Penthouse Suite, Norwegian Star

Norwegian Sun

Total revenues decreased US$89.3 million from US$1,470.9 million for the year ended 31 December 2000 to US$1,381.6 million for the year 2001. The reduction in total revenues was primarily due to a 1.9% decrease in capacity days and 4.3% decrease in yield, as defined, revenue per capacity day. The 1.9% decline in capacity days was primarily due to the sale and drydocking of ships and cessation of cruise operations in Taiwan and Japan. This was partially offset by the introduction into service of M/S Norwegian Sun, m.v. Norwegian Star and Wasa Queen in the second half of the year. The decrease in yield was mainly attributable to Norwegian Cruise Line and Orient Lines, which experienced competitive trading conditions due to a significant increase in capacity for the industry as well as relatively softer demand during the year. The tragic events of 11 September 2001 have further reduced the demand for cruises resulting in the Group reporting lower occupancies and prices during the last quarter of 2001. The Group's Asia Pacific businesses have been much less affected by the events of 11 September 2001 apart from the rationalisation of the North Asia operations.

The Group received an amount of approximately US$5 million in November 2001 upon termination of the charter-hire of Hyundai Kumgang by the charterer prior to the date the charter expires. Hyundai Kumgang was returned to the Group and subsequently renamed m.v. SuperStar Capricorn. m.v. SuperStar Capricorn commenced cruise operations in the Thailand market with the Group in January 2002.

Cost and expenses

Total costs and expenses before interest and non-operating items for the year ended 31 December 2001 amounted to US$1,297.0 million as compared with US$1,295.9 million for the year ended 31 December 2000. The comparison with 2000 is affected by the inclusion in 2001 of non-recurring charges of US$30.8 million (representing 2.4% of the total costs and expenses of the Group) and the start up and promotional expenses of ships of US$15.7 million (representing 1.2% of the total costs and expenses of the Group), and the fixed assets impairment loss of US$8.4 million related to a write down in the carrying value of a ship (representing 0.7% of the total costs and expenses). The costs and expenses for 2000 included fixed assets impairment loss of US$38.7 million mainly arising from the disposal of m.v. Star Aquarius.

Non-recurring expenses of US$30.8 million were mainly expenses in rationalising the North Asia operations in the face of a steeper than expected economic downturn exacerbated by the tragic events of 11 September 2001, with the cessation of cruise operations in Taiwan and Japan.

Excluding these one time charges and non-recurring expenses, total costs and expenses before interest and non-operating items decreased US$15.1 million from US$1,257.2 million for the year ended 31 December 2000 to US$1,242.1 million for the year 2001.

Chapel, Norwegian Star

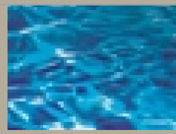
Operating expenses before the start up and promotional expenses and other non-recurring expenses decreased US$21.3 million from US$877.5 million for the year 2000 to US$856.2 million for the year 2001. The decrease in the operating expenses was primarily due to the reduced costs associated with the reduced capacity days. Operating expenses for the year 2001 represent 66.0% of total costs and expenses of the Group. Of the operating expenses, approximately US$641.2 million or 74.9% of total operating expenses of the Group, was attributable to shipboard expenses which include crew wages and benefits, port charges, fuel, food, ship maintenance expenses, entertainment, cabin consumables, ship insurance and charter-hire expenses. Other operating expenses were air and land transportation expenses, passenger shoreside hotel expenses, passenger transfer costs and travel agent commissions.

Selling, general and administrative expenses before the start up and promotional expenses and other non-recurring expenses increased US$3.2 million from US$228.3 million for the year 2000 to US$231.5 million for the year 2001. Selling, general and administrative expenses for the year 2001 represented 17.8% of total costs and expenses. US$91.3 million or 39.4% of total selling, general and administrative expenses of the Group, was attributable to costs in respect of onshore employees and US$81.2 million or 35.1% of total selling, general and administrative expenses of the Group, was attributable to selling expenses. The remainder was attributed to expenses of the Group's various offices located within and outside of Asia.

Depreciation and amortisation expenses amounted to US$154.4 million or 11.9% of total costs and expenses of the Group. Depreciation was made up of the depreciation of cruise ships and shore assets and accounted for US$138.8 million or 89.9% of total depreciation and amortisation expenses of the Group. Amortisation expenses amounting to US$15.6 million was made up of the amortisation of goodwill and trade names and trademarks on the acquisition of NCL.

