% |

- (1) The Company's revenues are moderately seasonal, due to variations in rates and occupancy percentages.
- (2) During the first six months of 1997 and fiscal year 1994, the Company prepaid a portion of its indebtedness resulting in extraordinary items of \$7.6 million, or \$0.12 per share, and \$5.7 million or \$0.09 per share, respectively.
- (3) Includes gain on sale of *Nordic Prince* of \$19.2 million, or \$0.30 per share, in 1995, gain on sale of *Song of Norway* of \$10.3 million, or \$0.16 per share, in 1996 and a charge of \$2.0 million, or \$0.03 per share, relating to the evaluation of a potential transaction in the first six months of 1996.

First Six Months Ended June 30, 1997 and 1996

Summary

For the six-month period ended June 30, 1997, revenues increased 18.6% to \$798.1 million compared to \$672.6 million in 1996 due to increased capacity and revenue per available lower berth ("Yield"). Operating income increased 18.4% to \$128.0 million from \$108.1 million in 1996. Income before extraordinary item for the first half of 1997 was \$84.4 million, or \$1.25 per share, compared to \$71.0 million, or \$1.12 per share, for the same period in 1996. The 1996 results include a charge of \$2.0 million, or \$0.03 per share, for expenses incurred in evaluating a potential transaction. In 1997, after the extraordinary item, net income for the six months ended June 30, 1997 was \$76.8 million, or \$1.13 per share.

Revenues. Revenues for the first six months of 1997 increased 18.6% to \$798.1 million from \$672.6 million for the first six months of 1996. The increase in revenues for the first six months of 1997 was primarily due to an increase in capacity of 14.4%, as well as an increase in yield. The capacity increase was due to the introduction of *Splendour of the Seas* in the second quarter of 1996, *Grandeur of the Seas* in the fourth quarter of 1996 and *Rhapsody of the Seas* in the second quarter of 1997, partially offset by the *Song of Norway* which left the fleet in the first quarter of 1997. Yield for the first six months of 1997 increased 3.8% due to an increase in occupancy levels to 104.1% in 1997 compared to 101.6% for 1996 and an increase in passenger per diems.

Expenses. Operating expenses increased 19.0% to \$505.7 million for the first six months of 1997 as compared to \$424.8 million for the comparable period in 1996. The increase in operating expenses for the first six months was primarily due to the increase in capacity and higher variable costs associated with the increased occupancy.

Marketing, selling and administrative expenses increased 16.7% to \$110.9 million for the first six months of 1997 from \$95.0 million for the comparable period in 1996. The increase was primarily due to an increase in staffing and advertising costs.

Depreciation and amortization increased to \$53.4 million for the first six months of 1997 compared to \$44.7 million in 1996. The increases are primarily due to the addition of *Splendour of the Seas*, *Grandeur of the Seas* and *Rhapsody of the Seas*, partially offset by the departure from the fleet of *Song of Norway*.

Other Income (Expense). Interest expense, net of capitalized interest, increased to \$43.2 million for the first six months of 1997 as compared to \$35.5 million for the first six months of 1996. The increase is a result of an increase in the average debt level driven by the Company's fleet expansion program.

Other Income (Expense) in 1996 includes a charge of \$2.0 million, or \$0.03 per share, for expenses incurred in evaluating a potential transaction.

Extraordinary Item. In May 1997, the Company redeemed \$104.5 million of 11% Senior Subordinated Notes and incurred an extraordinary charge of approximately \$7.6 million, or \$0.12 per share.

Fiscal Years 1996, 1995 and 1994

Summary

The Company reported improved revenues, operating income, net income and earnings per share during 1996. The improvements were primarily due to an increase in capacity related to the full year impact of the 1,800-passenger *Legend of the Seas* which began service in the second quarter of 1995 and the delivery of the 1,800-passenger *Splendour of the Seas* in the second quarter of 1996. Also affecting results in 1996 was a gain of \$10.3 million from the sale of *Song of Norway* in the fourth quarter and a charge of \$2.0 million for expenses incurred in evaluating a potential transaction. Net income in 1995 included a gain of \$19.2 million from the sale of *Nordic Prince*. Accordingly, on a comparable basis before the charge and the gains on the sale of the ships, earnings increased 10% to \$142.6 million, or \$2.24 per share, in 1996, from \$129.8 million, or \$2.05 per share, in 1995.

Revenues

Revenues increased 14.6% in 1996 to \$1.36 billion compared to \$1.18 billion in 1995 as a result of a 15.0% increase in capacity. Capacity increased in 1996 primarily due to the full year impact of the 1,800-passenger *Legend of the Seas* which began service in the second quarter of 1995 and the delivery of the 1,800-passenger *Splendour of the Seas* in the second quarter of 1996. Yield in 1996 remained approximately the same as in 1995; however, there was a continued shift in the mix of revenues. Although the shift in the mix of revenues was not as pronounced as that which occurred in 1995, shipboard and other revenues continued to become a higher percentage of total revenues. Occupancy levels were 101.3% in 1996 as compared to 100.5% in 1995. The Company's philosophy is to use a variety of revenue management techniques to maximize occupancy and revenue.

Revenues increased 1.1% in 1995 to \$1.18 billion primarily as a result of a corresponding increase in capacity. There were more potential passenger cruise days in 1995 as compared to 1994 as a result of the addition of the 1,800-passenger *Legend of the Seas* in the second quarter of 1995 which was partially offset by the sale of the 1,000-passenger *Nordic Prince* in the first quarter of 1995. Yield in 1995 remained consistent with 1994 as did occupancy levels, which were 100.5% in 1995 as compared to 100.8% in 1994. Total passenger per diems in 1995 were the same as 1994; however, there was a shift in the mix of revenues. In 1995, there was a decline in cruise ticket per diems which was offset by an increase in shipboard and other revenue per diems. The decline in cruise ticket per diems was a result of pricing pressure from an increased level of discounting among the Company's competitors.

Expenses

Operating expenses increased 15.1% in 1996 to \$854.5 million compared to \$742.5 million in 1995. This increase was primarily due to the 15.0% increase in capacity and higher variable costs associated with the increased occupancy. Operating expenses increased as a percentage of revenues primarily as a result of higher expenses due to changes in itineraries and an increase in shipboard and other expenses resulting from higher shipboard and other revenue per diems. This increase was partially offset by savings in air cost associated with a small reduction in the percentage of passengers using the Company's air program.

Operating expenses increased 1.9% in 1995 to \$742.5 million compared to \$728.8 million in 1994. Operating expenses as a percentage of revenues increased in 1995 due to a shift in the mix of revenues. A decline in cruise ticket revenues was offset by an increase in shipboard and other revenues. A significant portion of the increase in shipboard revenues was due to the conversion of the onboard retail stores from a concession to an internal operation. Accordingly, commission income received from concessionaires was replaced with higher margins generated from store revenues less the related cost of sales, which increased operating expenses as a percentage of revenues.

Marketing, selling and administrative expenses increased 9.7% in 1996 to \$194.6 million versus \$177.5 million in 1995. The majority of the increase was due to higher payroll, advertising and telecommunications costs. For 1996, these expenses decreased by 0.7% as a percentage of revenues as a result of the economies of scale achieved with the increase in capacity. Marketing, selling and administrative expenses decreased in 1995 to \$177.5 million compared to \$179.1 million in 1994 due to savings related to brochure and production costs which were partially offset by an increase in selling and administrative expenses.

Depreciation and amortization increased 13.9% in 1996 to \$91.2 million compared to \$80.1 million in 1995 primarily as a result of the addition of *Splendour of the Seas* in the second quarter of 1996 and the full year impact of *Legend of the Seas* which was introduced in the second quarter of 1995. Depreciation and amortization increased 2.8% in 1995 to \$80.1 million primarily as a result of the addition of *Legend of the Seas* which was partially offset by the sale of *Nordic Prince*.

Other Income (Expense)

Interest expense, net of capitalized interest, increased to \$76.5 million in 1996 from \$54.8 million in 1995 and \$43.3 million in 1994. The increase in both 1996 and 1995 was a result of an increase in the average debt

level driven by the Company's fleet expansion program. In addition, a portion of the increase in 1995 was due to higher weighted average interest rates.

Other income (expense) in 1996 includes a gain of \$10.3 million from the sale of *Song of Norway* as compared to 1995 which includes a gain of \$19.2 million from the sale of *Nordic Prince*. See Note 3 to the Consolidated Financial Statements. Other income (expense) in 1996 also includes a charge of \$2.0 million for expenses incurred in evaluating a potential transaction with Costa Crociere S.p.A.

Extraordinary Item

Net income for 1994 reflects an extraordinary item of \$5.7 million, or \$0.09 per share, resulting from the early retirement of a portion of the Company's debt.

Liquidity and Capital Resources

Liquidity

The Company generated substantial cash flows resulting in net cash provided by operating activities of \$197.6 million for the first six months of 1997 as compared to \$148.9 million for the first six months of 1996 and \$299.5 million in 1996 as compared to \$224.6 million in 1995 and \$217.5 million in 1994. These internally generated funds were used to repay debt and to fund the Company's capital expenditures, the principal component of which is its fleet expansion program. In February 1997, the Company issued 3,450,000 shares of Convertible Preferred Stock. After deduction of the underwriting discount and other estimated expenses of the offering, the net proceeds to the Company were approximately \$167.1 million. As of June 30, 1997, the Company's liquidity was \$676.8 million consisting of \$44.8 million in cash and cash equivalents and \$632.0 million available under the \$1.0 Billion Revolving Credit Facility. In July 1997, the Company entered into the \$300 Million Revolving Credit Facility. Under the terms of the agreement, the balance outstanding at the end of the initial period is to be repaid no later than July 2000. On July 30, 1997, the Company acquired all of the outstanding stock of *Celebrity* for a purchase price of \$515 million, payable in cash of \$245 million and 7,448,276 shares of the Company's Common Stock. The funding for the transaction was provided by the Company's unsecured revolving credit facilities. In September, 1997 the Company received total net proceeds of \$365,269,878 from the sale of Common Stock in the Common Stock Offering. The net proceeds from the Common Stock Offering were used to repay the amounts drawn from the unsecured revolving credit facility in connection with the *Celebrity* transaction. In connection with the acquisition of *Celebrity*, the Company will face challenges encountered by companies making an acquisition of a material business, including among other risks, retaining and motivating qualified personnel, integrating the acquired business and otherwise managing growth. The Company is proceeding with a formalized integration study to identify additional opportunities to ensure an efficient merger of the organizations without impacting the separate brands and cultures. The Company's cash management practice is to utilize excess cash to reduce outstanding balances under its unsecured revolving credit facilities, rather than investing excess cash at a rate lower than its cost of borrowing.

Funding Sources

A combination of cash flows provided by operating activities, drawdowns under the Company's unsecured revolving credit facilities and debt and/or equity issued in private or public markets is expected to be the Company's principal source of capital to fund its debt service requirements and capital expenditure program. In addition, the Company has export credits available for up to 80% of the contract price of its remaining vessels on order and on option.

Debt

Total indebtedness increased to \$1,442.9 million as of June 30, 1997 from \$1,367.0 million as of December 31, 1996, \$935.7 million as of December 31, 1995 and \$747.1 million as of December 31, 1994. The increase in indebtedness was due to the fleet expansion program which was partially offset by repayments of debt using cash generated from operations.

In March 1996, the Company entered into a \$264.0 million capital lease to finance *Splendour of the Seas*. The capital lease has an implicit interest rate of 7.8% over 15 years. In August 1996, the Company issued \$175.0 million of 7¼% Senior Notes due 2006.

In March and September 1995, the Company issued \$150.0 million of 8¼% Senior Notes due 2005 and \$150.0 million of 7¼% Senior Notes due 2002, respectively. In April 1995, the Company entered into a \$260.0 million capital lease to finance *Legend of the Seas*. The capital lease has an implicit interest rate of 7.8% over 15 years.

In May 1997, the Company redeemed \$104.5 million of 11¾% Senior Subordinated Notes due 2002 and incurred an extraordinary charge of approximately \$7.6 million, or \$0.12 per share, on early retirement of debt.

For indebtedness acquired as part of the Celebrity acquisition see "Capitalization."

Capital Expenditures

The Company's capital expenditures were \$412.7 million for the first six months of 1997 compared to \$345.6 million for the first six months of 1996. Capital expenditures were \$722.4 million in 1996 as compared to \$427.5 million in 1995 and \$145.5 million in 1994. The largest portion of capital expenditures related to delivery of *Rhapsody of the Seas* during the first six months of 1997, *Splendour of the Seas* during the first six months of 1996, *Splendour of the Seas* and *Grandeur of the Seas* in 1996 and *Legend of the Seas* in 1995 and progress payments for ships under construction in all periods. Also included are shoreside capital expenditures and costs for vessel refurbishing to maintain consistent fleet standards. Additionally, capital expenditures in 1994 included \$24.5 million for the construction of the Company's second office facility which was subsequently sold and leased back in 1995.

The Company has four ships on order of which one is *Mercury* scheduled for delivery in October 1997, one is a Vision-class vessel, *Vision of the Seas*, scheduled for delivery in April 1998, and the other two are Eagle-class vessels scheduled for delivery in the fall of 1999 and 2000. The contract price of the four ships, which excludes capitalized interest and other ancillary costs, is approximately \$1.6 billion of which the Company deposited approximately \$63.0 million during the first six months of 1997, \$14.1 million during 1996 and \$31.6 million during 1995. Additional deposits due prior to the date of delivery of \$25.3 million in the second half of 1997, \$49.0 million in 1998 and \$23.7 million in 1999 are required. The Company currently estimates that overall capital expenditures will be approximately \$1,139 million, \$420 million and \$590 million for 1997, 1998 and 1999, respectively.

Capitalized interest was \$8.6 million for the first six months of 1997, an increase of \$0.6 million from the first six months of 1996. Capitalized interest was \$15.9 million in 1996, an increase of \$1.8 million from 1995. Capitalized interest was \$14.1 million in 1995, an increase of \$6.8 million from 1994. Capitalized interest was higher in all periods as compared to the same period in the prior year because of a higher level of construction-in-progress expenditures associated with the Company's shipbuilding program. Additionally, in 1995 there was a higher interest capitalization rate.

In addition, the Company continuously considers potential acquisitions, strategic alliances and adjustments to its fleet composition, including the acquisition or disposition of vessels. If any of such acquisitions, strategic alliances and adjustments to its fleet composition occur, they would be financed by the issuances of additional shares of equity securities, the incurrence of additional indebtedness or from cash flows from operations.

