
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(MARK ONE)

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

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

COMMISSION FILE NUMBER: 1-11884

ROYAL CARIBBEAN CRUISES LTD.

(Exact name of Registrant as specified in its charter)

REPUBLIC OF LIBERIA

(Jurisdiction of incorporation or organization)

1050 CARIBBEAN WAY, MIAMI, FLORIDA 33132

(Address of principal executive offices)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $.01 per share	New York Stock Exchange
$3.625 Series A Convertible Preferred Stock par value $.01 per share	New York Stock Exchange

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL
Royal Caribbean Cruises Ltd., a Liberian corporation, including its subsidiaries (the "Company"), is the world's second largest cruise company with 16 cruise ships and a total of 29,800 berths. The Company offers more than 110 different itineraries that call on more than 175 destinations on six continents.

The Company operates two brands, the Royal Caribbean International brand ("Royal Caribbean International") and the Celebrity Cruises brand ("Celebrity Cruises"). The Company acquired Celebrity Cruise Lines Inc. ("Celebrity") in July 1997.

The Royal Caribbean International Brand
Royal Caribbean International serves the volume cruise vacation market which it categorizes as the contemporary and premium segments. The brand operates 11 cruise ships with an aggregate of 21,600 berths, offering more than 60 different cruise itineraries, that range from three to 21 nights and call on more than 140 destinations on six continents.

Royal Caribbean International'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 International's product offering represent excellent value to consumers, especially to couples and families traveling with children. While the brand is positioned at the upper end of the contemporary segment, the Company believes that Royal Caribbean International'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 segment of the cruise vacation market. Celebrity Cruises operates five cruise ships with an aggregate of 8,200 berths. Celebrity Cruises offers more than 40 different itineraries, that range from five to 19 nights, reaching over 80 destinations in Alaska, Bermuda, the Caribbean, Europe, Mexico, and the Panama Canal.

Celebrity Cruises' strategy is to attract consumers who want an enhanced cruise vacation in terms of modern vessels, fine dining and service, large 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. As such, it also attracts consumers from the contemporary and luxury cruise categories.

Both brands offer 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.

INDUSTRY
Since 1970, cruising has been one of the fastest growing sectors of the vacation market, as the number of North American guests has grown to an estimated 5.4 million in 1998 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. The Company's revenues have increased at a compound annual growth rate of approximately 18% between 1988 and 1998. The Company's market share of North American guests carried in 1998 is estimated to have been approximately 33.9%.

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

YEAR	GUESTS CARRIED ON THE COMPANY'S SHIPS(2)	NORTH AMERICAN CRUISE GUESTS(1)	COMPANY PERCENTAGE
1994	1,051,868	4,448,000	23.6%
1995	1,058,126	4,378,000	24.2
1996	1,245,696	4,659,000	26.7
1997	1,633,457	5,051,000	32.3
1998	1,841,152	5,428,000	33.9

(1) Source: CLIA (2) 1994 -- 1997 are proforma to include Celebrity Cruises

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 102,000 berths at the end of 1993. The number of berths in the industry is estimated to have increased to approximately 128,000 berths on 122 ships by the end of 1998. There are a number of cruise ships on order with a total estimated capacity of 64,000 berths which will be placed in service between 1999 and 2004. Over the last five years, approximately 48 ships with an aggregate capacity of approximately 28,900 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 competitive pressures and age of vessels.

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 guests currently represent only a small share of the vacation market and that a significant portion of cruise guests carried are "first-time cruisers."

OPERATING STRATEGIES

The Company's principal operating strategies are the following: (i) build the awareness and market penetration of the brands; (ii) continue to expand its fleet with state-of-the-art cruise ships; (iii) broaden its itineraries worldwide; (iv) maintain its competitive position with respect to the quality and innovation of its on-board product; (v) maintain strong relationships with travel agencies, the principal industry distribution system; (vi) further expand international passenger sourcing; (vii) utilize sophisticated yield management systems (revenue optimization per berth); and (viii) further improve its technological capabilities.

Brand Awareness

The Company's strategy is to continue to broaden the recognition of both the Royal Caribbean International brand and the Celebrity Cruises brand in the cruise vacation marketplace. Each brand has a distinct identity and marketing focus but utilizes shared infrastructure resources.

Royal Caribbean International has positioned itself in the contemporary and premium segments of the cruise vacation market and focuses on providing multiple choices to its guests through a variety of itineraries, accommodations, dining, ship activities and shore excursions. Hallmarks of the brand include friendly service, family programs, entertainment, health and fitness and activities for various age groups.

Celebrity Cruises primarily serves the premium segment of the cruise vacation market. The brand is recognized for its fine dining, impeccable service, large staterooms, a high staff to guest ratio and excellent spa facilities. In 1998 and 1999 Berlitz rated Celebrity Cruises the highest rated premium cruise line in the large vessel category (over 1,000 passenger berths).

Fleet Expansion

Royal Caribbean International

Founded in 1968, Royal Caribbean International was the first cruise line to design ships specially for warm water year round cruising. Royal Caribbean International operated a modern fleet in the 1970's and early 1980's, establishing a reputation for high quality. Between 1988 and 1992, the brand tripled its capacity by embarking on its first major capital expansion program. Royal Caribbean International 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. With the delivery of the Vision-class vessels, Royal Caribbean International's capacity increased by 61.7% to 23,000 berths at the end of 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 cafe; and a shopping mall. The ships are designed to be faster than most cruise ships which permits more flexibility in itinerary planning.

Royal Caribbean International currently has three Eagle-class vessels on order for delivery in the fourth quarter of 1999, third quarter of 2000 and second quarter of 2002. The Eagle-class vessels will be the largest passenger cruise ships built to date; 142,000 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. Each Eagle-class ship features the cruise industry's first horizontal atrium which is the length of two football fields, four decks high and includes two eleven-deck atriums; recreational activities such as rock climbing and ice skating; enhanced staterooms; expanded dining options; and a variety of intimate spaces.

Royal Caribbean International also has two Vantage-class vessels on order scheduled for delivery in the first quarter of 2001 and second quarter of 2002. The Vantage-class is a progression from the brand's Vision-class series and will carry approximately 2,100 guests.

Beginning in 1999 through 2002, Royal Caribbean International's capacity is expected to increase 52.6% to 35,100 berths.

