

The following discussion is based on, and should be read in conjunction with, the financial statements and the notes thereto included elsewhere in the annual report.

General

The Group operates nineteen ships under three mainstream brand names, Star Cruises, Norwegian Cruise Line and Orient Lines. Star Cruises operates nine ships offering various cruise itineraries and calls destinations primarily in the Asia Pacific region. Norwegian Cruise Line and Orient Lines operate ten cruise ships in the Caribbean, Bermuda, Alaska, Europe, Hawaii, New England, Central and South America.

Revenues from Cruise and Cruise-related Activities

Revenues from cruise and cruise-related activities can be further categorised as “cruise revenues” and “on-board revenues”. Cruise revenues are derived from the sale of passenger tickets. Passenger ticket sales comprise a one-off up-front payment collected from passengers for accommodation, meals in certain restaurants on the ship, certain on-board entertainment and, where relevant, air and land transportation to and from the ship. Passenger ticket

sales also includes amounts collected as passenger handling charges, which are charged to the passengers separately from the price of passenger tickets, but which are recorded as passenger ticket sales. These passenger handling charges include port fees, berthing charges, embarkation and disembarkation fees, baggage handling charges and other related charges. Revenues from passenger ticket sales are collected from passengers prior to their departure on the cruise, usually at the time of booking the cruise.

On-board revenues consist of revenues from gaming, beverage sales, shore excursions, a la carte dining outlets and revenues from on-board retail sales. On-board revenues vary according to the size of the ships in operation, the length of cruises operated, and the markets in which the ships operate.

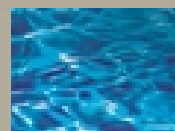
Charter-hire Revenues

The Group derived revenues from the bareboat charter-hire of certain of its ships. The revenues the Group derived from charter-hire generally vary according to the number of ships it has on charter-hire during a given period.

management’s discussion and analysis of financial condition and results of operations



Norwegian Dream in Europe



SuperStar Gemini



Operating Expenses

Operating expenses are made up of air and land transportation expenses, overnight shoreside hotel expenses, passenger transfer costs, travel agent commission, ship charter costs and all shipboard operating expenses including crew wages and benefits, port charges, fuel, food, ship maintenance and entertainment expenses, cabin consumables, ship insurance and charter-hire expenses. Most of the operating expenses are generally fixed per cruise, while passenger food expenses and port expenses typically vary according to the number of passengers on board a particular cruise ship.

Selling, General and Administrative Expenses

Selling expenses consist of the expenses of the Group's marketing activities. These marketing activities include advertising and promotional activities, operation of the Group reservation call centres and support functions, and other passenger related services.

General and administrative expenses consist of shoreside personnel wages and benefits, and expenses relating to the Group's world-wide offices, information technology support, crew training and support (including the operation of the Star Cruises Ship Simulator Centre), purchasing operations and other ship-related support activities.

Depreciation and Amortisation

Depreciation and amortisation expenses consisted primarily of depreciation of ships and shoreside assets as well as amortisation of goodwill and trade names and trademarks.

Foreign Exchange and Interest Rate Swaps

The functional currency of the Group is the U.S. dollar as a substantial portion of the Group's transactions are realised or settled in U.S. dollars. Transactions in currencies other than U.S. dollars ("foreign currencies") are translated into U.S. dollars at exchange rates in effect at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated at exchange rates at the balance sheet date. All such exchange differences are reflected in the consolidated profit and loss account.

The Group does not undertake extensive hedging of its foreign currency cashflows as the Directors believe that the main foreign currencies in which the Group derives its revenues, the Singapore dollar and the Hong Kong dollar, are generally stable. The Group does from time to time enter into hedging arrangements in connection with anticipated foreign currency fluctuations against the U.S. dollar. At present, the Group is a party to certain forward contracts with a total notional amount of US\$201.2 million in respect of the Singapore dollar with the remaining life ranging from 5 to 10 years.

The Group's indebtedness and its related interest expenses are denominated in U.S. dollars and are based upon floating rates of interest. In order to limit its exposure in interest rate fluctuation, variable to fixed interest rate swaps have been utilised from time to time, to fix a portion of interest costs over a period of time. The Group continuously evaluates its debt portfolio, including interest rate swaps to achieve a desired proportion of variable and fixed debt based on its view of interest rate movement. As at 31 December 2001, the Group had interest rate swaps on debts with a notional amount of US\$318.5 million with the remaining life ranging from 7 to 10 years.