Other

The Company enters into interest rate swap agreements to manage interest costs as part of its liability risk management program. The differential in interest rates to be paid or received under these agreements is recognized in income as part of interest expense over the life of the contracts. The objective of the program is to control fluctuations in interest expense which could occur as a result of movements in market interest rates. The Company continuously evaluates its debt portfolio including its interest rate swap agreements and makes periodic adjustments to the mix of fixed rate and floating rate debt based on its view of interest rate movements.

BUSINESS

The Company, is the world's second largest cruise company with 16 cruise ships (one of which has been sold and will operate under a charter agreement until early January, 1998) and a total of 28,000 berths. The Company operates more than 80 different itineraries that call on more than 140 destinations on five continents. At year end 1997, the Company's fleet will have an average age of five years, which the Company believes will be the youngest of any major cruise company. The Company's market share of North American passengers carried in 1996 is estimated to have been approximately 21% and, pro forma for the acquisition of Celebrity, the Company's market share in 1996 is estimated to have been approximately 27%.

Since 1970, cruising has been one of the fastest growing sectors of the vacation market, as the number of North American passengers has grown to 4.7 million in 1996 from 0.5 million in 1970, a compound annual growth rate of approximately 9%, according to CLIA. The Company has capitalized on the increasing popularity of cruises through an extensive fleet expansion program and the acquisition of Celebrity. The Company's revenues have increased at a compound annual growth rate of approximately 13% between 1988 and June 30, 1997.

On July 30, 1997, the Company acquired all of the outstanding stock of Celebrity for a purchase price of \$515 million payable in cash of \$245 million and 7,448,276 shares of the Company's Common Stock. Celebrity is a strong brand with a modern fleet that has built a well-known reputation for product quality in the premium market. The acquisition of Celebrity is expected to permit the Company to realize higher brand awareness, increased market presence and an ability to leverage the strengths of the respective brands in the marketplace. The Company believes the Celebrity acquisition will result in greater economies of scale and allow the Company to achieve further operating efficiencies with the integration of certain functions such as finance, human resources, information systems, reservations call centers and purchasing. The Company is proceeding with a formalized integration study to identify additional opportunities to ensure an efficient merger of the organizations without impacting the separate brands and cultures.

The Company intends to operate under two separate brands, Royal Caribbean and Celebrity Cruises.

The Royal Caribbean International Brand

Royal Caribbean serves the volume market which it categorizes as the contemporary and premium segments. Royal Caribbean has positioned itself as a provider of quality contemporary cruise vacations using the tag line, "Like no vacation on earth[™]." Royal Caribbean operates 12 cruise ships (one of which has been sold and will operate under a charter agreement until early January, 1998) with an aggregate of 21,700 berths, offering more than 50 different cruise itineraries, that range from three to 15 nights and call on more than 130 destinations on five continents.

Royal Caribbean's strategy is to attract a broad array of vacationing consumers in the contemporary segment of the volume market by providing a wide variety of itineraries, varying cruise lengths and multiple options for dining and entertainment aboard its vessels. The Company believes that the variety and quality of Royal Caribbean's product offering represent excellent value to consumers, especially to couples and families traveling with children. While Royal Caribbean is positioned at the upper end of the contemporary segment, the Company believes that Royal Caribbean's quality enables it to attract consumers from the premium segment as well, thereby achieving the broadest market coverage of any of the major brands in the cruise industry.

The Celebrity Cruises Brand

Celebrity Cruises primarily serves the premium cruise vacation market. Celebrity Cruises currently operates four ships. A new ship will enter service as part of the fleet in October 1997. When this new ship, *Mercury*, enters service, the five-ship fleet will have approximately 8,200 berths. Celebrity Cruises offers more than 40 different itineraries, that range from six to 18 nights, reaching over 50 ports of call in Alaska, Bermuda, the Caribbean and Trans-canal.

Celebrity Cruises' strategy is to attract consumers who want an enhanced cruise vacation in terms of modern new vessels, fine dining and service, larger than average staterooms, a high staff to guest ratio, excellent spas and high technology. These are hallmarks of the premium cruise vacation market, which is Celebrity Cruises' primary target. One of Celebrity Cruises' principal objectives is to offer a premium cruise experience that reflects substantial value to the consumer. As such, it also attracts consumers from the contemporary and luxury cruise categories.

The following table sets forth data regarding industry and Company growth over the past five years based on passengers carried for at least three consecutive nights:

| <u>Year</u> | <u>Passengers Carried on Royal Caribbean Ships</u> | <u>North American Cruise Passengers (1)</u> | <u>Royal Caribbean Percentage</u> | <u>Proforma to Include Celebrity Cruises</u> |
|-------------|--|---|-----------------------------------|--|
| 1992 | 829,321 | 4,136,000 | 20.1% | 23.9% |
| 1993 | 852,717 | 4,480,000 | 19.0% | 23.2% |
| 1994 | 866,288 | 4,448,000 | 19.5% | 24.1% |
| 1995 | 873,515 | 4,378,000 | 20.0% | 24.2% |
| 1996 | 973,602 | 4,659,000 | 20.9% | 26.7% |

(1) Source: CLIA

According to CLIA and other trade publications, the North American market was served by an estimated 130 cruise ships with an aggregate capacity of approximately 102,300 berths at the end of 1993. The number of berths in the industry increased to 109,700 berths on 119 ships at the end of 1996. There are a number of cruise ships on order with a total estimated capacity of 38,600 berths which will be placed in service between 1997 and 1999. Over the last three years, approximately 38 ships with an aggregate capacity of 23,400 berths have either been retired or moved out of the North American market. Although the Company cannot predict the rate at which future retirements will occur, the Company believes ship retirements will continue due to both economic pressures as well as the introduction of new safety standards defined in the Safety of Life at Sea Convention ("SOLAS") which go into effect during 1997. See "Regulation."

During 1996, the Company's weighted average berth capacity increased 15.0% versus the industry average of 2.2% and, pro forma for the acquisition of Celebrity, the Company's average berth capacity increased 22.6%. The following table sets forth data regarding the supply of berths marketed in North America:

| <u>Year</u> | <u>Weighted Average Supply of Berths Marketed in North America (1)</u> | <u>Percentage Change</u> |
|-------------|--|--------------------------|
| 1992 | 91,708 | 10.3% |
| 1993 | 97,534 | 6.4% |
| 1994 | 102,130 | 4.7% |
| 1995 | 103,313 | 1.2% |
| 1996 | 105,586 | 2.2% |

(1) Source: CLIA, other trade publications and Company estimates.

Cruise lines compete for consumers' disposable leisure time dollars with other vacation alternatives such as land-based resort hotels and sightseeing destinations and public demand for such activities is influenced by general economic conditions. The Company believes that cruise passengers currently represent only a small share of the vacation market and that a significant portion of cruise passengers carried are "first-time cruisers."

The Company operates in the Caribbean, Bahamas, Mexico, Alaska, Europe, Bermuda, Panama Canal, Hawaii, New England, China and Southeast Asia. Competition for passengers in all of these geographic areas

is vigorous. In most of these areas, the Company competes with cruise ships owned by other international operators. The Company competes with approximately 24 cruise lines; however, the Company's principal competitors are Carnival Cruise Lines, Holland America Line, Norwegian Cruise Line and Princess Cruises. The Company competes principally on the basis of quality of service, variety of itineraries and price.

Operating Strategies

The Company's principal operating strategies are the following:

Market Presence

The Company continues to develop its image worldwide because it believes that travel agents and passengers rely heavily on brand reputation in the selection of a cruise line. Since 1988, Royal Caribbean has more than quadrupled its number of berths and deployed its vessels throughout the world, establishing itself as a globally recognized megabrand. As a megabrand, Royal Caribbean offers a variety of itineraries and destinations at a consistent quality level. In order to assist Royal Caribbean in achieving its objective to be a leading participant in each principal area in which it competes, Royal Caribbean placed nine ships in service between 1988 and 1997. Royal Caribbean believes that its ships entering service since 1988 represent the state-of-the-art in cruise ship construction and provide it with a competitive advantage in terms of fleet profile. Royal Caribbean believes that the addition of these ships has enabled it to become a leading cruise brand and has strengthened its brand recognition.

Since 1990, Celebrity Cruises has undertaken a fleet expansion program, adding four new ships between 1990 and 1996, with a fifth vessel scheduled for delivery in October 1997. This fleet expansion program has allowed Celebrity Cruises to gain a reputation for providing a premium cruise experience at a substantial value to the consumer in the premium market

The Company's increased average ship size and number of available berths have enabled it to achieve certain economies of scale. Larger ships allow the Company to transport more passengers than smaller ships without a corresponding increase in certain operating expenses. This increase in fleet size also provides a larger revenue base to absorb its marketing, selling and administrative expenses.

Fleet Expansion

Founded in 1968, Royal Caribbean was the first cruise line to design ships specially for warm water year round cruising. Royal Caribbean operated three cruise ships in the 1970s and early 1980s, establishing a reputation for high quality. In 1982, Royal Caribbean added a fourth cruise ship that significantly expanded its capacity. Between 1988 and 1992, Royal Caribbean tripled its capacity by embarking on its first major capital expansion program, placing into service four large new ships which ranged in size from 1,600 to 2,350 berths and expanded an existing ship by 530 berths. Royal Caribbean committed to its second capital expansion program with orders for six Vision-class vessels, ranging in size from 1,800 to 2,000 berths, for delivery from 1995 through 1998. Through September 1997, five of the Vision-class vessels have been delivered, which has increased Royal Caribbean's capacity by 53% to 21,700 berths. Royal Caribbean expects to take delivery of the sixth vessel, *Vision of the Seas*, in April 1998. Each Vision-class ship features a seven-deck atrium with glass elevators, skylights and glass walls; a pool and entertainment complex covered by a moveable glass roof; hundreds of cabins with verandahs; a two-deck main dining room; a state-of-the-art show theater; a glass-encased indoor/outdoor café; and a shopping mall. The ships are designed to be faster than most cruise ships which permits more flexibility in itinerary planning.

In November 1996, Royal Caribbean contracted for an Eagle-class vessel, to be delivered in the fall of 1999. In March 1997, Royal Caribbean contracted for a second Eagle-class vessel and received an option exercisable anytime on or prior to December 31, 1997 for a third Eagle-class vessel. The Eagle-class vessels will be the largest passenger cruise ships built to date; 130,000 tons with 3,100 berths. This new generation of vessels will be designed to provide more diverse vacation options for families and those seeking active sports and entertainment alternatives. In October 1997, Celebrity Cruises will take delivery of the 1,850 berth *Mercury*. *Mercury* is the last of a five-ship fleet expansion program undertaken by Celebrity Cruises since 1990

and, will bring its total fleet capacity to approximately 8,200 berths. Between 1996 and 2000, the Company's year end berth capacity is expected to increase 102%, from 18,800 to 38,000, taking into account the Celebrity transaction.

Worldwide Itineraries

New ships allow the Company to expand into new destinations, itineraries and markets. The acquisition of Celebrity provides, the Company, the opportunity to continue to develop and grow new markets, specifically the core seasonal markets such as Alaska, Bermuda, Trans-canal, Europe and potentially the Far East. While the Company is a global operator in terms of itineraries and destinations, its principal source of passengers is from the North American market. International passengers continue to provide an increasing share of growth.

Consistent Quality

The Company emphasizes the consistent quality of its on-board product by adhering to a set of standards which defines the quality of cruise services on its fleet. The Company has several programs designed to closely monitor cruise quality. The Company has benefited from the uniformity of its quality in both existing and emerging markets. Celebrity Cruises has also been recognized for its quality product by such recognized authorities as Berlitz, Fieldings, Stern's and Fodor's as well as many others.

Travel Agency Support

Because essentially all the bookings for the Company's ships are made by independent travel agencies, the Company is committed to supporting the travel agency community. To this end, the Company has implemented various programs which focus on travel agency support. The Company was the first cruise line to develop an automated booking system, CruiseMatch 2000®. This automated reservations system allows travel agents direct access to the Company's computer reservation system to improve ease of bookings and is currently available to more than 30,000 independent travel agencies worldwide.

As a leader in the industry, Royal Caribbean has won numerous awards. For example, Royal Caribbean was awarded the REX (Recognizing Excellence) Award for Best Cruise Line for the four consecutive years ending 1995, the year the award was retired, from the Members of the American Society of Travel Agents and, for the third year in a row, Royal Caribbean was awarded the TTG Worldwide Award for World's Leading Cruise Line from the *Travel Trade Gazette*. In 1996, Royal Caribbean was also awarded the TTG Europa Award for Top Cruise Line from the *Travel Trade Gazette*.

International Passengers

International passengers continue to provide an increasing share of the Company's growth. During 1996, the Company continued to develop its international sales capability. The Company carries out its international sales effort through sales offices located in London, Frankfurt, Oslo, Genoa, Madrid, Zurich and Paris, and a network of independent international representatives located throughout the world.

Yield Management

The Company continues to develop more sophisticated pricing and yield management programs to maximize its occupancy and revenue by projecting the demand for its cruises in various passenger markets and, based on certain variables, directing its marketing efforts toward such markets. In addition to projecting demand, these programs will continue to enable the Company to react quickly to changes in market conditions.

Technological Development

In 1992, Royal Caribbean developed and implemented a new computer system, known as *Enterprise 2000*. Royal Caribbean continuously strives to upgrade this system to increase efficiency and service. This system has provided the foundation for: (i) a sophisticated reservation system; (ii) a state-of-the-art passenger

ticketing system; (iii) sales tools to be used by Royal Caribbean's field sales force; and (iv) productivity tools for travel agents. Both Royal Caribbean and Celebrity Cruises have extensive Websites on the World Wide Web, providing access to millions of Internet users throughout the world.

Sales, Marketing and Passenger Services

Royal Caribbean sells its cruise vacations almost exclusively through approximately 30,000 independent travel agencies worldwide. Royal Caribbean has increased its sales effort substantially over the past eight years and supports its distribution system with a variety of efforts. Royal Caribbean's United States and Canadian field sales force has expanded from 29 in 1987 to 87 in 1997. Royal Caribbean also utilizes an extensive telemarketing program in the United States and Canada called CruiseConnect to contact smaller travel agencies to inform them of new products and promotions. Royal Caribbean believes that maintaining personal contact with travel agency owners, managers and front-line retail agents is crucial to retaining travel agency loyalty. Royal Caribbean augments this type of contact with an extensive program of seminars designed to familiarize travel agents with the cruise industry and the marketing of cruises.