CELEBRITY CRUISES
Celebrity Cruises was founded in 1990 and operated three ships between 1992 and 1995. Between 1995 and 1997, Celebrity Cruises undertook its first capital expansion program, adding three Century-class vessels which range in size from 1,750 to 1,850 berths. Celebrity Cruises has on order four Millennium-class vessels which will have approximately 2,000 berths and are scheduled for delivery in the second quarter 2000, first quarter 2001, third quarter 2001 and second quarter 2002. The Millennium-class ships are a progression from the Century-class vessels, which have been widely accepted in the premium segment of the marketplace. This new class of vessels will build on the brands' primary strengths, including fine dining, large cabins, extensive spa facilities and impeccable service.

Beginning in 2000 through 2002, Celebrity Cruises' capacity is expected to increase 97.7% to 16,200 berths.

At year-end 1998, the Company's combined fleet had an average age of approximately five years, which the Company believes is the youngest of any major cruise company. On a combined basis, beginning in 1999 through 2002, the Company's year-end berth capacity is expected to increase 64.4% from 31,200 to 51,300 berths.

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 guests 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.

Worldwide Itineraries
The Company's 1999 itineraries include more than 110 different itineraries that call on more than 175 destinations on six continents. New ships allow the Company to expand into new destinations, itineraries and markets. In 1999, Royal Caribbean International will be offering the "Royal Journeys" program which offers 10 global cruise itineraries visiting 41 ports in 19 countries on four continents. Celebrity Cruises is repositioning a vessel to the European market. In addition, the Company is increasing its capacity in the short cruise market in 2000 by establishing a Royal Caribbean International vessel year round in Port Canaveral to provide 3 and 4 day Bahamas cruises.

Product Innovation
The Company recognizes the need for new and innovative on-board products and experiences for guests, and develops these products based on guest feedback, crew suggestions and competitive product reviews. Accordingly, the Company continues to invest in design innovations on new ships and additional product offerings on its existing fleet. New offerings such as expanded dining options, and recreational activities such as rock climbing and ice skating are among the services to be offered in the future.

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. The Company maintains a large sales support organization including 100 district sales managers supporting both brands in North America. The Company was the first cruise company to develop an automated booking system, CruiseMatch 2000(TM). This automated reservations system allows travel agents direct access to the Company's computer reservation system to improve ease of bookings. More than 30,000 independent travel agencies worldwide can book cruises for both brands using CruiseMatch 2000(TM). The Company also offers CruiseMatch 2000 Online(R) which makes CruiseMatch 2000(TM) accessible to travel agencies through the Royal Caribbean International and Celebrity Cruises websites. In 1998, the Company launched CruiseWriter(sm), an instant collateral system that allows travel agents to customize collateral materials for their clients. In 1997, the Company also opened a reservation call center in Wichita, Kansas to offer greater flexibility and extended hours of operations.

International Guests
International guests continue to provide an increasing share of the Company's growth. International guests have grown from approximately 7% of total guests in 1991 to approximately 16% of total guests in 1998. One of the Company's strategies is to use fleet deployment and expanded itineraries to increase its passenger sourcing outside North America. During 1998, the Company hired a senior vice president of international sales and marketing to further develop and expand its international sales capability. The Company carries out its international sales effort through sales offices located in London, Frankfurt, Oslo, Genoa and Paris, and a network of 38 independent international representatives located throughout the world. The Company is also able to accept bookings in various currencies.

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

The Company's computer system, known as Enterprise 2000, is used by both brands and provides the foundation for: (i) a sophisticated reservation system; (ii) sales tools to be used by the Company's combined field sales force; and (iii) productivity tools for travel agents. The Company has developed a corporate shoreside intranet as well as electronic ship to shore communication tools to improve its internal productivity. Both Royal Caribbean International and Celebrity Cruises have extensive websites, providing access to millions of Internet users throughout the world.

SALES, MARKETING AND PASSENGER SERVICES

The Company sells its cruise vacations almost exclusively through approximately 30,000 independent travel agencies worldwide. The Company maintains a large sales support organization including 100 district sales managers supporting both brands in North America. The Company also utilizes a telemarketing program in the United States and Canada called CruiseConnect to contact smaller travel agencies to inform them of new products and promotions. The Company believes that maintaining personal contact with travel agency owners, managers and front-line retail agents is crucial to retaining travel agency loyalty. The Company 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 International pursues a comprehensive marketing program with an emphasis on consumer advertising using the tag line, "Like no vacation on earth(sm)." Through its advertising, Royal Caribbean International 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 International 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.

Celebrity Cruises also pursues a comprehensive marketing program with an emphasis on consumer advertising using the tag line, "Exceeding expectations(sm)". An advertising campaign utilizing national television, magazines and newspapers features commercials with the theme, "Simply the Best". The Company believes that Celebrity Cruises represents enhanced value to the premium segment based on elements such as its dining experience, staff to guest ratio, cabin size, artwork, technology, AquaSpa(sm) 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 under two brands and offers more than 110 different itineraries ranging from three to 21 nights that call on more than 175 destinations on six continents. The following table represents summary information concerning the Company's ships and their areas of operation based on 1999 itineraries (subject to change):

	YEAR VESSEL ENTERED SERVICE	PASSENGER CAPACITY(1)	PRIMARY AREAS OF OPERATION
ROYAL CARIBBEAN INTERNATIONAL:			
Voyager of the Seas(2)	1999	3,100	Western Caribbean
Vision of the Seas	1998	2,000	Panama Canal, Hawaii, Alaska
Enchantment of the Seas	1997	1,950	Eastern & Western Caribbean
Rhapsody of the Seas	1997	2,000	Alaska, Southern Caribbean, Mexico, Panama Canal, Hawaii
Grandeur of the Seas	1996	1,950	Eastern Caribbean
Splendour of the Seas	1996	1,800	Europe, Caribbean, Canada/New England
Legend of the Seas	1995	1,800	Europe, Hawaii, Panama Canal, Mexico, Royal Journeys
Majesty of the Seas	1992	2,350	Western & Southern Caribbean
Monarch of the Seas	1991	2,350	Southern Caribbean
Viking Serenade(3)	1982/1991	1,500	Mexican Baja
Nordic Empress	1990	1,600	Southern Caribbean, Bermuda
Sovereign of the Seas	1988	2,250	Bahamas
CELEBRITY CRUISES:			
Mercury	1997	1,850	Western Caribbean, Alaska, Panama Canal
Galaxy	1996	1,850	Southern Caribbean, Alaska
Century	1995	1,750	Eastern & Western Caribbean, Europe
Zenith	1992	1,350	Panama Canal, Bermuda
Horizon	1990	1,350	Southern Caribbean, Bermuda

(1) Based on double occupancy per cabin. (2) Voyager of the Seas is expected to enter service in November 1999.

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

At year-end 1998, the combined fleets of Royal Caribbean International and Celebrity Cruises had an average age of approximately five years, which the Company believes is the youngest of any major cruise company.