Taxation

Bermuda, the jurisdiction for Star Cruises Limited ("the Company"), and the Isle of Man, the jurisdiction of incorporation for most of the Company's operating subsidiaries, excluding NCL Holding ASA ("NCL") and its subsidiaries which are primarily incorporated in Bermuda impose no tax on income derived outside of those respective jurisdictions. The Company's operating subsidiaries do, however, file relevant returns in the tax regimes of the relevant Asian jurisdictions in which they operate, and pay taxes as required by those regimes. During the year, the Group

completed a restructuring of NCL and its subsidiaries. The Bermuda based operating subsidiary, Norwegian Cruise Line Limited, is now a directly held subsidiary of Arrasas Limited and accordingly the profits of Norwegian Cruise Line Limited are no longer subject to taxation in Norway as the earnings of Norwegian Cruise Line Limited is no longer flowing upwards to NCL. NCL and its subsidiary NCL Cruises Limited remain within the Norwegian tax regime and are currently dormant. Income tax expense includes current taxes and the change in deferred taxes. Deferred tax assets and liabilities are calculated in accordance with the liability method.

Seasonality

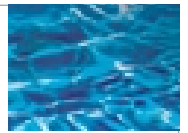
The cruise industry in Asia Pacific is less seasonal than the North American cruise market. This lower degree of seasonality is primarily attributable to the lower degree of seasonal climate variation in certain parts of Asia Pacific, particularly South East Asia. However, the Group has generally experienced a decrease in demand in December and January in the Hong Kong market attributable to unfavourable weather patterns during that time of year. This seasonal decrease in demand is generally offset by increased demand in other markets, such as Singapore, Thailand, and Malaysia, related to public holidays in December and January.



Oasis Pool, Norwegian Star



Internet Cafe, Norwegian Sun



The cruise industry in North America is, however, moderately seasonal with greater demand generally occurring during the months of December through March and June through August.

Demand, however, also varies by ship and itinerary.

Human Resources

As at 31 December 2001, the Group had approximately 14,380 full time employees, of which approximately 11,976 were ship officers, crew and staff on ships. The remaining were employed in shoreside operations world-wide. The Group has provided employee benefits including provident fund scheme and medical insurance schemes for its staff. The Group has Employees' Share Option Scheme, under which options may be granted to employees of the Group entitling them to subscribe for shares (which together with the other share option scheme as detailed in note 28 to the accounts) representing up to a maximum of 5% of the issued and paid up share capital of the Company from time to time.

There is no significant change in the remuneration policies; bonus and share options schemes and training schemes for the Group during the year ended 31 December 2001.



Results for the year ended 31 December 2001 as compared with proforma results for the year ended 31 December 2000

The following discussion is prepared based on the results for the year ended 31 December 2001 as compared with proforma results for the year ended 31 December 2000.

The results of operations of the Group for the year ended 31 December 2001 are not directly comparable to the year ended 31 December 2000 as the Group consolidated the results of NCL, which was acquired over the period December 1999 to February 2000, with effect from 1 March 2000. On a proforma basis, including NCL's results for January and February 2000, the Group recorded a net loss of US\$16.0 million compared to a proforma net loss of US\$38.1 million.

Proforma results for the year ended 31 December 2000 are as follows:

	Year ended 31 December	
	2001	2000
	US\$'000	US\$'000
	audited	unaudited
Reported operating profit	84,541	159,799
<u>Proforma adjustments</u>		
To consolidate 100% of NCL's results from 1 January 2000 as if the acquisition of 100% of NCL had occurred on 1 January 2000	-	15,243
Proforma operating profit	<u>84,541</u>	<u>175,042</u>
Reported net loss	(16,043)	(44,000)
<u>Proforma adjustments</u>		
To consolidate 100% of NCL's results from 1 January 2000 as if the acquisition of 100% of NCL had occurred on 1 January 2000	-	5,853
Proforma net loss	<u>(16,043)</u>	<u>(38,147)</u>
<u>Operating data</u>	<u>Actual</u>	<u>Proforma</u>
Passenger Cruise Days	7,133,949	7,396,010
Capacity Days	7,523,849	7,667,241
Occupancy as a percentage of capacity days	95%	96%

Note:

The above unaudited proforma results for the year ended 31 December 2000 have been prepared for illustrative purposes only and exclude any proforma adjustments for increased interest expense on borrowings to fund the acquisition.

Turnover

Total revenues for the Group for the year ended 31 December 2001 were US\$1,381.6 million. Revenues from cruise and cruise-related activities were US\$1,369.1 million in the year ended 31 December 2001, and made up 99.1% of total revenues for the year.

Charter-hire revenues amounted to US\$12.5 million or 0.9% of total turnover of the Group. Charter-hire revenues were made up of the charter-hire of Hyundai Kumgang and SuperStar Express during the year ended 31 December 2001.



Windward Dining Room, The Norway