Royal Caribbean pursues a comprehensive marketing program with an emphasis on consumer advertising using the tag line, "*Like no vacation on earth*[™]." Through its advertising, Royal Caribbean positions itself as a provider of high quality, all-inclusive, cruise vacations offering a variety of destinations and, in the Company's opinion, considerable value. Royal Caribbean attempts to convey the message that the style and level of service of its shipboard cruise experience, together with the destinations visited by its ships, is an attractive alternative to land-based vacations.

In January 1997, Royal Caribbean launched a new television advertising campaign and introduced a new brand identity, which reflects Royal Caribbean as a global vacation brand with a focus on worldwide cruise vacations. The new advertising campaign appeals to various market segments and encourages viewers to take their dream cruise, not someday, but as their next vacation.

Royal Caribbean's passenger services department handles virtually all travel aspects of shoreside operations related to passenger reservations and transportation. Arranging passenger air transportation is one of the Company's important areas of operation. Royal Caribbean maintains a comprehensive relationship with many of the major airlines ranging from fare negotiation and space handling to baggage transfer.

Celebrity Cruises also pursues a comprehensive marketing program with an emphasis on consumer advertising using the tag lines, "*Exceeding expectations*[™]" and "*Nothing compares*[™]." In January 1996, Celebrity Cruises launched a new television advertising campaign which reflects Celebrity Cruises as the ideal relief from the stresses of modern life. The Company believes that Celebrity Cruises represents excellent value to the premium segment based on elements such as its dining experience, staff to guest ratio, cabin size, artwork, technology, Aquaspa packages and its modern fleet of ships, all of which have been built in the 1990's.

Operations

Cruise Ships and Itineraries

The Company operates 16 ships; 12 under Royal Caribbean (one of which has been sold and will operate under a charter agreement until early January, 1998) and four under Celebrity Cruises, with itineraries in the following areas: the Caribbean, Bahamas, Mexico, Alaska, Europe, Bermuda, Panama Canal, Hawaii, New England, China and Southeast Asia. Together, more than 80 different cruise itineraries are offered ranging from three to 18 nights, and calling at over 140 destinations on five continents.

Royal Caribbean operates 12 ships with a total of 21,700 passenger berths. The following table represents summary information concerning Royal Caribbean's ships and their areas of operation based on 1997/1998 itineraries (subject to change):

| | <u>Year Vessel Entered Service</u> | <u>Passenger Capacity(1)</u> | <u>Primary Areas of Operation</u> |
|---------------------------------|------------------------------------|------------------------------|--|
| <i>Enchantment of the Seas</i> | 1997 | 1,950 | Eastern & Western Caribbean, Europe, New England |
| <i>Rhapsody of the Seas</i> (2) | 1997 | 2,000 | Alaska, Southern Caribbean, Panama Canal, Hawaii |
| <i>Grandeur of the Seas</i> | 1996 | 1,950 | Eastern Caribbean |
| <i>Splendour of the Seas</i> | 1996 | 1,800 | Europe, Caribbean |
| <i>Legend of the Seas</i> | 1995 | 1,800 | Alaska, Hawaii, Panama Canal |
| <i>Majesty of the Seas</i> | 1992 | 2,350 | Western Caribbean |
| <i>Monarch of the Seas</i> | 1991 | 2,350 | Southern Caribbean |
| <i>Viking Serenade</i> (3) | 1982/1991 | 1,500 | Mexican Baja |
| <i>Nordic Empress</i> | 1990 | 1,600 | Bahamas, Southern Caribbean |
| <i>Sovereign of the Seas</i> | 1988 | 2,250 | Bahamas |
| <i>Song of America</i> | 1982 | 1,400 | Bermuda, Mexican Riviera, Panama Canal |
| <u><i>Sun Viking</i></u> (4) | 1972 | 700 | China, Southeast Asia |

(1) Based on double occupancy per cabin.

(2) *Rhapsody of the Seas* entered drydock on September 13, 1997 to replace its starboard propulsion motor. The ship is expected to return to service October 5, 1997. See the Company's Form 6-K filed with the Securities and Exchange Commission on August 20, 1997.

(3) Indicates year placed in service and year redeployed after conversion to expand capacity.

(4) The Company sold *Sun Viking* in October, 1997 and will operate it under a charter agreement until early January, 1998.

Celebrity Cruises operates four ships. After delivery of *Mercury* in October, 1997 (shown below), Celebrity Cruises will have approximately 8,200 passenger berths. The following table represents summary information concerning Celebrity Cruises' ships and their areas of operation based on 1997/1998 itineraries (subject to change):

| | <u>Year Vessel Entered Service</u> | <u>Passenger Capacity(1)</u> | <u>Primary Areas of Operation</u> |
|--------------------|------------------------------------|------------------------------|-----------------------------------|
| <i>Mercury</i> (2) | 1997 | 1,850 | Western Caribbean, Alaska |
| <i>Galaxy</i> | 1996 | 1,850 | Southern Caribbean, Alaska |
| <i>Century</i> | 1995 | 1,750 | Eastern & Western Caribbean |
| <i>Zenith</i> | 1992 | 1,350 | Panama Canal, Bermuda |
| <i>Horizon</i> | 1990 | 1,350 | Caribbean, Bermuda |

(1) Based on double occupancy per cabin.

(2) *Mercury* is scheduled for delivery in October 1997.

On September 29, 1997, a subsidiary of Celebrity consummated the sale of the 1,100-passenger cruise ship *Meridian* to a subsidiary of Metro Holdings Ltd. of Singapore. The price was approximately \$61.5 million.

Combined, the fleets of Royal Caribbean and Celebrity Cruises have an average age of five years, which the Company believes will be the youngest of any major cruise company.

New Vessels

Royal Caribbean has three ships on order with an option for a fourth. Celebrity Cruises has one ship on order. The planned passenger capacity and expected delivery dates of the new ships are as follows:

| <u>Vessel</u> | <u>Expected Delivery Dates</u> | <u>Passenger Capacity</u> |
|---|------------------------------------|-------------------------------|
| Royal Caribbean: | | |
| <i>Vision of the Seas</i> | April 1998 | 2,000 |
| <i>Unnamed — Eagle-class</i> | Fall 1999 | 3,100 |
| <i>Unnamed — Eagle-class</i> | Fall 2000 | 3,100 |
| <i>Unnamed — Eagle-class (under option)</i> | Fall 2001 | 3,100 |
| Celebrity Cruises: | | |
| <i>Mercury</i> (1) | October 1997 | 1,850 |

(1) Included in table on prior page — *Cruise Ships and Itineraries*.

Vision of the Seas is being built in St. Nazaire, France by Chantiers de L'Atlantique, the same shipyard which built *Rhapsody of the Seas*, *Splendour of the Seas*, *Legend of the Seas*, *Majesty of the Seas*, *Monarch of the Seas*, *Sovereign of the Seas* and *Nordic Empress*. The unnamed Eagle-class vessels will be built in Turku, Finland by Kvaerner-Masa Yards whose predecessor built Royal Caribbean's first four ships, and most recently, *Enchantment of the Seas* and *Grandeur of the Seas*. *Mercury* is being built in Papenburg, Germany by Meyerwerft, the same shipyard which built *Century*, *Galaxy*, *Horizon* and *Zenith*.

Shipboard Activities and Shipboard Revenues

With modern fleets, each of the brands offer a wide array of shipboard activities, services and amenities including swimming pools, sun decks, beauty salons, massage facilities, exercise facilities, gaming facilities (which operate while the ships are at sea), lounges, bars, Las Vegas-style entertainment, retail shopping, libraries, cinemas, conference centers and shore excursions at each port of call. While many shipboard activities are included in the base price of a cruise, additional revenues are realized from gaming, the sale of alcoholic and other beverages, the sale of gift shop items and shore excursions. In addition, Royal Caribbean offers a catalogue gift service to provide the travel agent and others an opportunity to purchase in-cabin gifts.

Private Destinations

Royal Caribbean operates two private destinations: (i) CocoCay, an island owned by the Company and known as Little Stirrup Cay located in the Bahamas; and (ii) Labadee, a secluded peninsula leased by the Company and located on the north coast of Haiti. The facilities at CocoCay and Labadee include, among others, a variety of watersports activities, refreshment bars, artisan markets and picnic facilities.

Seasonality

The Company's revenues are moderately seasonal, due to variations in rates and occupancy percentages.

Passengers and Capacity

The following table sets forth the aggregate number of passengers carried and the number of passengers expressed as a percentage of total capacity for Royal Caribbean's ships:

| | <u>First Six Months</u> | | <u>Fiscal Years</u> | | |
|-----------------------------------|-------------------------|-------------|---------------------|-------------|-------------|
| | <u>1997</u> | <u>1996</u> | <u>1996</u> | <u>1995</u> | <u>1994</u> |
| Number of Passengers | 607,091 | 478,624 | 973,602 | 873,515 | 866,288 |
| Percentage of Total Capacity..... | 104.1% | 101.6% | 101.3% | 100.5% | 100.8% |

In accordance with cruise industry practice, total capacity is determined based on double occupancy per cabin even though some cabins accommodate three or four passengers; accordingly, a percentage in excess of 100% indicates that more than two passengers occupied some cabins.

Cruise Pricing

The Company's cruise prices include a wide variety of activities and amenities, including all meals and entertainment. Prices vary depending on the destination, cruise length, cabin category selected and the time of year the voyage takes place. Additionally, the Company offers "Air add-ons" for passengers that elect to utilize the Company's Air/Sea Program. Air add-ons vary by gateway and destination and are available from over 100 cities in the United States and Canada. Furthermore, the Company sells trip cancellation insurance which provides passengers with insurance coverage for trip cancellation, medical protection and baggage protection.

Insurance

The Company maintains an aggregate of approximately \$5.5 billion of insurance on the hull and machinery of its ships, which includes additional coverage for disbursements, earnings and increased value, which are maintained in amounts related to the value of each vessel. The coverage for each of the hull policies is maintained with syndicates of insurance underwriters from the British, Scandinavian, United States and other international insurance markets.

Liability coverage for shipowners, commonly referred to as protection and indemnity insurance, is available through a worldwide network of mutual insurance associations. Each of these associations participates in and is subject to rules issued by the International Group of Protection and Indemnity Associations. The Company maintains protection and indemnity insurance on each of its ships through Assurancforeningen GARD, mutual shipowners' insurance organizations and the United Kingdom Mutual Steam Ship Assurance Association (Bermuda Limited).

The Company maintains war risk insurance on each vessel through a Norwegian war risk insurance organization in an amount equal to the total insured hull value. This coverage includes physical damage to the vessel and protection and indemnity risks for which coverage would be excluded by reason of war exclusion clauses in the hull policies or rules of the indemnity insurance organization.

The Company also maintains a form of business interruption insurance with its insurance underwriters in the event that a vessel is unable to operate during scheduled cruise periods due to loss or damage to the vessel arising from certain covered events which last more than a specified period of time. Insurance coverage is also maintained for certain events which would result in a delayed delivery of the Company's contracted new vessels, which it normally places starting approximately two years prior to the scheduled delivery dates.

Insurance coverage for shoreside property, shipboard consumables and inventory and general liability risks are maintained with insurance underwriters in the United States and the United Kingdom. The Company has decided not to carry business interruption insurance for its shoreside operations based on its evaluation of the risks involved and the Company's protective measures already in place, as compared to the premium expense.

All insurance coverage is subject to certain limitations, exclusions and deductible levels. In addition, in certain circumstances, the Company co-insures a portion of these risks. Premiums charged by insurance carriers, including carriers in the maritime insurance industry, increase or decrease from time to time and tend to be cyclical in nature. The Company historically has been able to obtain insurance coverage in amounts and at premiums it has deemed commercially acceptable. The Company believes that, based on its historical experience, it will continue to be able to do so.

Employees

A substantial percentage of the Company's shipboard employees are covered by collective bargaining agreements with Norwegian and Greek unions. The Company believes that its relationship with its employees is good.

Regulation

All of the Company's ships are registered in Norway or Liberia. Each ship is subject to regulations issued by its country of registry, including regulations issued pursuant to international treaties governing the safety of the ship and its passengers. Each country of registry conducts periodic inspections to verify compliance with these regulations. In addition, ships operating out of United States ports are subject to inspection by the United States Coast Guard for compliance with international treaties and by the United States Public Health Service for sanitary conditions.

The Company's ships are required to comply with international safety standards defined in SOLAS. The SOLAS standards are revised from time to time, and the most recent modifications are being phased in through the year 2010. Certain SOLAS fire safety standards must be implemented by 1997, but the Company will not be required to make any material expenditures in order to meet this deadline.

The Company is also subject to various United States and international laws and regulations relating to environmental protection. Under such laws and regulations, the Company is prohibited from, among other things, discharging certain materials, such as petrochemicals and plastics, into the waterways. See "Litigation" below.

The Company is required to obtain certificates from the United States Federal Maritime Commission ("FMC") relating to its ability to meet liability in cases of nonperformance of obligations to passengers and casualty or personal injury. Under the FMC's current regulations, the Company is required to provide a \$15 million bond for each of Royal Caribbean and Celebrity Cruises, as a condition to obtaining the required certificates. The FMC has proposed a revision to its regulations that would require the Company to significantly increase the amount of this bond based on the level of its customer deposits. The Company has indicated to the FMC that it supports an increase in the bond amount and does not expect any revisions to the FMC regulations to have a material effect on the Company.

The Company is required to obtain certificates from the United States Coast Guard relating to its ability to meet liability in cases of water pollution. Under the United States Coast Guard's current regulations, Royal Caribbean and Celebrity Cruises are required to provide guarantees of approximately \$71 million and \$69 million, respectively, as a condition to obtaining the required certificates.

The Company believes it is in material compliance with all regulations applicable to its ships and has all licenses necessary to the conduct of its business. From time to time various other regulatory and legislative changes have been or may in the future be proposed that could have an effect on the cruise industry in general.