New Vessels

The Company has nine ships on order. The planned passenger capacity and expected delivery dates of the ships on order are as follows:

VESSEL	EXPECTED DELIVERY DATES	PASSENGER CAPACITY(1)
ROYAL CARIBBEAN INTERNATIONAL:		
Eagle-class		
Voyager of the Seas(2)	4th Quarter 1999	3,100
Explorer of the Seas	3rd Quarter 2000	3,100
Adventure of the Seas	2nd Quarter 2002	3,100
Vantage-class		
Radiance of the Seas	1st Quarter 2001	2,100
Brilliance of the Seas	2nd Quarter 2002	2,100
CELEBRITY CRUISES:		
Millennium-class		
Millennium	2nd Quarter 2000	2,000
Unnamed	1st Quarter 2001	2,000
Unnamed	3rd Quarter 2001	2,000
Unnamed	2nd Quarter 2002	2,000

(1) Based on double occupancy per cabin. (2) Included in table on prior page -- Cruise Ships and Itineraries.

The Eagle-class vessels are being built in Turku, Finland by Kvaerner-Masa Yards which built two of the Royal Caribbean International ships. The Vantage-class vessels are being built in Papenburg, Germany by Meyer Werft, the same shipyard which built all of the Celebrity Cruises vessels. The Millennium-class vessels are being built by Chantiers de l'Atlantique in St. Nazaire, France, the same shipyard which built seven of the Royal Caribbean International ships. The aggregate contract price of the nine ships, which excludes capitalized interest and other ancillary costs, is approximately $3.6 billion.

Shipboard Activities and Shipboard Revenues

Both brands offer modern fleets with a wide array of shipboard activities, services and amenities including swimming pools, sun decks, spa facilities which include massage and exercise facilities, beauty salons, 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, shore excursions, photography and spa services.

Private Destinations

Royal Caribbean International 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. See Note 14 to the Annual Consolidated Financial Statements.

Guests and Capacity

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

	FISCAL YEARS		
	1998	1997	1996
Number of Guests	1,841,152	1,465,450	973,602
Percentage of Total Capacity	105.2%	104.2%	101.3%

In accordance with cruise industry practice, total capacity is determined based on double occupancy per cabin even though some cabins accommodate three or four guests; accordingly, a percentage in excess of 100% indicates that more than two guests 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 guests that elect to utilize the Company's Air/Sea Program. Air add-ons vary by gateway and destination and are available from cities in the United States, Canada and Europe. Furthermore, the Company sells trip cancellation insurance which provides guests with insurance coverage for trip cancellation, medical protection and baggage protection.

SUPPLIERS

The Company's largest purchases are for airfare, food and related items, advertising, diesel fuel, hotel supplies and products related to passenger accommodations. Most of the supplies required by the Company are available from numerous sources at competitive prices. The Company's largest operating cost is air transportation for its guests. None of the Company's suppliers provided goods or services representing in excess of 10% of the Company's revenues in 1998.

EMPLOYEES

As of December 31, 1998, the Company and its subsidiaries employed approximately 2,300 full-time and 400 part-time employees in shoreside operations worldwide. The Company and its subsidiaries also employ approximately 18,300 crew and staff for its vessels. As of December 31, 1998, approximately 70% of the Company's shipboard employees are covered by collective bargaining agreements. The Company believes that its relationship with its employees is good.

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, 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 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.

ITEM 2. DESCRIPTION OF PROPERTY

For a description of the Company's cruise ships, see "Item 1. Description of Business -- Operations -- Cruise Ships and Itineraries."

The Company leases three office buildings on the Port of Miami from Dade County, Florida. Two of the buildings have initial terms of 20 years which began in 1991 and 1995, respectively, and the third building has an initial term of 17 years which began in 1998. The Company also leases a building in Wichita, Kansas which is used as an additional reservation center with an initial term of ten years beginning in 1997. The Company leases space for its international sales offices in London, Oslo, Frankfurt, Genoa and Paris.

Royal Caribbean International 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 Company owns one building in San Juan, Puerto Rico and leases a second building in St. Thomas, Virgin Islands for Royal Caribbean International's Crown and Anchor Clubs. These facilities, which are exclusively for Royal Caribbean International's guests, provide a rest stop where guests can check packages, get refreshments or make phone calls.

The Company believes that its facilities are adequate for its current needs.

ITEM 3. LEGAL PROCEEDINGS

In June 1998, the Company entered into a plea agreement with the U.S. Department of Justice settling previously filed charges contained in two indictments pending in the U.S. District of Puerto Rico and the Southern District of Florida, respectively. The indictments, which pertained to events that occurred in 1994 and prior years, contained a total of 11 felony counts related to improper disposal of oil-contaminated bilge water and attempts to conceal such activities from the U.S. Coast Guard. Under the plea agreement, the Company pled guilty to eight of the 11 counts and paid $9.0 million. The Company was also placed on probation for up to five years and has implemented a Court supervised Environmental Compliance Plan. The U.S. government is continuing its investigation of the Company's bilge water and other waste disposal practices through federal grand jury proceedings in Anchorage, Alaska, Los Angeles, California, Miami, Florida and New York, New York. In February 1999, the Company was indicted by the grand jury in Los Angeles on charges that it presented false oil record books for one of its vessels to the U.S. Coast Guard three times during 1994 and the Company has pled guilty to these charges. Each of the three counts in the indictment carries a maximum fine of $500,000, subject to increase under certain circumstances. Although the Company is not able at this time to estimate the timing or impact of these continuing investigations, the Company may be subject to additional charges for violations of U.S. law.

The Company is routinely involved in other claims typical to the cruise industry. The majority of these claims are covered by insurance. Management believes the outcome of such other claims which are not covered by insurance would not have a material adverse effect upon the Company's financial condition or results of operations.

ITEM 9. 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, 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, Year 2000 compliance and weather.

GENERAL

Summary

Royal Caribbean Cruises Ltd. (the "Company") reported improved revenues, operating income, net income and earnings per share for the year ended December 31, 1998 as shown in the table below. The improvements were driven primarily by capacity increases resulting from the acquisition of Celebrity Cruise Lines Inc. ("Celebrity") in July 1997, and additions to the Royal Caribbean International brand as well as improved revenue per available lower berth ("Yield"). Net income for 1998 included a $9.0 million charge related to a plea agreement with the U.S. Department of Justice in the second quarter and a reduction in earnings of approximately $9.0 million related to the grounding of Monarch of the Seas in the fourth quarter. Also included in net income for 1998 is a $31.0 million gain on the sale of Song of America and a $32.0 million write-down of Viking Serenade to reflect its estimated fair market value. Net income for 1997 included an extraordinary loss of $7.6 million resulting from the early extinguishment of debt as well as a gain of $4.0 million from the sale of Sun Viking. Accordingly, on a comparable basis, before these items, earnings increased to $349.8 million or $1.93 per share in 1998, from $178.7 million or $1.17 per share in 1997.

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Revenues	$2,636,291	$1,939,007	$1,357,325
Operating Income	488,735	303,555	217,033
Net Income	330,770	175,127	150,866
Basic Earnings Per Share	$1.90	$1.17	$1.19
Diluted Earnings Per Share	$1.83	$1.15	$1.17

Selected Statistical Information

	1998	1997	1996
Passengers Carried	1,841,152	1,465,450	973,602
Passenger Cruise Days	11,607,906	8,759,651	6,055,068
Occupancy Percentage	105.2%	104.2%	101.3%

Fleet Expansion

The Company's fleet expansion continued in 1998 with the delivery of the last of the six Vision-class vessels in the Royal Caribbean International fleet, Vision of the Seas, in April 1998. With the delivery of these six ships and the acquisition of Celebrity in 1997, the Company's capacity has increased approximately 119.3% from 14,228 berths at December 31, 1994 to 31,200 at December 31, 1998.

The Company has nine ships on order. See table given earlier for details on capacity and delivery dates.

The Eagle-class vessels will be the largest passenger cruise ships built to date. The Vantage-class vessels are a progression from Royal Caribbean International's Vision-class vessels, while the Millennium-class vessels are a progression from Celebrity Cruises' Century-class vessels.

Between 1998 and 2002, the Company's year-end berth capacity is expected to increase 64.4% from 31,200 to 51,300 berths.

In May 1998, the Company sold Song of America for $94.5 million and recognized a gain on the sale of $31.0 million. The Company operated the vessel under a charter agreement until March 1999.

RESULTS OF OPERATIONS:

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

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Revenues	100.0%	100.0%	100.0%
Expenses:			
Operating	60.5	62.9	63.0
Marketing, selling and administrative	13.6	14.0	14.3
Depreciation and amortization	7.4	7.4	6.7
Operating Income	18.5	15.7	16.0
Other Income (Expense)	(6.0)	(6.3)	(4.9)
Income Before Extraordinary Item	12.5%	9.4%	11.1%

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Revenues

Revenues increased 36.0% to $2.6 billion compared to $1.9 billion in 1997. The increase in revenues was primarily due to a 31.2% increase in capacity and a 3.6% increase in Yield. The acquisition of Celebrity (which occurred in July 1997) accounted for approximately two-thirds of the capacity increase, while additions to the Royal Caribbean International fleet accounted for the balance of the increase. The increase in Yield was due to an increase in occupancy levels to 105.2% as compared to 104.2% in 1997 as well as an increase in cruise ticket per diems, partially offset by a reduction in shipboard revenue per diems. The reduction in shipboard revenue per diems is due to the inclusion of Celebrity's results for the full year 1998 as compared to six months in 1997. Celebrity derives a higher percentage of its shipboard revenue from concessionaires than does Royal Caribbean International, resulting in a dilutive effect on the per diem. Concessionaires pay a net commission to the Company which is recorded as revenue, in contrast to in-house operations, where shipboard revenues and the related cost of sales are recorded on a gross basis.

Expenses

Operating expenses increased 30.7% in 1998 to $1.6 billion as compared to $1.2 billion in 1997. The increase in operating expenses was primarily due to the increase in capacity. Included in operating expenses is a $9.0 million charge related to the plea agreement with the U.S. Department of Justice. As a percentage of revenues, operating expenses decreased 2.4% in 1998 due to improved ticket pricing as well as the inclusion of Celebrity results for the full year of 1998 versus six months of 1997. Celebrity's operating expenses as a percentage of revenues were lower than Royal Caribbean International's due to lower shipboard cost of sales as a result of the higher use of concessionaires onboard Celebrity vessels as discussed above.

Marketing, selling and administrative expenses increased 31.9% in 1998 to $359.2 million from $272.4 million in 1997. The increase was primarily due to the acquisition of Celebrity as well as higher advertising and staffing costs. As a percentage of revenues, marketing, selling and administrative expenses decreased to 13.6% in 1998 as a result of economies of scale.

Depreciation and amortization increased to $194.6 million in 1998 from $143.8 million in 1997. The increase was primarily due to the acquisition of Celebrity as well as additions to the Royal Caribbean International fleet.

Other Income (Expense)
Interest expense, net of capitalized interest, increased to $167.9 million in 1998 as compared to $128.5 million in 1997. The increase is due to the increase in the average debt level as a result of the Company's fleet expansion program as well as the acquisition of Celebrity in July 1997.

Included in Other income (expense) in 1998 is a $31.0 million gain from the sale of Song of America as well as a $32.0 million charge related to the write-down to fair market value of Viking Serenade. Based on the Company's strategic objective to maintain a modernized fleet, the unique circumstances of this vessel and indications of the current value of Viking Serenade, the Company recorded a write-down of the carrying value to its current estimated fair market value. The Company continues to operate and depreciate the vessel which is classified as part of Property and Equipment on the balance sheet.

On December 15, 1998, Monarch of the Seas experienced significant damage to the ship's hull and equipment, resulting in the ship being out of service until mid-March 1999. The incident resulted in a net reduction in earnings of approximately $9.0 million, or $0.05 per share in the fourth quarter of 1998. This reduction is comprised of lost revenue, net of related variable expenses, of $5.2 million, and costs associated with repairs to the ship, passenger transportation and lodging, commissions and various other costs, net of estimated insurance recoveries, of $3.8 million. The costs of $3.8 million were included in Other income (expense) for the quarter and year ended December 31, 1998.

Included in Other income (expense) in 1997 is a $4.0 million gain from the sale of Sun Viking.

Extraordinary Item
Included in 1997 is an extraordinary charge of $7.6 million or $0.05 per share related to the early extinguishment of debt.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Revenues
Revenues increased 42.9% in 1997 to $1.9 billion compared to $1.4 billion in 1996 as a result of a 40.7% increase in capacity as well as an increase in Yield. The acquisition of Celebrity contributed 22.1% of the capacity increase while additions to the Royal Caribbean International fleet accounted for 18.6% of the increase. Yield for the year increased 1.5% over 1996 as a result of an increase in occupancy. Occupancy levels increased to 104.2% in 1997 as compared to 101.3% in 1996.

Expenses
Operating expenses increased 42.7% to $1.2 billion in 1997 as compared to $854.5 million in 1996. This increase in operating expenses was primarily due to the 40.7% increase in capacity and higher variable costs associated with the increased occupancy.