Litigation

Beginning in December 1995, a series of purported class action suits were filed alleging that the Company misrepresented to its passengers the amount of its port charge expenses. The suits seek declaratory relief and damages in an unspecified amount. Beginning in August 1996, several purported class action suits were filed alleging that the Company should have paid commissions to travel agents on port charges included in the price of cruise fares. The suits seek damages in an unspecified amount. Similar suits are pending against other

companies in the cruise industry, including Celebrity. In February 1997, the Company and certain other cruise lines, including Celebrity entered into an Assurance of Voluntary Compliance with the Florida Attorney General's office. Under the Assurance of Voluntary Compliance, the Company and Celebrity have agreed to include all components of the cruise ticket price, other than governmental taxes and fees, in the advertised price. The various suits are at a preliminary stage and the Company is not able at this time to estimate the timing or impact of those proceedings on the Company.

In December 1996, the Company and two shipboard employees were indicted by a federal grand jury in Puerto Rico for events alleged to have occurred in 1994 and prior years. The indictment, which contains ten felony counts, alleges that one of the Company's vessels illegally discharged bilge water containing oil in October 1994, that the Company failed to immediately notify the appropriate authorities of such discharge, and that employees made false statements to the U.S. Coast Guard and otherwise obstructed the U.S. investigation of the incident. The indictment also alleges that the Company conspired to illegally discharge bilge water containing oil from five of its ships between 1990 and 1994 and to use false oil record books. Each of the ten counts in the indictment carries a maximum fine of \$500,000, subject to increase under certain circumstances. In addition to the indictment, the U.S. government is continuing its investigation of these matters through a federal grand jury proceeding in Miami, Florida. The Company is not able at this time to estimate the impact of these proceedings on the Company.

The Company is routinely involved in other claims typical to the cruise industry. In the opinion of management, such claims, if decided adversely, individually or in the aggregate, would not have a material adverse effect upon the Company's financial condition or results of operations.

Taxation of the Company

The following discussion of the application to the Company and its subsidiaries of the United States federal income tax laws is based on the current provisions of the Internal Revenue Code of 1986, as amended, (the "Code"), proposed, temporary and final Treasury Department regulations, administrative rulings and court decisions. All of the foregoing are subject to change, and any change thereto could affect the accuracy of this discussion.

Application of Section 883 of the Code

The Company and its wholly owned subsidiary, CCI, are Liberian corporations that are engaged in a trade or business in the United States, and the Company's vessel-owning subsidiaries are foreign corporations that, in many cases, depending upon the itineraries of their vessels, receive income from sources within the United States. Under Section 883 of the Code, certain foreign corporations are not subject to United States income or branch profits tax on United States source income derived from or incidental to the international operation of a ship or ships, including income from the leasing of such ships.

A foreign corporation will qualify for the benefits of Section 883 of the Code if in relevant part (i) the foreign country in which the foreign corporation is organized grants an equivalent exemption to corporations organized in the United States and (ii) either more than 50% of the value of its capital stock is owned, directly or indirectly, by individuals who are residents of a foreign country that grants such an equivalent exemption to corporations organized in the United States or the stock of the corporation (or the direct or indirect corporate parent thereof) is "primarily and regularly traded on an established securities market" in the United States.

Although no Treasury regulations have been promulgated that explain when stock will be considered "primarily and regularly traded on an established securities market" for purposes of Section 883, Treasury regulations have been promulgated interpreting a similar phrase under Section 884 of the Code which, like the phrase in Section 883, was enacted in the Tax Reform Act of 1986. Under these regulations, stock of a corporation will be considered primarily and regularly traded on an established securities market in the United States for purposes of Section 884 in any taxable year if in relevant part the following tests are met for one or more classes of stock, representing at least 80% of the outstanding vote and value of stock of the corporation: (i) the class of stock is regularly quoted by brokers or dealers making a market in the stock and (ii) 50% or more of the outstanding shares of stock of the class are not owned (within the meaning of the applicable

regulation) for more than 30 days during the relevant taxable year by persons who each own 5% or more of the value of the outstanding shares of stock of the class and (a) are not "qualifying shareholders" for purposes of this provision of Section 884 or (b) fail to provide to the Company the required proof of their qualifying status.

The Company, CCI and the Company's vessel-owning subsidiaries are organized in countries that grant equivalent exemptions to corporations organized in the United States, and to the Company's knowledge, more than 50% of the outstanding shares of Common Stock are held (i) by persons who each own less than 5% of the value of the outstanding shares of Common Stock or (ii) directly or indirectly by individuals who are residents of countries that grant an equivalent exemption to corporations organized in the United States. The Common Stock and the Convertible Preferred Stock are listed on the NYSE; and the Common Stock represents more than 80% of the outstanding vote and value of stock of the Company. Accordingly, in the opinion of Drinker Biddle & Reath LLP, United States tax counsel to the Company, and based on the representations and assumptions set forth therein, the Company, CCI and the Company's vessel-owning subsidiaries qualify for the benefits of Section 883 of the Code because the Company and each of its subsidiaries are incorporated in a qualifying jurisdiction and the Company's Common Stock and Convertible Preferred Stock are, and will be, primarily and regularly traded on an established securities market in the United States. In addition, the Company believes that substantially all of its income, the income of CCI and the income of the Company's vessel-owning subsidiaries is derived from or incidental to the international operation of a ship or ships. Any United States source income of the Company, CCI or the Company's vessel-owning subsidiaries that is not so derived will be subject to United States taxation, but the Company believes that such income is not a material portion of the Company's total income.

The Company does not know of any plan regarding (i) disposition of the interests held by the Company's current ultimate individual shareholders or (ii) any changes in the residency of the Company's current ultimate individual shareholders, that would cause the loss of the availability of Section 883 of the Code (or, in either case, any agreements with respect to any of the foregoing). However, there is no agreement that would preclude the Company's current direct or indirect shareholders from disposing of their interests in the Company, or from changing their residence, and there can be no assurance that such shareholders will not do so, nor is there any assurance that a person or persons who are not qualifying shareholders for purposes of Section 883 will not acquire sufficient beneficial ownership of the outstanding shares of Common Stock (or, under certain circumstances, Convertible Preferred Stock) through purchase on the NYSE or otherwise to preclude the availability of an exemption under Section 883. Any change in the holdings of the current direct or indirect shareholders of the Company or the residence of such shareholders (both as determined for United States tax purposes), any acquisition of beneficial ownership of 5% or more of the outstanding Common Stock by a nonqualifying shareholder, or the issuance of shares of Company stock or any other change in the capitalization of the Company could affect the continued availability of Section 883 of the Code.

In addition, (i) future regulations promulgated under Section 883 might adopt an interpretation of the phrase "primarily and regularly traded on an established securities market" inconsistent with the approach adopted by the regulations under Section 884 in which case the Company could cease to be eligible for the benefits of Section 883 and (ii) even if an approach consistent with the approach of the Section 884 regulations is adopted, certain modifications or interpretations of such approach, which tax counsel believes should reasonably be adopted, would be required in order for such phrase to apply to the Company for purposes of Section 883. Moreover, whether or not such regulations are promulgated, there is no assurance that the Company's tax counsel's interpretation of such phrase will be accepted by the Internal Revenue Service or the courts. Although the Company is not aware of any legislative proposals that would affect the Company's ability to utilize Section 883 of the Code, that Section has been the subject of legislative modifications in past years that have had the effect of limiting its availability to certain taxpayers, and there can be no assurance that future legislation or changes in the ownership of the Company will not preclude the Company or its vessel-owning subsidiaries from obtaining the benefits of Section 883 of the Code.

Taxation in the Absence of an Exemption Under Section 883 of the Code

In the event that the Company, CCI or the Company's vessel-owning subsidiaries were to fail to meet the requirements of Section 883 of the Code, or if such provision were repealed, such companies would be subject to United States income taxation on a portion of their income. Since the Company and CCI conduct a trade or business in the United States, they would be taxable at regular corporate rates on their separate company taxable income (i.e., without regard to the income of the vessel-owning subsidiaries), from United States sources, which includes 100% of their income, if any, from transportation which begins and ends in the United States (not including possessions of the United States), 50% of their income from transportation which either begins or ends in the United States, and none of their income from transportation which neither begins nor ends in the United States. The legislative history of the transportation income source rules suggests that a cruise that begins and ends in a United States port, but that calls on more than one foreign port, will derive United States source income only from the first and last legs of such cruise. Because there are no regulations or other Internal Revenue Service interpretations of these rules, the applicability of the transportation income source rules in the aforesaid favorable manner is not free from doubt. If the suggested application of these rules is correct and if Section 883 of the Code did not apply to the Company, the Company estimates, based on certain assumptions, that approximately 15% of the Company's separate company taxable income in 1996 (as computed under United States tax principles) would be subject to United States corporate income tax and 15% in 1997 (on a pro forma basis, assuming that CCI had been acquired by the Company on January 1, 1997). In addition, if any earnings and profits of the Company or CCI effectively connected with its United States trade or business are withdrawn or are deemed to have been withdrawn from its United States trade or business (by dividend distribution, for example, or otherwise), such withdrawn amount would be subject to a "branch profits" tax at the rate of 30%. The amount of such earnings and profits would be equal to the aforesaid United States source income, with certain generally minor adjustments, less income taxes. Finally, the Company and CCI would also be potentially subject to tax on portions of certain interest paid by them at rates of up to 30%.

If Section 883 of the Code were not available to a vessel-owning subsidiary, such subsidiary would be subject to a special 4% tax on its United States source gross transportation income, if any, each year because its income is derived from the leasing of a vessel and because it does not have a fixed place of business in the United States. Such United States source gross transportation income may be determined under any reasonable method, including ratios based upon (i) days traveling directly to or from United States ports to total days; or (ii) the lessee's United States source gross income from the vessel (as determined under the source rules discussed in the preceding paragraph, and subject to the assumptions and qualifications set forth therein) to the lessee's total gross income from the vessel. Under these rules, if Section 883 of the Code did not apply to the vessel-owning subsidiaries, the Company estimates based on certain assumptions that the 4% tax would apply to approximately 15% of the gross income of the vessel-owning subsidiaries in 1996 (as computed under United States tax principles) and 15% in 1997 (on a pro forma basis, assuming that the Celebrity vessel-owning subsidiaries had been acquired by the Company on January 1, 1997).

While the Company believes that the methods used to calculate the foregoing estimates of United States-source income are reasonable, the calculations are based on an interpretation of applicable law that in many respects is not clear due to the absence of controlling regulations. The Company's position as to certain matters of law and its determination of the amount of income subject to United States taxation could be challenged by the Internal Revenue Service and, if so challenged, might not be upheld by a United States court. Furthermore, there can be no assurance that the applicable law will not change or that regulations or rulings will not take a different position. In addition, although the Company does not currently intend to change its operations or the operations of its subsidiaries, such a change, or changes in the amount, source or character of the Company's or any subsidiary's income and expense, could affect the amount of income that would be subject to United States tax in the event Section 883 of the Code were not available to the Company, CCI and the Company's vessel-owning subsidiaries.

DESCRIPTION OF SENIOR SECURITIES

The following description of the particular terms of the Senior Securities offered hereby (referred to in the accompanying Prospectus as the "Debt Securities") supplements, and to the extent inconsistent therewith, replaces the description of the general terms and provisions of the Debt Securities set forth in the accompanying Prospectus, to which description reference is hereby made. Certain defined terms in the Indenture, as supplemented by the Fifth and Sixth Supplemental Indentures, are capitalized herein. Whenever a defined term is referred to and not herein defined, the definition thereof is contained in the Indenture, as supplemented by the Fifth and Sixth Supplemental Indentures.

General

The Senior Notes offered hereby will be limited to \$200,000,000 aggregate principal amount and will be issued under the Indenture. The Senior Notes will bear interest at the rate of 7% per annum and will mature on October 15, 2007. The Senior Debentures offered hereby will be limited to \$300,000,000 aggregate principal amount and will be issued under the Indenture. The Senior Debentures will bear interest at the rate of 7½% per annum and will mature on October 15, 2027. Interest on the principal amount of each series of Senior Securities will be payable semi-annually on April 15 and October 15 of each year, commencing April 15, 1998 to the persons in whose names such Senior Securities are registered at the close of business on April 1 or October 1 as the case may be, preceding such April 15 or October 15. The first payments of interest will be made in respect of the period commencing October 14, 1997.

Except in the event of a change in tax law as described in "Tax Related Considerations — Redemption or Assumption of Debt Securities Under Certain Circumstances" in the accompanying Prospectus, the Senior Securities are not redeemable prior to maturity and do not have the benefit of a sinking fund. The Senior Securities will be unsecured and unsubordinated indebtedness of the Company and will rank on a parity with the Company's other unsecured and unsubordinated indebtedness. The Senior Securities are subject to defeasance and covenant defeasance as described under "Description of Debt Securities — Defeasance" in the accompanying Prospectus.

The Senior Securities will be issued only in fully registered book-entry form, without coupons, in denominations of \$1,000 and any integral multiples thereof. No service charge will be made for any transfer or exchange of the Senior Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. The Senior Securities of each series will be represented by a Global Security registered in the name of a nominee of The Depository Trust Company, New York, New York. Except as set forth under "Book-Entry System" below, the Senior Securities will not be issued in certificated form.

Restricted and Unrestricted Subsidiaries

The various restrictive provisions of the Indenture applicable to the Company and its Restricted Subsidiaries do not apply to Unrestricted Subsidiaries. The assets and liabilities of Unrestricted Subsidiaries, and investments by the Company in any Unrestricted Subsidiary, are not consolidated with those of the Company and its Subsidiaries in calculating Consolidated Net Tangible Assets under the Indenture. "Unrestricted Subsidiaries" are those Subsidiaries which are designated as Unrestricted Subsidiaries by the Board of Directors from time to time pursuant to the Indenture and Subsidiaries of Unrestricted Subsidiaries. "Restricted Subsidiary" means any Subsidiary which owns or leases a Principal Property and any other Subsidiary which has not been designated an Unrestricted Subsidiary. "Principal Property" means any real or personal property owned or leased by the Company or any Subsidiary the net book value of which on the date as of which the determination is being made exceeds 5% of the Company's Consolidated Net Tangible Assets.

Maintenance of Properties

The Company will cause all material properties owned by the Company or any Restricted Subsidiary or used or held for use in the conduct of its business or the business of any Restricted Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment

(except for ordinary wear and tear) and will cause to be made all necessary repairs, renewals and replacements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; *provided, however*, that nothing in this covenant shall prevent the Company or any Restricted Subsidiary from discontinuing the operation or maintenance of any properties if such discontinuation is, in the judgment of the Company, desirable in the conduct of its business or the business of any Restricted Subsidiary and not disadvantageous in any material respect to the holders of the Senior Securities.