Marketing, selling and administrative expenses increased 39.9% in 1997 to $272.4 million versus $194.6 million in 1996. The increase was primarily due to the acquisition of Celebrity, an increase in staffing and additional advertising costs. These expenses decreased as a percentage of revenues in 1997 as a result of the economies of scale achieved with the increase in capacity.

Depreciation and amortization increased to $143.8 million in 1997 from $91.2 million in 1996. The increase was primarily due to the acquisition of Celebrity as well as additions to the Royal Caribbean International fleet.

Other Income (Expense)
Interest expense, net of capitalized interest, increased to $128.5 million in 1997 from $76.5 million in 1996. The increase was a result of an increase in the average debt level associated with the Company's fleet expansion program and from the acquisition of Celebrity in July 1997.

Other income (expense) in 1997 includes a gain of $4.0 million from the sale of Sun Viking as compared to 1996 which includes a gain of $10.3 million from the sale of Song of Norway.

Extraordinary Item
In May 1997, the Company redeemed the remaining $104.5 million of 11 3/8% Senior Subordinated Notes and incurred an extraordinary charge of $7.6 million, or $0.05 per share on the early extinguishment of debt.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash
The Company generated substantial cash flows resulting in net cash provided by operating activities of $526.9 million in 1998 as compared to $434.1 million in 1997 and $299.5 million in 1996. The increase was primarily due to higher net income as well as timing differences in cash payments relating to operating assets and liabilities.

In March 1998, the Company issued $150.0 million of 6.75% Senior Notes due 2008 and $150.0 million of 7.25% Senior Debentures due 2018. The net proceeds to the Company were approximately $296.1 million.

In March 1998, the Company issued 6,100,690 shares of common stock. The net proceeds to the Company were approximately $165.5 million. (See Note 7 -- Shareholders' Equity.)

During the year ended December 31, 1998, the Company's capital expenditures were approximately $557.0 million as compared to $1.1 billion during 1997 and $722.4 million during 1996. The largest portion of capital expenditures related to the delivery of Vision of the Seas in 1998, delivery of Rhapsody of the Seas, Enchantment of the Seas and Mercury in 1997, delivery of Splendour of the Seas and Grandeur of the Seas in 1996, as well as progress payments for ships under construction during 1998, 1997 and 1996. Also included in capital expenditures are shoreside capital expenditures and costs for vessel refurbishing to maintain consistent fleet standards.

The Company received proceeds of $94.5 and $100.0 million from the sale of vessels during 1998 and 1997, respectively.

Capitalized interest decreased to $15.0 million in 1998, from $15.8 million in 1997 and $15.9 million in 1996. The decrease during 1998 was due to a reduction in the level of construction-in-progress expenditures associated with the Company's fleet expansion program.

During 1998, the Company paid quarterly cash dividends on its common stock totaling $55.2 million as well as quarterly cash dividends on its preferred stock, totaling $12.5 million. During 1997, the Company paid quarterly cash dividends totaling $40.8 and $9.2 million on its common stock and preferred stock, respectively.

The Company made principal payments totaling approximately $335.1 and $245.4 million under various term loans and capital leases during 1998 and 1997, respectively.

Future Commitments

The Company currently has nine ships on order for an additional capacity of 21,500 berths. The aggregate contract price of the nine ships, which excludes capitalized interest and other ancillary costs, is approximately $3.6 billion, of which the Company deposited $144.6 million during 1998 and $74.3 million during 1997. Additional deposits are due prior to the dates of delivery of $237.4 million in 1999, $88.1 million in 2000 and $25.0 million in 2001. The Company anticipates that overall capital expenditures will be approximately $997, $1,196, and $1,368 million for 1999, 2000 and 2001, respectively.

The Company has $2.5 billion of long-term debt of which $127.9 million is due during the twelve month period ending December 31, 1999. (See Note 6 -- Long-Term Debt.)

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 such acquisitions, strategic alliances and adjustments to its fleet composition were to occur, they would be financed through the issuance of additional shares of equity securities, by the incurrence of additional indebtedness or from cash flows from operations.

Funding Sources

As of December 31, 1998, the Company's liquidity was $1.2 billion consisting of $172.9 million in cash and cash equivalents and $1.0 billion available under its $1.0 billion unsecured revolving credit facility (the "$1 Billion Revolving Credit Facility"). The capital expenditures and scheduled debt payments will be funded through a combination of cash flows provided by operations, drawdowns under the $1 Billion Revolving Credit Facility, and sales of securities in private or public securities markets. In addition, the agreements related to the ships scheduled for delivery subsequent to 1999 require the shipyards to make available export financing for up to 80% of the contract price of the vessels.

The Company's cash management practice is to utilize excess cash to reduce outstanding balances on the $1 Billion Revolving Credit Facility, and to the extent the cash balances exceed the amounts drawn under the $1 Billion Revolving Credit Facility, the Company invests in short-term securities.

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 modify the Company's exposure to interest rate movements. 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. (See Note 12 -- Financial Instruments.)

Impact of Year 2000

The "Year 2000 issue" is the result of computer programs that were written using two digits rather than four to define the applicable year. If the Company's computer programs with date-sensitive functions are not Year 2000 compliant, they may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions to operations.

Risks

Based on its current assessment efforts, the Company does not believe that Year 2000 issues will have a material adverse effect on the results of its operations, liquidity or financial condition. However, this assessment is dependent on the ability of third-party suppliers and others whose system failures potentially could have a significant impact on the Company's operations to be Year 2000 compliant. For instance, the operations of the Company could be impacted by disruptions in airlines, port authorities, travel agents or others in the transportation or sales distribution channels whose systems are not Year 2000 compliant. Although the Company cannot control the conduct of these third parties, the Year 2000 Project is expected to reduce the Company's level of uncertainty and the adverse effect that any such failures may have.

Costs

The total cost associated with required modifications to become Year 2000 compliant are not expected to be material to the Company's financial position.

The Company estimates that it will incur approximately $6.0 million in expense on efforts directly related to fixing the Year 2000 issue, as well as an additional $5.0 million of capital expenditures related to the accelerated replacement of non-compliant systems. The Company has incurred approximately $2.0 million in expense since January 1, 1998, and spent an additional $2.0 million for capital expenditures related to the accelerated replacement of non-compliant systems. Estimated costs do not include costs that may be incurred by the Company as a result of the failure of any third parties to become Year 2000 compliant or costs to implement any contingency plans.

ITEM 9A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

The Company is exposed to market risks attributable to changes in interest rates, currency exchange rates and commodity prices. The Company enters into various derivative transactions to manage a portion of these exposures to market risk pursuant to the Company's hedging practices and policies. The impacts of these hedging instruments are offset by corresponding changes in the underlying exposures being hedged. The Company achieves this by closely matching the amount, term and conditions of the derivative instrument with the underlying risk being hedged. The Company does not hold or issue derivative financial instruments for trading or other speculative purposes. Derivative positions are monitored using techniques including market valuations and sensitivity analysis. See Notes 2 and 12 to the Consolidated Financial Statements for a discussion of the Company's accounting policies for financial instruments.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates to its long-term debt obligations. At December 31, 1998, the fair value of the Company's long-term fixed rate debt was estimated at approximately $2,565.0 million using quoted market prices where available, or discounted cash flow analyses. Market risk associated with the Company's long-term debt is the potential increase in fair value resulting from a decrease in interest rates. The Company uses interest rate swaps to modify its exposure to interest rate movements and manage its interest expense. The Company's interest rate swaps are primarily floating rate instruments that are tied to LIBOR. The fair value of the Company's interest rate swaps was approximately $48.6 million at December 31, 1998. A 10% decrease in assumed interest rates would increase the fair value of the Company's long-term debt by approximately $73.8 million. This increase would be partially offset by an increase in the fair value of the Company's interest rate swaps of $18.6 million.

ROYAL CARIBBEAN CRUISES LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
Revenues	$2,636,291	$1,939,007	$1,357,325
Expenses			
Operating	1,593,728	1,219,268	854,478
Marketing, selling and administrative	359,214	272,368	194,629
Depreciation and amortization	194,614	143,816	91,185
	2,147,556	1,635,452	1,140,292
Operating Income	488,735	303,555	217,033
Other Income (Expense)			
Interest income	15,912	4,666	2,278
Interest expense, net of capitalized interest	(167,869)	(128,531)	(76,540)
Other income (expense)	(6,008)	2,995	8,095
	(157,965)	(120,870)	(66,167)
Income Before Extraordinary Item	330,770	182,685	150,866
Extraordinary Item	--	(7,558)	--
Net Income	$ 330,770	$ 175,127	$ 150,866
Basic Earnings Per Share			
Income before extraordinary item	$ 1.90	$ 1.22	$ 1.19
Extraordinary item	--	(0.05)	--
Net income	$ 1.90	$ 1.17	$ 1.19
Diluted Earnings Per Share			
Income before extraordinary item	$ 1.83	$ 1.20	$ 1.17
Extraordinary item	--	(0.05)	--
Net, income	$ 1.83	$ 1.15	$ 1.17

(Please note that the preferred dividend is $12,500K in 1998 and $9,200K in 1997. Subtracting these amounts from the Net Income shown above results in Net Income Available to Common Shareholders.)

ROYAL CARIBBEAN CRUISES LTD.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT SHARE AMOUNTS)

	1998	1997
ASSETS		
Current Assets		
Cash and cash equivalents	$ 172,921	$ 110,793
Trade and other receivables, net	36,532	22,628
Inventories	31,834	37,274
Prepaid expenses	45,044	40,450
Total current assets	286,331	211,145
Property and Equipment -- at cost less accumulated depreciation and amortization	5,073,008	4,785,291
Goodwill -- less accumulated amortization of $107,365 and $96,952, respectively	309,801	320,214
Other Assets	16,936	23,098
	$5,686,076	$5,339,748
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 127,919	$ 141,013
Accounts payable	115,833	108,474
Accrued liabilities	243,477	210,454
Customer deposits	402,926	429,403
Total current liabilities	890,155	889,344
Long-Term Debt	2,341,163	2,431,683
Commitments and Contingencies (Note 13)		
Shareholders' Equity		
Preferred stock ($.01 par value; 20,000,000 shares authorized; cumulative convertible preferred shares issued and outstanding, 3,450,000 shares stated at liquidation value)	172,500	172,500
Common stock ($.01 par value; 500,000,000 shares authorized 168,945,222 and 162,128,974 shares issued)	1,690	1,621
Paid-in capital	1,361,796	1,188,304
Retained earnings	923,691	660,655
Treasury stock (354,492 and 314,148 common shares at cost)	(4,919)	(4,359)
Total shareholders' equity	2,454,758	2,018,721
	$5,686,076	$5,339,748

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

ROYAL CARIBBEAN CRUISES LTD. CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)	1998	1997	1996
OPERATING ACTIVITIES:			
Net income	$330,770	$ 175,127	$150,866
Adjustments:			
Depreciation and amortization	194,614	143,816	91,185
Gain on sale of assets	(31,031)	(4,000)	(10,306)
Write-down of vessel to fair value	32,035	--	--
Extraordinary item	--	2,387	--
Changes in operating assets and liabilities:			
(Increase) decrease in trade and other receivables, net	(13,904)	145	(3,364)
Decrease (increase) in inventories	5,440	(1,885)	(5,835)
(Increase) in prepaid expenses	(3,600)	(6,206)	(7,065)
Increase (decrease) in accounts payable	7,359	2,010	(2,437)
Increase in accrued liabilities	27,722	31,299	22,451
(Decrease) increase in customer deposits	(26,477)	89,896	61,408
Other, net	3,930	1,532	2,611
Net cash provided by operating activities	526,858	434,121	299,514
INVESTING ACTIVITIES:			
Purchase of property and equipment	(556,953)	(1,106,214)	(722,389)
Proceeds from sale of assets	94,500	99,966	40,000
Acquisition of Celebrity Cruise Lines Inc., net of cash, cash equivalents and short-term investments acquired	--	(152,423)	--
Other, net	247	(11,802)	(6,039)
Net cash used in investing activities	(462,206)	(1,170,473)	(688,428)
FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	296,141	695,189	452,668
Repayment of long-term debt	(395,144)	(367,353)	(22,025)
Dividends	(67,734)	(49,984)	(34,384)
Proceeds from issuance of common stock	165,532	364,631	--
Proceeds from issuance of preferred stock	--	167,030	--
Other, net	(1,319)	(2,787)	1,818
Net cash (used in) provided by financing activities	(2,524)	806,726	398,077
Net increase in cash and cash equivalents	62,128	70,374	9,163
Cash and cash equivalents, beginning of year	110,793	40,419	31,256
Cash and cash equivalents, end of year	$172,921	$ 110,793	$ 40,419
SUPPLEMENTAL DISCLOSURE			
Interest paid, net of amount capitalized	$170,278	$ 127,457	$ 65,110
Capital stock issued for acquisition	$ --	$ 270,000	$ --

ROYAL CARIBBEAN CRUISES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL

Description of Business
Royal Caribbean Cruises Ltd., a Liberian corporation, and its subsidiaries (the "Company"), is a global cruise company. In July 1997, the Company acquired 100% of the outstanding stock of Celebrity Cruise Lines Inc. ("Celebrity") (See Note 4 -- Acquisition). The Company operates two cruise brands, Royal Caribbean International, which operates operates 12 cruise ships (one of which has been sold and will operate under a charter agreement until March 1999), and Celebrity Cruises, which operates five cruise ships. The Company's ships call on destinations in Alaska, the Bahamas, Bermuda, the Caribbean, Canada, Europe, Hawaii, Mexico, New England, the Panama Canal and Scandinavia.