Restrictions on Secured Debt

Neither the Company nor any Restricted Subsidiary is permitted to create, issue, incur, assume or guarantee any Secured Debt without equally and ratably securing the Senior Securities. This restriction does not apply to certain permitted encumbrances including indebtedness for money borrowed secured by (a) Mortgages existing on the date of the Fifth and Sixth Supplemental Indentures; (b) Mortgages on any real or personal property of any Person existing at the time such Person became a Restricted Subsidiary and not incurred in contemplation of such Person becoming a Restricted Subsidiary; (c) Mortgages in favor of the Company or any Restricted Subsidiary; (d) Mortgages existing on any real or personal property at the time it is acquired by the Company or a Restricted Subsidiary or created within 18 months of the date of such acquisition, conditional sale and similar agreements; (e) certain purchase money Mortgages to secure the purchase price or construction cost of property; and (f) any extension, renewal or refunding (or successive extensions, renewals or refundings) of any Mortgage referred to in the foregoing clauses; *provided* the principal amount of such extension, renewal or refunding may not exceed the principal amount of the Mortgage being extended, renewed or refunded plus the amount of any premium or other costs paid in connection with such extension, renewal or refunding. In addition to such permitted indebtedness, the Indenture permits additional Secured Debt not otherwise specifically permitted, the aggregate principal amount of which, together with all Attributable Debt in respect of sale and leaseback transactions (as defined below) involving Principal Properties entered into (excluding sale and leaseback transactions permitted by clause (a) below under the section entitled “— Restrictions on Sales and Leasebacks” as a result of the permitted encumbrances set forth above and clause (b) of such section) would not exceed 10% of the Consolidated Net Tangible Assets of the Company and its consolidated Restricted Subsidiaries.

“Consolidated Net Tangible Assets” means (a) the total amount of assets (less applicable reserves and other properly deductible items) which under generally accepted accounting principles would be included on a consolidated balance sheet of the Company and its Restricted Subsidiaries after deducting therefrom, without duplication, the sum of (i) all current liabilities except for (A) notes and loans payable, (B) current maturities of long term debt, (C) current maturities of obligations under capital leases and (D) customer deposits and (ii) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, which in each case under generally accepted accounting principles would be included on such consolidated balance sheet, less (b) the amount which would be so included on such consolidated balance sheet for investments (less applicable reserves) (i) in Unrestricted Subsidiaries or (ii) in corporations while they were Unrestricted Subsidiaries but which at the time of computation are not Subsidiaries of the Company.

“Mortgage” means and includes any mortgage, pledge, lien, security interest, conditional sale or other title retention agreement or other similar encumbrance.

“Secured Debt” means indebtedness for money borrowed which is secured by a Mortgage on a Principal Property of the Company or any Restricted Subsidiary.

Restrictions on Sales and Leasebacks

Neither the Company nor any Restricted Subsidiary may enter into any sale and leaseback transaction involving any Principal Property (a “sale and leaseback transaction”), unless (a) the Company or such Restricted Subsidiary would be entitled under “—Restrictions on Secured Debt” to incur Secured Debt on the Principal Property in a principal amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the Senior Securities under the Indenture or (b) (i) the gross

proceeds of the sale or transfer of the Principal Property leased equals or exceeds the fair market value of such Principal Property and (ii) within one year after such sale or transfer of such Principal Property shall have been made by the Company or by a Restricted Subsidiary, the Company applies all of the net proceeds to (A) the voluntary retirement of Funded Debt of the Company or any Restricted Subsidiary or (B) the acquisition by the Company or a Restricted Subsidiary of one or more properties which on an aggregate basis have a purchase price in excess of 5% of Consolidated Net Tangible Assets (other than the Principal Property involved in such sale). A sale and leaseback transaction shall not include any sale and leaseback transactions (x) between the Company and a Restricted Subsidiary or between Restricted Subsidiaries or (y) involving the temporary taking back of a lease for a period, including renewals, of less than three years in the case where it is intended that at the end of the lease the use of such property by the Company or such Restricted Subsidiary will be discontinued.

“Funded Debt” means any indebtedness for money borrowed, created, issued, incurred, assumed or guaranteed, whether secured or unsecured, maturing more than one year after the date of determination thereof and any indebtedness, regardless of its terms, renewable pursuant to the terms thereof or of a revolving credit or similar agreement effective for more than 360 days after the date of the creation of indebtedness.

Book-Entry System

Upon issuance, the Senior Securities of each series will be represented by a global security or securities (the “Global Security”). The Global Security representing the Senior Securities of each series will be deposited with, or on behalf of, The Depository Trust Company, New York, New York (the “Depository”). Upon the issuance of such Global Security, the Depository or its nominee will credit the accounts of persons held with it with the respective principal or face amounts of the Senior Securities represented by such Global Security. Ownership of beneficial interests in such Global Security will be limited to persons that have accounts with the Depository (“participants”) or persons that may hold interests through participants. Ownership of beneficial interests by participants in such Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the Depository. Ownership of beneficial interests in such Global Security by persons that hold through participants will be shown on, and the transfer of that ownership interest within such participant will be effected only through, records maintained by such participant. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to acquire or transfer beneficial interests in such Global Security.

Payment of principal of and interest on each series of Senior Securities will be made to the Depository or its nominee, as the case may be, as the sole registered owner and holder of the Global Security for such series for all purposes under the Indenture. Neither the Company, the Trustee nor any agent of the Company or the Trustee will have any responsibility or liability for any aspect of the Depository’s records relating to or payments made on account of beneficial ownership interests in such Global Security or for maintaining, supervising or reviewing any of the Depository’s records relating to such beneficial ownership interests.

The Company has been advised by the Depository that upon receipt of any payment of principal of or interest on any Global Security, the Depository will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal or face amount of such Global Security as shown on the records of the Depository. Payments by participants to owners of beneficial interests in such Global Security held through such participants will be governed by standing instructions and customary practices as is now the case with securities held for customer accounts registered in “street name” and will be the sole responsibility of such participants.

Neither Global Security may be transferred except as a whole by the Depository to a nominee of the Depository. The Global Security representing each series of Senior Securities is exchangeable for certificated Senior Securities of such series only if (x) the Depository notifies the Company that it is unwilling or unable to continue as Depository for such Global Security or if at any time the Depository ceases to be a clearing agency registered under the Exchange Act and the Company fails within 90 days thereafter to appoint a

successor, (y) the Company in its sole discretion determines that such Global Security shall be exchangeable or (z) there shall have occurred and be continuing an Event of Default (as defined in the Indenture) or an event which with the giving of notice or lapse of time or both, would constitute an Event of Default with respect to the Senior Securities represented by such Global Security. In such event, the Company will issue Senior Securities of the applicable series in certificated form in exchange for such Global Security. In any such instance, an owner of a beneficial interest in the Global Security will be entitled to physical delivery in certificated form of Senior Securities of such series equal in principal amount to such beneficial interest and to have such Senior Securities registered in its name. Senior Securities so issued in certificated form will be issued in denominations of \$1,000 or any larger amount that is an integral multiple thereof, and will be issued in registered form only, without coupons. Subject to the foregoing, neither Global Security is exchangeable, except for a Global Security for the same series of Senior Securities of like denomination to be registered in the name of the Depository or its nominee.

So long as the Depository, or its nominee, is the registered owner of a Global Security, such Depository or such nominee, as the case may be, will be considered the sole owner or holder of the Senior Securities represented by such Global Security for the purposes of receiving payment on such Senior Securities, receiving notices and for all other purposes under the Indenture and such Senior Securities. Beneficial interests in any series of Senior Securities will be evidenced only by, and transfer thereof will be effected only through, records maintained by the Depository and its participants. Except as provided herein, owners of beneficial interests in any Global Security will not be entitled to and will not be considered the holders thereof for any purposes under the Indenture. Accordingly, each person owning a beneficial interest in such Global Security must rely on the procedures of the Depository, and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a Holder under the Indenture. The Depository will not consent or vote with respect to the Global Security representing a series of Senior Securities. Under its usual procedures, the Depository mails an Omnibus Proxy to the Company as soon as possible after the applicable record date. The Omnibus Proxy assigns Cede & Co.'s (the Depository's partnership nominee) consenting or voting rights to those participants to whose accounts the Senior Securities of a series are credited on the applicable record date (identified in a listing attached to the Omnibus Proxy).

The Depository has advised the Company that the Depository is a limited-purpose trust company organized under New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered under the Securities Exchange Act of 1934. The Depository was created to hold the securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The Depository's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations some of whom (and/or their representatives) own the Depository. Access to the Depository's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to the Depository and its participants are on file with the Securities and Exchange Commission.

Same-Day Settlement and Payment

Settlement for each series of the Senior Securities will be made by the Underwriters in immediately available funds. All payments of principal and interest will be made by the Company in immediately available funds.

The Senior Securities of each series will trade in the Depository's same-day funds settlement system until maturity or until such Senior Securities are issued in definitive form, and secondary market trading activity in such Senior Securities will therefore be required by the Depository to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading-activity in such Senior Securities.

UNDERWRITING

Subject to the terms and conditions set forth in an underwriting agreement (the "Underwriting Agreement") among the Company and each of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), ABN AMRO Chicago Corporation, Chase Securities Inc., Citicorp Securities, Inc., NationsBanc Montgomery Securities, Inc. and Scotia Capital Markets (USA) Inc. acting as representatives (the "Representatives") of each of the Underwriters named below (collectively, the "Underwriters"), the Company has agreed to sell to the Underwriters, and each of the Underwriters severally and not jointly has agreed to purchase from the Company, the aggregate principal amount of Senior Securities of each series set forth opposite its name below. The several Underwriters have agreed, subject to the terms and conditions set forth in the Underwriting Agreement, to purchase all of the Senior Securities of each series being sold pursuant to such agreement if any of the Senior Securities of such series being sold pursuant to such agreement are purchased. Under certain circumstances, under the Underwriting Agreement, the commitments of non-defaulting Underwriters may be increased.

| <u>Underwriter</u> | <u>Principal Amount</u> | |
|---|-------------------------|------------------------------|
| | <u>Senior Notes</u> | <u>Senior Debentures</u> |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | \$116,000,000 | \$176,000,000 |
| ABN AMRO Chicago Corporation | 16,000,000 | 24,000,000 |
| Chase Securities Inc. | 16,000,000 | 24,000,000 |
| Citicorp Securities, Inc. | 16,000,000 | 24,000,000 |
| NationsBanc Montgomery Securities, Inc. | 16,000,000 | 24,000,000 |
| Scotia Capital Markets (USA) Inc. | 16,000,000 | 24,000,000 |
| CIBC Wood Gundy Securities Corp. | 1,000,000 | 1,000,000 |
| Deutsche Morgan Grenfell Inc. | 1,000,000 | 1,000,000 |
| ➤ First Capital Securities | 1,000,000 | 1,000,000 |
| Lazard Frères & Co. LLC | 1,000,000 | 1,000,000 |
| Total | \$200,000,000 | \$300,000,000 |

The Representatives have advised the Company that they propose initially to offer the Senior Notes and the Senior Debentures to the public at the respective public offering prices set forth on the cover page of this Prospectus Supplement, and to certain dealers at such prices less a concession not in excess of .40% of the principal amount of the Senior Notes and .50% of the principal amount of the Senior Debentures. The Underwriters may allow, and such dealers may reallow, a discount not in excess of .25% of the principal amount of each such series of Senior Securities to certain other dealers. After the initial public offering, the public offering prices, concessions and discounts may be changed.

As described in "Use of Proceeds," a portion of the net proceeds of the Offerings will be used to repay certain indebtedness outstanding under the Company's unsecured revolving credit facilities for whom various affiliates of ABN AMRO Chicago Corporation, Chase Securities Inc., Citicorp Securities, Inc., NationsBanc Montgomery Securities, Inc., Scotia Capital Markets (USA) Inc., CIBC Wood Gundy Securities Corp., Deutsche Morgan Grenfell Inc. and First Capital Securities act as lenders. Because more than ten percent of the net proceeds of the Offerings may be paid to members or affiliates of members of the National Association of Securities Dealers, Inc. ("NASD") participating in the Offerings, the Offerings will be conducted in accordance with Conduct Rule 2710(c)(8) of the NASD.

The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the Underwriters may be required to make in respect thereof.

There is no public trading market for either series of Senior Securities and the Company does not intend to list either series of Senior Securities on any national securities exchange or apply for quotation of either series of Senior Securities on any automated dealer quotation system. The Company has been advised by the

Underwriters that they presently intend to make a market in each series of Senior Securities after the consummation of the Offerings contemplated hereby, although they are under no obligation to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for either series of Senior Securities or that an active public market for either series of Senior Securities will develop. If an active public trading market for either series of Senior Securities does not develop, the market price of the Senior Securities of such series may be adversely affected. If the Senior Securities of either series are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the performance of the Company and certain other factors.

Until the distribution of the Senior Securities is completed, rules of the Securities and Exchange Commission may limit the ability of the Underwriters and certain selling group members to bid for and purchase such Senior Securities. As an exception to these rules, the Underwriters are permitted to engage in certain transactions that stabilize the price of such Senior Securities. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of such Senior Securities.

If the Underwriters create a short position in connection with the Offerings, i.e., if they sell more Senior Securities of a series than are set forth on the cover page of this Prospectus Supplement, the Underwriters may reduce that short position by purchasing Senior Securities of such series in the open market. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Company nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Senior Securities of either series. In addition, neither the Company nor any of the Underwriters makes any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Certain of the Underwriters and their affiliates have provided, and may in the future provide, investment banking, commercial banking and financial advisory services to the Company for which they are paid customary fees.

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\$600,000,000
ROYAL CARIBBEAN CRUISES LTD.
DEBT SECURITIES, PREFERRED STOCK AND
COMMON STOCK

Royal Caribbean Cruises Ltd. (the "Company") may from time to time offer, together or separately, its (i) senior debt securities (the "Debt Securities"), (ii) shares of its preferred stock, \$.01 par value per share (the "Preferred Stock") and (iii) shares of its common stock, \$.01 par value per share (the "Common Stock") in amounts, at prices and on terms to be determined at the time of the offering. To the extent indicated in the accompanying Prospectus Supplement (the "Prospectus Supplement"), one or more Selling Shareholders (as defined herein), may from time to time offer shares of Common Stock. (See "Selling Shareholders.") The Debt Securities, Preferred Stock and Common Stock are collectively called the "Securities."