Basis for Preparation of Consolidated Financial Statements
The consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles and are presented in U.S. dollars. Management estimates are required for the preparation of financial statements in accordance with generally accepted accounting principles. Actual results could differ from these estimates. All significant intercompany accounts and transactions are eliminated in consolidation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cruise Revenues and Expenses
Deposits received on sales of passenger cruises are recorded as customer deposits and are recognized, together with revenues from shipboard activities and all associated direct costs of a voyage, upon completion of voyages with durations of 10 days or less and on a pro rata basis for voyages in excess of 10 days. Certain revenues and expenses for pro rata voyages are estimated.

Cash and Cash Equivalents
Cash and cash equivalents include cash and marketable securities with original maturities of less than 90 days.

Inventories
Inventories consist of provisions, supplies, fuel and gift shop merchandise carried at the lower of cost (weighted-average) or market.

Property and Equipment
Property and equipment are stated at cost. Significant vessel refurbishing costs are capitalized as additions to the vessel, while costs of repairs and maintenance are charged to expense as incurred. The Company capitalizes interest as part of the cost of construction. The Company reviews long-lived assets, identifiable intangibles and goodwill and reserves for impairment whenever events or changes in circumstances indicate, based on estimated future cash flows, the carrying amount of the assets will not be fully recoverable.

Depreciation of property and equipment, which includes amortization of vessels under capital lease, is computed using the straight-line method over useful lives of primarily 30 years for vessels and three to 10 years for other property and equipment. (See Note 5 -- Property and Equipment.)

Goodwill
Goodwill represents the excess of cost over the fair value of net assets acquired and is being amortized over 40 years using the straight-line method.

Advertising Costs
Advertising costs are expensed as incurred except those costs which result in tangible assets, such as brochures, are treated as prepaid supplies and charged to operations as consumed. Advertising expense consists of media advertising as well as brochure, production and direct mail costs. Media advertising was $76.7, $62.5 and $46.6 million, and brochure, production and direct mail costs were $63.2, $33.7 and $29.2 million for the years 1998, 1997 and 1996, respectively.

Drydocking
Drydocking costs are accrued evenly over the period to the next scheduled drydocking and are included in accrued liabilities.

Segment Reporting
The Company adopted Statement of Financial Accounting Standards No. 131 -- Disclosures About Segments of an Enterprise and Related Information for the year ended December 31, 1998. Although the Company operates two brands, Royal Caribbean International and Celebrity Cruises, the brands have been aggregated as a single operating segment based on the similarity of their economic characteristics as well as product and services provided.

Information about geographic areas is shown in the table below. Revenues are attributed to geographic areas based on the source of the customer.

	1998	1997	1996
Revenues:			
United States	84%	85%	85%
All Other Countries	16%	15%	15%

NOTE 3. STOCK SPLIT
On June 23, 1998, the Company authorized a two-for-one split of its common stock effected in the form of a stock dividend. The additional shares were distributed on July 31, 1998 to shareholders of record on July 10, 1998. All share and per share information has been retroactively restated to reflect this stock split.

NOTE 4. ACQUISITION
In July 1997, the Company acquired all of the outstanding stock of Celebrity, a provider of cruises to the North American market. The purchase price was $515.0 million, payable in cash of $245.0 million and 14,896,552 shares of the Company's common stock. This acquisition has been accounted for under the purchase method, and the results of the operations of Celebrity have been included in the consolidated financial statements since July 1, 1997. The total cost of the acquisition was allocated to the tangible assets acquired and liabilities assumed based on their respective fair values.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company, including Celebrity, as if the acquisition had occurred January 1, 1996 (in thousands, except per share amounts).

	1997	1996
Revenue	$2,196,571	$1,769,216
Income before extraordinary item	$ 174,406	$ 136,498
Net income	$ 166,848	$ 136,498
Earnings per share		
Income before extraordinary item		
Basic	$ 1.10	$ 0.96
Diluted	$ 1.10	$ 0.95
Net income		
Basic	$ 1.05	$ 0.96
Diluted	$ 1.05	$ 0.95

The unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as additional depreciation expense as a result of a step-up in the basis of fixed assets and increased interest expense on acquisition debt. They do not purport to be indicative of the results which would actually have been achieved if this acquisition had been effected on the date indicated or of those results which may be obtained in the future.

NOTE 5. PROPERTY AND EQUIPMENT
Property and equipment consists of the following (in thousands):

	1998	1997
Land	$ 5,320	$ 5,320
Vessels	4,457,070	4,201,443
Vessels under capital lease	763,350	760,941
Vessels under construction	285,243	160,771
Other	170,290	139,281
	5,681,273	5,267,756
Less -- accumulated depreciation and amortization	(608,265)	(482,465)
	$5,073,008	$4,785,291

Vessels under construction includes progress payments for the construction of new vessels as well as planning, design, interest, commitment fees and other associated costs. The Company capitalized interest costs of $15.0, $15.8 and $15.9 million for the years 1998, 1997 and 1996, respectively. Accumulated amortization related to vessels under capital lease was $67.9 and $45.8 million at December 31, 1998 and 1997, respectively.

In May 1998, the Company sold Song of America for $94.5 million and recognized a gain on the sale of $31.0 million which is included in Other income (expense). In the second quarter of 1998 the Company incurred a $32.0 million charge related to the write-down to fair market value of Viking Serenade. Based on the Company's strategic objective to maintain a modernized fleet, the unique circumstances of this vessel and indications of the current value of Viking Serenade, the Company recorded a write-down of the carrying value to its current estimated fair market value which is included in Other income (expense). The Company continues to operate and depreciate the vessel which is classified as part of Property and Equipment on the balance sheet.

In October 1997, the Company sold Sun Viking for $30.0 million and recognized a gain on the sale of $4.0 million. In September 1997, the Company sold Meridian. The sale price was $62.1 million and there was no gain or loss recognized in the transaction. In October 1996, the Company sold Song of Norway for $40.0 million and recognized a gain on the sale of $10.3 million. The Company has recorded the gains in Other income (expense).

NOTE 6. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	1998	1997
$1 billion revolving credit facility, LIBOR plus 0.30% interest rate on balances outstanding, 0.15% facility fee, due 2003	$ --	$ 60,000
Senior Notes and Senior Debentures bearing interest at rates ranging from 6.75% to 8.25%, due 2002 through 2008, 2018 and 2027	1,390,006	1,090,443
Unsecured fixed rate loan bearing interest at 8.0%, due 2006	185,277	211,075
Fixed rate loans bearing interest at rates ranging from 6.7% to 8.0%, due through 2005, secured by certain Celebrity vessels	403,560	595,147
Variable rate loans bearing interest at 6.5% through Nov. 2001, LIBOR plus 0.45% through 2004, due through 2004, secured by certain Celebrity vessels	30,978	142,670
Capital lease obligations, implicit interest rates ranging from 7.0% to 7.2%, due through 2011	459,261	473,361
	2,469,082	2,572,696
Less -- current portion	(127,919)	(141,013)
Long-term portion	$2,341,163	$2,431,683

Under the Company's $1.0 billion unsecured revolving credit facility (the "$1 Billion Revolving Credit Facility"), the contractual interest rate on balances outstanding varies with the Company's debt rating. In addition, the $1 Billion Revolving Credit Facility contains a competitive bid provision which may allow the Company to borrow funds at less than the contractual interest rate.

In March 1998, the Company issued $150.0 million of 6.75% Senior Notes due 2008 and $150.0 million of 7.25% Senior Debentures due 2018. Net proceeds to the Company were approximately $296.1 million.

In May 1997, the Company redeemed the remaining $104.5 million of 11 3/8% Senior Subordinated Notes and incurred an extraordinary charge of approximately $7.6 million, or $0.05 per share on the early extinguishment of debt.

The Senior Notes and Senior Debentures are unsecured and are not redeemable prior to maturity.

The Company entered into a $264.0 million capital lease to finance Splendour of the Seas and a $260.0 million capital lease to finance Legend of the Seas in 1996 and 1995, respectively. The capital leases each have semi-annual payments of $12.0 million over 15 years with final payments of $99.0 and $97.5 million, respectively.

The Company's debt agreements contain covenants that require the Company, among other things, to maintain minimum liquidity amounts, net worth and fixed charge coverage ratios and limit debt to capital ratios. The Company is in compliance with all covenants as of December 31, 1998. Following is a schedule of principal repayments on long-term debt (in thousands):

YEAR	
1999	$ 127,919
2000	128,086
2001	109,982
2002	259,853
2003	110,948
Thereafter	1,732,294
	$2,469,082

NOTE 9. RETIREMENT PLANS

The Company maintains a defined contribution pension plan covering all of its full-time shoreside employees who have completed the minimum period of continuous service. Annual contributions to the plan are based on fixed percentages of participants' salaries and years of service, not to exceed certain maximums, as defined in the plan. Pension cost was $6.9, $4.9 and $4.3 million for the years 1998, 1997 and 1996, respectively.

NOTE 10. OPERATING LEASES

The Company is obligated under noncancelable operating leases for various facilities, primarily office and warehouse space. As of December 31, 1998, future minimum lease payments under noncancelable operating leases were as follows (in thousands):

YEAR	
1999	$ 5,134
2000	4,444
2001	4,205
2002	4,110
2003	4,023
Thereafter	26,017
	$47,933

Total rent expense for all operating leases amounted to $6.9, $5.7 and $4.9 million for the years 1998, 1997 and 1996, respectively.

NOTE 11. INCOME TAXES

The Company and the majority of its subsidiaries are not subject to U.S. corporate income tax on income generated from the international operation of ships pursuant to Section 883 of the Internal Revenue Code, provided that they meet certain tests related to country of incorporation and composition of shareholders. The Company believes that it and a majority of its subsidiaries meet these tests. Income tax expense related to the Company's remaining subsidiaries is not significant.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Company has nine ships on order. Three are Eagle-class vessels designated for the Royal Caribbean International fleet, the first of which, Voyager of the Seas is scheduled for delivery in the fourth quarter of 1999, followed by two sister vessels scheduled for delivery in the third quarter of 2000 and second quarter of 2002. The Company also has two Vantage-class vessel designated for the Royal Caribbean International fleet scheduled for delivery in the first quarter of 2001 and second quarter of 2002 and four Millennium-class vessels designated for the Celebrity Cruises fleet, scheduled for delivery in the second quarter of 2000, first quarter of 2001, third quarter of 2001 and second quarter of 2002. The aggregate contract price of the nine ships, which excludes capitalized interest and other ancillary costs, is approximately $3.6 billion of which the Company deposited $144.6 million during 1998 and $74.3 million during 1997. Additional deposits are due prior to the dates of delivery of $237.4 million in 1999, $88.1 million in 2000 and $25.0 million in 2001.

NOTE 14. QUARTERLY DATA (UNAUDITED)

	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
	1998	1997	1998	1997	1998	1997	1998	1997
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)							
Revenues	$659,777	$394,590	$656,456	$403,467	$744,910	$612,542	$575,148	$528,408
Operating Income	119,461	60,637	121,533	67,397	183,592	116,911	64,149	58,610
Income Before Extraordinary Item	77,537	38,481	79,770	45,918	150,038	75,931	23,425	22,355
Extraordinary Item	--	--	--	(7,558)	--	--	--	--
Net Income	$ 77,537	$ 38,481	$ 79,770	$ 38,360	$150,038	$ 75,931	$ 23,425	$ 22,355
Basic Earnings Per Share(1):								
Income before extraordinary item	$ 0.45	$ 0.29	$ 0.45	$ 0.33	$ 0.87	$ 0.50	$ 0.12	$ 0.12
Extraordinary item	--	--	--	(0.05)	--	--	--	--
Net income	$ 0.45	$ 0.29	$ 0.45	$ 0.28	$ 0.87	$ 0.50	$ 0.12	$ 0.12
Diluted Earnings Per Share(1):								
Income before extraordinary item	$ 0.44	$ 0.29	$ 0.44	$ 0.32	$ 0.82	$ 0.48	$ 0.12	$ 0.12
Extraordinary item	--	--	--	(0.05)	--	--	--	--
Net income	$ 0.44	$ 0.29	$ 0.44	$ 0.27	$ 0.82	$ 0.48	$ 0.12	$ 0.12
Dividends Declared Per Share	$ 0.08	$ 0.07	$ 0.08	$ 0.07	$ 0.09	$ 0.08	$ 0.09	$ 0.08