The Securities offered pursuant to this Prospectus may be issued in one or more series or issuances and will be limited to \$600,000,000 aggregate public offering price (or its equivalent, based on the applicable exchange rate at the time of sale, in one or more foreign currencies, currency units or composite currencies as shall be designated by the Company). Certain specific terms of the particular Securities in respect of which this Prospectus is being delivered are set forth in the Prospectus Supplement, including, where applicable, (i) in the case of Debt Securities, the specific title, aggregate principal amount, the denomination, maturity, premium, if any, the interest rate (which may be fixed, floating or adjustable), the time and method of calculating payment of interest, if any, the place or places where principal of (and premium, if any) and interest, if any, on such Debt Securities will be payable, the currency in which principal of (and premium, if any) and interest, if any, on such Debt Securities will be payable, any terms of redemption at the option of the Company or the holder, any sinking fund provisions, terms for any conversion or exchange into other Securities or property, the initial public offering price and other special terms, (ii) in the case of Preferred Stock, the specific title, the aggregate number of shares offered, any dividend (including the method of calculating payment of dividends), liquidation, redemption, voting and other rights, any terms for any conversion or exchange into other Securities and the initial public offering price and other terms and (iii) in the case of Common Stock, the terms of the offering and the sales thereof. If so specified in the applicable Prospectus Supplement, Debt Securities of a series may be issued in whole or in part in the form of one or more temporary or permanent global securities.

The Company's Common Stock is listed on the New York Stock Exchange under the trading symbol "RCL." Any Common Stock sold pursuant to a Prospectus Supplement will be listed on such exchange, subject to official notice of issuance. The Company's Common Stock is also listed on the Oslo Stock Exchange under the symbol "RCL."

Unless otherwise specified in a Prospectus Supplement, the Debt Securities, when issued, will be unsecured senior obligations of the Company and will rank equally with all other unsecured and un-subordinated indebtedness of the Company.

The Prospectus Supplement will contain information concerning certain United States federal income tax considerations, if applicable to the Securities offered.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Securities will be sold directly, through agents, underwriters or dealers as designated from time to time, or through a combination of such methods. If agents of the Company, the Selling Shareholders or any dealers or underwriters are involved in the sale of the Securities in respect of which this Prospectus is being delivered, the names of such agents, dealers or underwriters and any applicable commissions or discounts will be set forth in or may be calculated from the Prospectus Supplement with respect to such Securities.

The date of this Prospectus is September 30, 1997.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SECURITIES, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN SUCH SECURITIES, AND THE IMPOSITION OF A PENALTY BID, IN CONNECTION WITH THIS OFFERING. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "PLAN OF DISTRIBUTION."

ENFORCEABILITY OF CIVIL LIABILITIES

The Company is a Liberian corporation and the Selling Shareholders are foreign corporations or partnerships. Certain of the directors and controlling persons of the Company and the Selling Shareholders are residents of jurisdictions other than the United States and all or a substantial portion of their assets and a significant portion of the assets of the Company and the Selling Shareholders are located outside the United States. As a result, it may be difficult for investors to effect service within the United States upon those directors and controlling persons who are not residents of the United States and to realize in the United States upon judgments of courts of the United States predicated upon civil liability under the Securities Act of 1933, as amended (the "Securities Act"). In addition, investors should not assume that courts in Liberia, or in the countries where such directors or controlling persons reside or in which the assets of the Company or such persons are located (i) would enforce judgments of United States courts obtained in actions against the Company or Selling Shareholders or such persons predicated upon the civil liability provisions of the United States federal securities laws; or (ii) would enforce, in original actions, liabilities against the Company or Selling Shareholders or such persons predicated solely upon the United States federal securities laws.

AVAILABLE INFORMATION

The Company is subject to certain informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the "Commission"), all of which may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; and at the Commission's regional offices at 500 West Madison Street, 14th Floor, Chicago, Illinois 60661 and 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can also be obtained from the Commission at prescribed rates through its Public Reference Section at 450 Fifth Street, N.W. Washington, D.C. 20549. The Company's Common Stock is listed on the New York Stock Exchange, and accordingly, such reports and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

This Prospectus constitutes a part of the Registration Statement on Form F-3 filed by the Company with the Commission under the Securities Act. This Prospectus and the accompanying Prospectus Supplement omit certain of the information contained in the Registration Statement in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Securities, reference is made to the Registration Statement and to the schedules and exhibits filed therewith. Statements contained in this Prospectus as to the contents of certain documents are not necessarily complete, and, with respect to each such document filed as an exhibit to the Registration Statement or otherwise filed with the Commission, reference is made to the copy of the document so filed. Each statement is qualified in its entirety by such reference.

No dealer, salesperson or other person has been authorized to give any information or to make any representations not contained or incorporated by reference in this Prospectus or the Prospectus Supplement, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus and the Prospectus Supplement do not constitute an offer of any securities other than those to which it relates or an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction where such an offer or solicitation would be unlawful. Neither the delivery of this Prospectus or any Prospectus Supplement nor any sale made hereunder or thereunder shall, under any circumstances, create any implication that the information contained herein or therein is correct as of any time subsequent to their respective dates.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 20-F for the fiscal year ended December 31, 1996 (File No. 1-11884) has been filed with the Commission pursuant to the Exchange Act and is incorporated herein by reference. The Company's Form 6-Ks filed with the Commission on May 14, 1997, August 6, 1997, August 8, 1997 and August 20, 1997 pursuant to the Exchange Act are incorporated herein by reference.

All reports on Form 20-F filed by the Company pursuant to the Exchange Act, and, to the extent designated therein, any report on Form 6-K filed by the Company after the date of this Prospectus and prior to the termination of the offering contemplated hereby shall be incorporated by reference in this Prospectus or in any Prospectus Supplement from the date of filing or furnishing of such documents or reports.

Any statement contained in a document incorporated by reference herein or in any Prospectus Supplement shall be deemed to be modified or superseded for purposes of this Prospectus and such Prospectus Supplement to the extent that a statement contained herein or therein or in any other subsequently filed document which also is incorporated by reference herein or therein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus or any Prospectus Supplement.

The Company will provide without charge to each person to whom a copy of this Prospectus or any Prospectus Supplement is delivered, upon the request of any such person, including any beneficial owner, a copy of any or all of the documents referred to above which have been or may be incorporated herein or therein by reference (other than certain exhibits to such documents). Requests should be directed to Corporate Secretary, 1050 Caribbean Way, Miami, Florida 33132 (telephone: (305) 539-6000).

THE COMPANY

The Company, together with its subsidiaries, including Celebrity Cruise Lines Inc., is the world's second largest cruise company with 17 cruise ships and a total of 29,100 berths as of September 1997. The Company operates more than 80 different itineraries that call on more than 140 destinations on five continents.

The Company is a corporation organized under the laws of the Republic of Liberia. The registered office of the Company in Liberia is at 80 Broad Street, Monrovia, Liberia. The principal executive office of the Company is located at 1050 Caribbean Way, Miami, Florida 33132, and its telephone number at that address is (305) 539-6000.

USE OF PROCEEDS

Unless otherwise specified in the Prospectus Supplement, the net proceeds from the sale of the Securities will be used by the Company for capital expenditures, the repayment of indebtedness, working capital and general corporate purposes. The Company will not receive any proceeds from sales of Common Stock by the Selling Shareholders.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratio of earnings to fixed charges for the Company for the six months ended June 30, 1997 and each of the last five fiscal years prior thereto. For the purpose of calculating such ratio, earnings include net income plus fixed charges, excluding capitalized interest. Fixed charges include gross interest expense, amortization of deferred financing expenses and an amount equivalent to interest included in rental charges. The Company has assumed that one-third of rental expense is representative of the interest factor. There was no Preferred Stock outstanding for each of the last five fiscal years. Accordingly, the ratio of earnings to combined fixed charges and preferred stock dividends is identical to the ratio of earnings to fixed charges for those periods.

| Six Months Ended June 30, 1997* | Fiscal Year | | | | |
|---------------------------------------|-------------|------|------|------|------|
| | 1996 | 1995 | 1994 | 1993 | 1992 |
| 2.4 | 2.4 | 2.9 | 3.6 | 2.8 | 1.7 |

*The ratio of earnings to combined fixed charges and preferred stock dividends for the six months ended June 30, 1997 is 2.2.

DESCRIPTION OF DEBT SECURITIES

The Debt Securities are to be issued in one or more series under an Indenture as amended or supplemented from time to time (the "Indenture"), between the Company and The Bank of New York, as successor to NationsBank of Georgia, National Association, as Trustee. The term "Trustee," as used herein, shall mean The Bank of New York; if at any time there is more than one Trustee acting under the Indenture, the term "Trustee" as used herein with respect to Debt Securities of any particular series shall mean the Trustee with respect to the Debt Securities of such series. The Indenture has been filed as an exhibit to the Registration Statement of which this Prospectus is a part and is subject to and governed by the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). The following summary of certain provisions of the Indenture and the Debt Securities does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Indenture, including the definitions therein of certain terms and of those terms made a part thereof by the Trust Indenture Act. All section references herein are to sections of the Indenture and capitalized terms used but not defined herein shall have the respective meanings set forth in the Indenture.

The particular terms of each series of Debt Securities, as well as any modification or addition to the general terms of the Debt Securities as herein described, which may be applicable to a particular series of Debt Securities, are described in the Prospectus Supplement relating to such series of Debt Securities.

General

The Debt Securities will be unsecured senior obligations of the Company and will rank equally with all other unsecured and unsubordinated indebtedness of the Company. The Indenture provides that the Debt Securities may be issued without limit as to aggregate principal amount, in one or more series, in each case in such forms and with such terms as are established for the Debt Securities of such series in or pursuant to Board Resolution or indentures supplemental to the Indenture. All Debt Securities of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of any Holder, for issuances of additional Debt Securities of such series. (Sections 301 and 303) The Indenture provides that there may be more than one Trustee thereunder, each with respect to one or more series of Debt Securities.

Reference is made to the Prospectus Supplement relating to the Debt Securities of each series for the following terms, where applicable, of the Debt Securities of such series: (1) the title of such Debt Securities; (2) the aggregate principal amount of Debt Securities and any limit on the aggregate principal amount of such

Debt Securities; (3) the Person to whom any interest (each reference to "interest" includes any applicable Additional Amounts, as defined under "*—Tax Related Considerations — Payment of Additional Amounts*") on such Debt Securities shall be payable, if other than the Person in whose name a Debt Security is registered at the close of business on the Regular Record Date for such interest; (4) the date or dates, or the method by which such date or dates will be determined, on which the principal of such Debt Securities is payable; (5) the rate or rates (which may be fixed or variable) at which such Debt Securities will bear interest, if any, or the method or methods by which such rate or rates shall be determined, the date or dates from which such interest will accrue, the Interest Payment Dates on which any such interest shall be payable and the Regular Record Date for any interest payable on any Interest Payment Date, or the method or methods by which such date or dates shall be determined, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months; (6) the place or places where the principal of and any premium and interest on such Debt Securities shall be payable; (7) the period or periods within which, the price or prices at which, the currency or currencies, currency unit or composite currency in which, and the other terms and conditions upon which, such Debt Securities may be redeemed, in whole or in part, at the option of the Company; (8) the obligation, if any, of the Company to redeem, repay, or purchase such Debt Securities pursuant to any sinking fund or analogous provisions or at the option of a Holder thereof and the period or periods within which, the price or prices at which, the currency or currencies, currency unit or composite currency in which, and the other terms and conditions upon which such Debt Securities shall be redeemed, repaid or purchased; (9) the right of the Company to defease such Debt Securities or certain restrictive covenants applicable thereto and certain Events of Default under certain circumstances (see "*—Defeasance — Defeasance and Discharge — Defeasance of Certain Covenants*"); (10) if other than in United States dollars, the currency or currencies, currency unit or composite currency, of payment of principal of and any premium and interest on such Debt Securities and the equivalent thereof in United States dollars; (11) any index, formula or other method used to determine the amount of payments of principal of or any premium and interest on such Debt Securities; (12) if such Debt Securities will be issuable only in the form of a global security as described under "*Book-Entry Debt Securities*," the Depository or its nominee with respect to such Debt Securities and the circumstances under which the global security may be registered for transfer or exchange or authenticated and delivered in the name of a Person other than the Depository or its nominee; (13) if other than the principal of or any premium or interest on such Debt Securities is to be payable, at the election of the Company or a Holder thereof, in a currency or currencies, currency unit or units or composite currency or currencies other than that in which such Debt Securities are denominated or stated to be payable, the terms and conditions upon which such election may be made; (14) if other than the entire principal amount thereof, the portion of the principal amount of such Debt Securities which shall be payable upon declaration of acceleration or, if applicable, the portion of the principal amount of such Debt Securities that is convertible in accordance with the provisions of the Indenture; (15) provisions, if any, granting special rights to the Holders of such Debt Securities upon the occurrence of such events as may be specified; (16) any deletions from, modifications of or additions to, the Events of Default or covenants of the Company with respect to such Debt Securities, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth herein; (17) whether and under what circumstances the Company will not pay Additional Amounts on such Debt Securities to any Holder in respect of any tax, assessment or governmental charge and, if so, whether the Company will not have the option to redeem such Debt Securities rather than pay such Additional Amounts (and the terms of any such option); (18) the obligation, if any, of the Company to permit the conversion of such Debt Securities into the Company's Common Stock or Preferred Stock, as the case may be, and the terms and conditions upon which such conversion shall be effected (including, without limitation, the initial conversion price or rate, the conversion period, any adjustment of the applicable conversion price and any requirements relative to the reservation of such shares for purposes of conversion); and (19) any other terms of the Debt Securities. (Section 301)

The Debt Securities may provide for less than the entire principal amount thereof to be payable upon declaration of acceleration of the maturity thereof ("*Original Issue Discount Securities*"). Special U.S. federal income tax, accounting and other considerations applicable to Original Issue Discount Securities will be described in the applicable Prospectus Supplement.

Denominations, Interest, Registration and Transfer

Unless otherwise described in the applicable Prospectus Supplement, the Debt Securities of any series will be issuable in denominations of \$1,000 and integral multiples thereof. (Section 302)

Unless otherwise specified in the applicable Prospectus Supplement, the principal of and any premium and interest on any series of Debt Securities will be payable at the corporate trust office of the Trustee, currently located at Towermarc Plaza, 10161 Centurion Parkway, Jacksonville, Florida 32256, provided that, at the option of the Company, payment of interest may be made by check mailed to the address of the Person entitled thereto as it appears in the Security Register or by wire transfer of funds to such Person at an account maintained within the United States. (Sections 301, 305, 306, 307 and 1002)

Any interest not punctually paid or duly provided for on any Interest Payment Date with respect to a Debt Security ("Defaulted Interest") will forthwith cease to be payable to the Holder on the applicable Regular Record Date and may either be paid to the person in whose name such Debt Security is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to the Holder of such Debt Security not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more completely described in the Indenture.

Subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series will be exchangeable for other Debt Securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of such Debt Securities at the corporate trust office of the Trustee referred to above. In addition, subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series may be surrendered for conversion, if convertible, or registration of transfer thereof at the corporate trust office of the Trustee referred to above. Every Debt Security surrendered for conversion, registration of transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer. No service charge will be made for any registration of transfer or exchange of any Debt Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. (Section 305) If the applicable Prospectus Supplement refers to any transfer agent (in addition to the Trustee) initially designated by the Company with respect to any series of Debt Securities, the Company may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, except that the Company will be required to maintain a transfer agent in each Place of Payment for such series. The Company may at any time designate additional transfer agents with respect to any series of Debt Securities. (Section 1002)

Neither the Company nor the Trustee shall be required to (i) issue, register the transfer of or exchange Debt Securities of any series, if such security may be among those selected for redemption, during a period beginning at the opening of business 15 days before any selection of Debt Securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; or (ii) register the transfer of or exchange any Debt Security, or portion thereof, called for redemption in whole or in part, except the unredeemed portion of any Debt Security being redeemed in part. (Section 305)

Covenants

The particular covenants, if any, relating to any series of Debt Securities will be described in the Prospectus Supplement relating to such series. If any such covenants are described, the Prospectus Supplement will also state whether the "covenant defeasance" provisions described below also apply.

Restrictions on Consolidation, Merger and Certain Sales of Assets

Without the consent of the Holders, the Company may consolidate with or merge with or into, or convey, transfer or lease its properties and assets substantially as an entirety to any Person and may permit any Person to merge with or into, or convey, transfer or lease its properties and assets substantially as an entirety to the Company, provided that (a) immediately after giving effect to such transaction and treating any indebtedness

which becomes an obligation of the Company as a result thereof as having been incurred by the Company at the time of such transaction, no Event of Default and no event which after notice or lapse of time or both would become an Event of Default shall have occurred and be continuing and (b) the successor Person assumes all the obligations of the Company under the Indenture; *provided* that any such successor Person shall be a corporation, trust or partnership organized under the laws of the United States, any state thereof, the District of Columbia, the Republic of Liberia or any country recognized by the United States. (Article Eight)

Events of Default

Except as may otherwise be provided in a Prospectus Supplement with respect to a particular series of Debt Securities, the following events in respect to a particular series of Debt Securities are defined as "Events of Default": (a) failure to pay interest or any Additional Amounts for 30 days after becoming due on such Debt Securities; (b) failure to pay the principal or premium, if any, when due at maturity on such Debt Securities; (c) default in the deposit of any sinking fund payment, when and as due by the terms of the Debt Securities of such series; (d) failure to perform any other covenants in the Indenture for a period of 60 days after written notice as provided in the Indenture; (e) failure to pay when due any payment on, or the acceleration of, indebtedness for money borrowed by the Company aggregating in excess of \$30 million under any mortgages, indentures (including the Indenture) or instruments under which the Company may have issued, or which there may have been secured or evidenced, any indebtedness for money borrowed by the Company, if such indebtedness is not discharged or such acceleration is not annulled within 30 days after written notice as provided in the Indenture; (f) certain events of bankruptcy, insolvency or reorganization; or (g) any other Event of Default provided with respect to Debt Securities of that series. (Section 501)

In case an Event of Default shall occur and be continuing in respect of any series of Debt Securities, either the Trustee or the Holders of not less than 25% in the aggregate principal amount of the Debt Securities of such series then outstanding may declare the principal amount (or, if the Debt Securities of such series are Original Discount Securities or Indexed Securities, such portion of the principal amount as may be specified in the terms of such series) of all of the Debt Securities of such series to be immediately due and payable. At any time after a declaration of acceleration with respect to Debt Securities of any series has been made, but before a judgment or decree based on acceleration has been obtained, the Holders of a majority in principal amount of the Debt Securities outstanding of that series may, under certain circumstances, rescind and annul such acceleration. (Section 502)

The Indenture requires the Company to file annually with the Trustee a certificate of the Company's principal executive, financial or accounting officer as to his or her knowledge of the Company's compliance with all conditions and covenants of the Indenture. (Section 1005)

Reference is made to the Prospectus Supplement relating to each series of Debt Securities that are Original Issue Discount Securities for the particular provisions relating to acceleration of the maturity of a portion of the principal amount of such Original Issue Discount Securities upon the occurrence of an Event of Default and the continuation thereof.

Subject to the provisions of the Indenture relating to the duties of the Trustee in case an Event of Default shall occur and be continuing, the Indenture provides that the Trustee shall be under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of Holders unless such Holders shall have offered to the Trustee reasonable indemnity. (Section 603) Subject to such provisions for indemnification and certain rights of the Trustee, the Indenture provides that the Holders of a majority in principal amount of the Debt Securities then outstanding shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. (Section 512)

Defeasance

The Indenture shall cease to be of further effect with respect to the Debt Securities of any series (except as to rights of registration of transfer and exchange of Debt Securities and any rights to receive Additional Amounts) when all such Debt Securities have been delivered to the Trustee for cancellation or have become

due and payable or will upon Stated Maturity or redemption within one year become due and payable and the Company has irrevocably deposited with the Trustee as trust funds for the purpose an amount in the currency or currencies, currency unit or composite currency sufficient to pay and discharge the entire indebtedness on such Debt Securities.

The Prospectus Supplement relating to the Debt Securities of any series will state if any additional defeasance provisions will apply to the Debt Securities of such series.

Defeasance and Discharge

The Indenture provides, with respect to the Debt Securities of any series to the extent established in the terms thereof, that the Company will be deemed discharged from any and all obligations in respect of the Debt Securities of such series (except for the obligation to pay Additional Amounts and certain obligations to register the transfer or exchange of Debt Securities of such series, to replace stolen, lost or mutilated Debt Securities of such series, to maintain paying agencies and hold moneys for payment in trust) upon the deposit with the Trustee, in trust, funds in such currency or currencies, currency unit or composite currency in which such Debt Securities are payable or with respect to Debt Securities denominated in United States dollars, U.S. Government Obligations (as defined) or both, which through the payment of interest and principal thereof in accordance with their terms will provide money in an amount sufficient to pay any installment of principal of (and premium, if any) and each installment of interest on the Debt Securities of such series on the Stated Maturity of such payments in accordance with the terms of the Indenture and such Debt Securities of such series. Such option may be exercised only if the Company has delivered to the Trustee an independent opinion of counsel to the effect that, among other things, there has been a change in federal income tax law or the judicial interpretation thereof, or there has been published by, or the Company has received from, the United States Internal Revenue Service a ruling to the effect that, in each case, such a discharge will not be deemed, or result in, a taxable event with respect to the Holders of the Debt Securities of such series. (Section 403)

Defeasance of Certain Covenants

The Indenture provides, with respect to the Debt Securities of any series to the extent established in the terms thereof, that the Company may omit to comply with certain restrictive covenants applicable to such Debt Securities (except for the obligation to pay Additional Amounts) and, that such omissions shall not be deemed to be Events of Default under the Indenture and the Debt Securities of such series if the Company deposits with the Trustee, in trust, funds in such currency or currencies, currency unit or composite currency in which such Debt Securities are payable or with respect to Debt Securities denominated in United States dollars, U.S. Government Obligations or both, which through the payment of interest and principal thereof in accordance with their terms will provide money in an amount sufficient to pay principal (and premium, if any) and interest and any mandatory sinking fund payments in respect of the Debt Securities on the Stated Maturity of such payments in accordance with the terms of the Indenture and such Debt Securities. The Company will also be required to deliver to the Trustee, among other things, an opinion of counsel to the effect that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such covenant defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit and defeasance had not occurred. (Section 1004)

Modification of the Indenture

Modifications and amendments of the Indenture may be made by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the outstanding Debt Securities of each series affected by such modification or amendment; provided that no such modification or amendment, without the consent of the holders of each of the Debt Securities affected thereby may (i) change the stated maturity of the principal of, or any installment of principal of or interest on, any Debt Security, or reduce the principal amount thereof or the rate of interest thereon or any Additional Amounts or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to the terms

of the Indenture, or change any place of payment where, or the coin or currency, currency unit or units or composite currency or currencies in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date); (ii) reduce the percentage in principal amount of the outstanding Debt Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults thereunder and their consequences) provided for in the Indenture; or (iii) modify any of the provisions relating to supplemental indentures, waiver of past defaults or waiver of certain covenants, except to increase any such percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each outstanding Debt Security affected thereby. (Section 902)

Modifications and amendments of the Indenture may be made by the Company and the Trustee without the consent of any Holder of Debt Securities for any of the following purposes: (i) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company in the Indenture and in the Debt Securities as obligor under the Indenture; (ii) to add to the covenants of the Company for the benefit of the Holders of all or any series of Debt Securities or to surrender any right or power conferred upon the Company in the Indenture; (iii) to add additional Events of Default; (iv) to add or change any provisions of the Indenture to such extent as shall be necessary to permit or facilitate the issuance of Debt Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of Debt Securities in uncertificated form; (v) to add to, change or eliminate any of the provisions of the Indenture in respect of one or more series of Securities, provided that any such addition, change or elimination (1) shall neither (A) apply to any Debt Security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (B) modify the rights of the Holder of any such Debt Security with respect to such provision or (2) shall become effective only when there is no such Debt Security outstanding; (vi) to establish the form or terms of Securities of any series as permitted by the Indenture, including the provisions and procedures relating to the Securities convertible into Common Stock or Preferred Stock, as the case may be; (vii) to evidence and provide for the acceptance of appointment under the Indenture by a successor Trustee with respect to the Debt Securities of one or more series and to add to or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts under the Indenture by more than one Trustee; (viii) to secure the Debt Securities; (ix) to supplement any of the provisions of the Indenture to such extent as shall be necessary to permit or facilitate the defeasance and discharge of any series of Debt Securities pursuant to the Indenture; provided, that any such action shall not adversely affect the interests of the Holders of Debt Securities of such series or any other series of Debt Securities in any material respect; or (x) to cure any ambiguity, to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provisions with respect to matters or questions arising under the Indenture, provided that such action shall not adversely affect the interests of the Holders of Debt Securities of any series in any material respect. (Section 901)

Conversion Rights

The terms and conditions, if any, upon which the Debt Securities are convertible into Common Stock or Preferred Stock will be set forth in the applicable Prospectus Supplement relating thereto. Such terms will include whether such Debt Securities are convertible into Common Stock or Preferred Stock, the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at the option of the Holders or the Company, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such Debt Securities.

Book-Entry Debt Securities

The Debt Securities of a series may be issued in whole or in part in the form of one or more global securities (the "Global Securities") that will be deposited with, or on behalf of, a depository (the "Depository") identified in the applicable Prospectus Supplement relating to such series. In such a case, one or more Global Securities will be issued in a denomination or aggregate denominations equal to the portion of the aggregate principal amount of the outstanding Debt Securities of the series to be represented by such

Global Security or Securities. Global Securities may be issued in either registered or bearer form and in either temporary or permanent form. The specific terms of the depository arrangement with respect to a series of Debt Securities will be described in the applicable Prospectus Supplement relating to such series. (Sections 301 and 305)

Tax Related Considerations

Payment of Additional Amounts

The Company will agree that any amounts to be paid by the Company with respect to any series of Debt Securities will be made free and clear of and without deduction or withholding for or on account of any and all present or future tax, duty, levy, impost, assessment or other governmental charges imposed or levied by or on behalf of the Liberian government or the government of the jurisdiction of a successor to the Company or any authority or agency therein having power to tax (hereinafter "Taxes") unless the Company is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. If the Company is so required to deduct or withhold any amount, for or on account of Taxes, from any payment made under or with respect to any series of Debt Securities, the Company will pay such additional amounts (the "Additional Amounts") as may be necessary so that the net payment received by each Holder (including Additional Amounts) after such withholding or deduction will not be less than the amount the Holder would have received if such Taxes had not been withheld or deducted; *provided*, that no Additional Amounts will be payable with respect to a payment made to a Holder which is subject to such Taxes by reason of its being connected with the government of the jurisdiction of the organization of the Company or territory thereof otherwise than by the mere holding of the Debt Securities or the receipt of payments thereunder (referred to herein as an "Excluded Holder"); *provided, further*, that no Additional Amounts will be payable with respect to a payment made to a Holder, if the Company would not be required to withhold or deduct any amount from or on account of Taxes from any payment made to such Holder, if such Holder filed a form with the relevant government with no other consequence to such Holder. The Company will also (1) make such withholding or deduction and (2) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will furnish the Holders, within 30 days after the date the payment of any Taxes is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by the Company. The Company will indemnify and hold harmless each Holder and upon written request reimburse each Holder for the amount of any (a) Taxes levied or imposed on and paid by such Holder as a result of payments with respect to the Debt Securities (other than an Excluded Holder); (b) liability (including penalties, interest and expense) arising therefrom and (c) Taxes imposed with respect to any reimbursement pursuant to this covenant. (Section 1007)

Redemption or Assumption of Debt Securities under Certain Circumstances

If as a result of any change in, or amendment to, (i) the laws (including any regulations promulgated thereunder) of Liberia (or any political subdivision or taxing authority thereof) or (ii) the laws (including any regulations promulgated thereunder) of any jurisdiction in which the Company is organized (or any political subdivision or taxing authority therein), it is determined by the Company based upon an opinion of independent counsel that as a result of any change in, or amendment to, any official position regarding the application or interpretation of such laws or regulations, which change or amendment is announced or becomes effective on or after the date of the Indenture, the Company would be required to pay an Additional Amount, then the Company may, at its option, on giving not less than 30 days' nor more than 60 days' notice (which shall be irrevocable) redeem the Debt Securities in whole, but not in part, at any time at a redemption price equal to 100% of the principal amount plus accrued interest to the date fixed for redemption provided that (a) no notice of redemption may be given more than 90 days prior to the earliest date on which the Company would be obligated to pay Additional Amounts and (b) at the time such notice of redemption is given, the obligation to pay Additional Amounts remains in effect. (Section 1108)

DESCRIPTION OF CAPITAL STOCK

General

The authorized capital stock of the Company consists of 100,000,000 shares of Common Stock, par value \$.01 per share, and 20,000,000 shares of Preferred Stock, par value \$.01 per share ("Preferred Stock"). The following summary description of the capital stock of the Company does not purport to be complete and is qualified in its entirety by reference to the Company's Restated Articles of Incorporation (the "Restated Articles of Incorporation"), a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is part and the certificate of designations which will be filed with the Commission in connection with any offering of Preferred Stock.

Common Stock

General. The directors of a Liberian corporation generally have power to cause shares of any authorized class to be issued for any corporate purpose.

Holder of Common Stock are entitled to one vote per share on all matters submitted to shareholders, and the presence in person or by proxy of holders entitled to cast a majority of the total number of votes which may be cast at any meeting of shareholders shall constitute a quorum for the transaction of business at such meeting, except as otherwise provided in the Business Corporation Act of Liberia, as amended (the "Business Corporation Act"). The holders of Common Stock are not subject to further calls or assessments by the Company and, pursuant to the Company's Restated Articles of Incorporation, will have no preemptive, subscription or conversion rights. The Common Stock is not redeemable by the Company.

Neither Liberian law nor the Restated Articles of Incorporation and other constituent documents of the Company provide for any limitations on the right of persons who are not citizens or residents of Liberia to hold or vote the Common Stock.

Dividends. Holders of Common Stock have an equal right to receive dividends when and if declared by the Company's Board of Directors out of funds legally available therefor.

Other Matters

Sales of Assets, Mergers and Liquidation. Under the Business Corporation Act, the sale of all or substantially all of the Company's assets and the liquidation and non-judicial dissolution of the Company are required to be approved by the holders of 66⅔% of the outstanding shares of Common Stock. Holders of a majority of the outstanding shares of Common Stock may institute judicial dissolution proceedings in accordance with the Business Corporation Act. In the event of the liquidation or dissolution of the Company, the holders of the Common Stock will be entitled to share pro rata in the net assets of the Company available for distribution to them, after payment to all creditors and the liquidation preferences of any outstanding Preferred Stock of the Company.

Under the Business Corporation Act, a merger or consolidation involving the Company (other than with subsidiaries at least 90% of whose shares are owned by the Company) is required to be approved by the holders of a majority of the outstanding shares of Common Stock.

Under the Business Corporation Act, amendments to the articles of incorporation of a Liberian company may be authorized by vote of the holders of a majority of all outstanding shares. However, in the case of provisions in articles of incorporation requiring the approval of a super-majority of the members of the Board of Directors or outstanding shares of Common Stock as a condition to the taking of specified corporate actions, the Business Corporation Act requires the approval of the holders of 66⅔% of the outstanding shares of Common Stock for the addition, deletion or amendment of any of such provisions.

Call of Meetings. Shareholders of the Company generally may call for meetings of shareholders only if there has been a failure to hold an annual meeting.

Election of Directors. Pursuant to the Restated Articles of Incorporation, directors of the Company are elected by a majority of the votes cast by shareholders entitled to vote, and cumulative voting is not permitted.

Dissenters' Rights of Appraisal and Payment. Under Liberian law, shareholders of the Company have the right to dissent from various corporate actions, including any merger or sale of all or substantially all of the assets of the Company not made in the usual course of its business, and receive payment of the fair value of their shares. In the event of any further amendment of the Restated Articles of Incorporation, a shareholder also has the right to dissent and receive payment for his or her shares if the amendment alters certain rights in respect of those shares. A condition for such payment is that the dissenting shareholders follow the procedures set forth in the Business Corporation Act. In the event that the Company and any dissenting shareholders fail to agree on a price for the shares, such procedures involve, among other things, the institution of proceedings in the circuit court in the judicial circuit in Liberia in which the Company's Liberian office is situated. The value of the shares of the dissenting shareholder is fixed by the court after reference, if the court so elects, to the recommendations of a court-appointed appraiser.

Shareholders' Derivative Actions. Under Liberian law, any shareholder of the Company may bring action in the name of the Company to procure a judgment in its favor (a "derivative action"), provided that such shareholder is a holder of Common Stock both at the time the derivative action is commenced and at the time of the transaction to which the action relates.

Limitations Under Indebtedness. Agreements governing certain of the Company's indebtedness contain certain restrictive covenants that impose restrictions (subject to certain exceptions) on the Company and its subsidiaries' ability to take certain corporate actions, including the payment of dividends and the redemption of Common Stock under certain circumstances.

Certain Corporate Actions. The Company's Restated Articles of Incorporation provide that during the period that the Shareholders Agreement dated as of February 1, 1993 between A. Wilhelmsen AS and Cruise Associates remains in effect, the Board of Directors may not approve certain corporate actions unless such actions are approved by one non-independent director of the Company nominated by Wilhelmsen and one non-independent director of the Company nominated by Cruise Associates.

Transfer Agent and Registrar. The Transfer Agent and Registrar for the Common Stock is ChaseMellon Shareholder Services, L.L.C.

Preferred Stock

In February, 1997, the Company issued 3,450,000 shares of its Series A Convertible Preferred Stock (the "Series A Preferred Stock") which pays cumulative dividends at the annual rate of \$3.625 per share. Such stock is convertible into Common Stock at the option of the holder at any time at a conversion price of \$32.40 per share of Common Stock, subject to adjustment, and is redeemable by the Company on and after February 17, 2000. The Series A Preferred Stock ranks senior to the Common Stock with respect to the payment of dividends and amounts upon liquidation, dissolution or winding up. The foregoing summary is qualified in its entirety by reference to the certificate of the powers, designations, preferences and rights of the Series A Preferred Stock, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is part.

Certain terms of any other series of Preferred Stock offered by any Prospectus Supplement will be described in the Prospectus Supplement relating to such series of Preferred Stock. The Board of Directors of the Company is authorized to provide for the issuance of Preferred Stock in one or more series with such distinctive designations as may be stated in the resolution or resolutions providing for the issue of such Preferred Stock. At the time that any series of Preferred Stock is authorized, the Board of Directors would fix the dividend rights, any conversion rights, any voting rights, redemption provisions, liquidation preferences and any other rights, preferences, privileges and restrictions of such series, as well as the number of shares constituting such series and the designation thereof. The Board of Directors could, without shareholder approval, cause the Company to issue Preferred Stock which has voting, conversion and other rights which could adversely affect the holders of Common Stock or make it more difficult to effect a change in control of the Company. The Preferred Stock could be used to dilute the stock ownership of persons seeking to obtain control of the Company and thereby hinder a possible takeover attempt which, if shareholders were offered a

premium over the market value of their shares, might be viewed as being beneficial to the shareholders of the Company. In addition, the Preferred Stock could be issued with voting, conversion and other rights and preferences which would adversely affect the voting power and other rights of holders of Common Stock.

Liability of Directors and Officers

The Restated Articles of Incorporation and By-Laws contain provisions which eliminate the personal liability of directors and officers for monetary damages resulting from breaches of their fiduciary duties other than liability for breaches of the duty of loyalty, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law or for any transactions in which the director derived an improper personal benefit. The Company believes that these provisions are necessary to attract and retain qualified persons as directors and officers.

SELLING SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Common Stock of the Company as of September 22, 1997 for certain shareholders of the Company (the "Selling Shareholders"). To the extent indicated in the accompanying Prospectus Supplement, one or more of the Selling Shareholders may from time to time offer shares of Common Stock for sale.

| <u>Name</u> | <u>Shares Owned Beneficially(1)</u> | |
|--------------------------------------|-------------------------------------|----------------|
| | <u>Number</u> | <u>Percent</u> |
| A. Wilhelmsen AS.(2) | 23,764,665 | 29.4% |
| Cruise Associates(3) | 25,390,950 | 31.4% |
| Archinav Holdings, Ltd..... | 3,798,621 | 4.7% |
| Overseas Cruiseship, Inc.(4) | 3,649,655 | 4.5% |
| Monument Capital Corporation(5)..... | 785,706 | 1.0% |

- (1) For purposes of this table, any security which a person or group has a right to acquire within 60 days after September 22, 1997 is deemed to be owned by such person or group. Such security is deemed to be outstanding for the purpose of computing the percentage of ownership of such person or group, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person or group.
- (2) Includes 15,950 shares of Common Stock issuable upon exercise of options under the Company's 1990 Shareholders Stock Option Plan. A. Wilhelmsen AS. is a Norwegian corporation, the indirect beneficial owners of which are members of the Wilhelmsen family of Norway.
- (3) Includes 15,950 shares of Common Stock issuable upon exercise of options under the Company's 1990 Shareholders Stock Option Plan. Cruise Associates is a Bahamian general partnership, the indirect beneficial owners of which are various trusts primarily for the benefit of certain members of the Pritzker family of Chicago, Illinois, and various trusts primarily for the benefit of certain members of the Ofer family.
- (4) Excludes 131,400 shares of Common Stock held by an affiliate of Overseas Cruiseship, Inc. which were acquired before the acquisition of Celebrity Cruise Lines Inc.
- (5) Monument Capital Corporation is a Liberian corporation which holds shares of Common Stock as nominee for various trusts primarily for the benefit of certain members of the Fain family. Mr. Fain disclaims beneficial ownership to some or all of the shares of Common Stock held by Monument Capital Corporation.

PLAN OF DISTRIBUTION

The Company and the Selling Shareholders may sell Securities to or through underwriters and also may sell Securities directly to other purchasers or through agents. This Prospectus is not the exclusive means for resales of Common Stock owned by the Selling Shareholders which may, for example, sell Common Stock under Rule 144 under the Securities Act of 1933, as amended.

The distribution of the Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

Sales of Common Stock offered hereby may be effected from time to time in one or more transactions on the New York Stock Exchange, the Oslo Stock Exchange or in negotiated transactions or a combination of such methods of sale, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at other negotiated prices.

In connection with the sale of Securities, underwriters or agents may receive compensation from the Company, the Selling Shareholders or from purchasers of Securities for whom they may act as agents in the form of discounts, concessions or commissions. Underwriters may sell Securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of Securities may be deemed to be underwriters, and any discounts or commissions received by them from the Company or the Selling Shareholders and any profit on the resale of Securities by them may be deemed to be underwriting discounts and commissions, under the Securities Act. Any such underwriter or agent will be identified, and any such compensation received from the Company or the Selling Shareholders will be described, in the Prospectus Supplement. The Company will bear all of the expenses allocable to Common Stock sold for the Selling Shareholders' accounts, other than underwriters' discounts, commissions and transfer taxes.

Under agreements which may be entered into by the Company or the Selling Shareholders, underwriters and agents who participate in the distribution of Securities may be entitled to indemnification by the Company or the Selling Shareholders against certain liabilities, including liabilities under the Securities Act.

If so indicated in the Prospectus Supplement, the Company or the Selling Shareholders will authorize underwriters or other persons acting as the Company's or the Selling Shareholders' agents to solicit offers by certain institutions to purchase Securities from the Company or the Selling Shareholders pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by the Company or the Selling Shareholders. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of the Securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts.

Until the distribution of the Securities is completed, rules of the Securities and Exchange Commission may limit the ability of underwriters and certain selling group members to bid for and purchase the Securities. As an exception to these rules, underwriters are permitted to engage in certain transactions that stabilize the price of the Securities. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Securities.

If any underwriters create a short position in the Securities in connection with the Offering, i.e., if they sell more Securities than are set forth on the cover page of this Prospectus, the underwriters may reduce that short position by purchasing Securities in the open market.

Underwriters may also impose a penalty bid on certain selling group members. This means that if the underwriters purchase Securities in the open market to reduce the underwriters' short position or to stabilize the price of the Securities, they may reclaim the amount of the selling concession from the selling group members who sold those Securities as part of the Offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of the Securities to the extent that it discourages resales of the Securities.

Neither the Company nor any underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Securities. In addition, neither the Company nor any underwriters make any representation that the underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Certain of the underwriters or agents and their associates may engage in transactions with and perform services for the Company or the Selling Shareholders in the ordinary course of business.

The Securities may or may not be listed on a national securities exchange (other than the Common Stock, which is listed on the New York Stock Exchange). Any Common Stock sold pursuant to a Prospectus Supplement will be listed on the New York Stock Exchange, subject to official notice of issuance. No assurances can be given that there will be an active trading market for the Securities.

VALIDITY OF SECURITIES

The validity of the Debt Securities and certain legal matters with respect to the Common Stock and Preferred Stock will be passed upon for the Company by Davis Polk & Wardwell. The validity of the Common Stock and the Preferred Stock will be passed upon by Watson, Farley & Williams. Certain legal matters will be passed upon for any underwriters or agents by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations). Davis Polk & Wardwell and Fried, Frank, Harris, Shriver & Jacobson will rely on Watson, Farley & Williams with respect to matters regarding Liberian law. Davis Polk & Wardwell represented Wilhelmsen in connection with its acquisition of Common Stock of the Company and provides legal services for Wilhelmsen.

EXPERTS

The consolidated financial statements incorporated in this Prospectus by reference to the Annual Report on Form 20-F for the year ended December 31, 1996, have been so incorporated in reliance on the report of Price Waterhouse LLP, independent certified public accountants, given on the authority of said firm as experts in auditing and accounting. The financial statements of Celebrity Cruise Lines Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended have been incorporated by reference herein and are included in reliance on the report of Ernst & Young and Moore Stephens, independent auditors, given on the authority of such firms as experts in auditing and accounting.

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No person has been authorized to give any information or to make any representations other than those contained in this Prospectus Supplement or the accompanying Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus Supplement and the accompanying Prospectus do not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities described in this Prospectus Supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such an offer or solicitation is unlawful. Neither the delivery of this Prospectus Supplement or the accompanying Prospectus nor any sale made hereunder or thereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date of such information.

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\$500,000,000

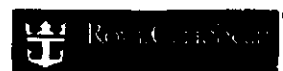
**Royal Caribbean
Cruises Ltd.**

\$200,000,000 7%

Senior Notes due 2007

\$300,000,000 7½%

Senior Debentures due 2027



Like no vacation on earth.



PROSPECTUS SUPPLEMENT

Merrill Lynch & Co.

**ABN AMRO Chicago
Corporation**

Chase Securities Inc.

Citicorp Securities, Inc.

**NationsBanc Montgomery
Securities, Inc.**

Scotia Capital Markets

October 8, 1997