Depreciation and amortisation expenses increased US$3.1 million from US$151.3 million in the year ended 31 December 2000 to US$154.4 million in the year ended 31 December 2001. The increase was primarily due to additional depreciation associated with the addition of ships and ship refurbishment expenditure during the year partially offset by the disposal of ships.

Jacuzzi



Children Playroom

Operating profit

The Group's operating profit excluding the non-recurring expenses, start up and promotional expenses and fixed assets impairment loss for the year was US$139.5 million as compared with US$213.7 million in 2000 reflecting a lower yield during the year.

Non-operating income/(expense)

Non-operating expenses decreased 48.2% from US$190.9 million for 2000 to US$98.8 million in 2001 mainly as a result of lower interest expenses.

Interest expenses, net of capitalised interest decreased to US$118.5 million in 2001 from US$196.0 million in 2000 primarily as a result of lower weighted average outstanding debts and interest rates. The lower weighted average outstanding debts in 2001 was mainly due to the substantial repayment of the financing obtained to acquire NCL. The Group also benefited from the lower average interest rate during the year.

Non-cash gain on foreign exchange amounted to US$13.5 million in 2001 as compared to US$3.2 million in 2000. This non-cash gain resulted primarily from the weakening of Singapore dollars against US dollars during the year.

Loss before taxation

The Group recorded loss before taxation of US$14.3 million in the year ended 31 December 2001. Excluding the non-recurring expenses, start up expenses and fixed assets impairment loss, the profit before taxation would have been US$40.7 million.

Taxation

The Group incurred taxation expenses of US$1.8 million in 2001 as compared with US$22.3 million in 2000. The income tax expense in 2000 consists of deferred taxation amounting to US$21.1 million, primarily in respect of shipping income of NCL at the Norwegian corporate income tax rate which was at 28%. As a result of the restructuring completed during the year, the profits of Norwegian Cruise Line Limited are no longer subject to taxation in Norway and accordingly, no deferred taxation was provided on the shipping income of NCL during the year.

Net loss attributable to shareholders

As a result of the changes in revenues and expenses, the Group recorded a net loss attributable to shareholders of US$16.0 million for the year ended 31 December 2001. Excluding the non-recurring expenses, start up and promotional expenses and fixed assets impairment loss, the net profit attributable to shareholders would have been US$38.9 million.

Liquidity and capital resources

Sources and uses of funds

The majority of the cash and cash equivalents are held in U.S. dollars. In the year ended 31 December 2001, cash and cash equivalents decreased to US$171.6 million from US$292.5 million in 2000. The Group's business provided US$312.1 million of net cash from operations in the year ended 31 December 2001.

Kids Pool, Norwegian Star

Spinnakers Lounge, Norwegian Star

During the year ended 31 December 2001, the Group's capital expenditures were approximately US$644.0 million. A substantial portion of capital expenditures was related to the deliveries of ships to the Group and payments for shipbuilding construction as well as the costs for vessel refurbishing to maintain consistent fleet standards. On the shoreside capital expenditure, the Group has substantially completed the construction of the cruise terminal in Laem Chabang, Bangkok, Thailand during the year. The Group received approximately US$90.7 million, mainly from the disposal of m.v. Star Aquarius and m.v. MegaStar Sagittarius.

During the year ended 31 December 2001, the Group made scheduled principal repayments of US$81.2 million in relation to its long-term bank loans. In April 2001, the Group repaid US$150 million of the 5-year Barclays syndicated term loan, which was made from the proceeds of the disposal of m.v. Star Aquarius in February 2001 of US$75 million with the balance from the proceeds of the convertible notes issued to Resorts World Limited and the share placement, both of which occurred in 2000.

In August 2001, the Group took delivery of M/S Norwegian Sun. The Group funded the final shipyard contract payment (including costs related to extras) through a drawndown, of a substantial portion, under the US$225 million M/S Norwegian Sun Post-Delivery Loan Agreement and an additional US$45 million term loan. The balance of the proceeds from these borrowings was used to fully repay the US$150 million 1999 KfW Loan.

In November 2001, the Group drewdown US$313.5 million under a syndicated term loan agreement obtained in 1999, which was amended to provide for borrowings up to US$626.9 million in October 2001, to pay the shipyard upon delivery of m.v. Norwegian Star to the Group. The balance of this syndicated term loan will be used to finance the final shipyard payment upon delivery of m.v. Norwegian Dawn.

The Group was in breach of two of the financial covenants relating to the 5-year Barclays syndicated term loan as at 31 December 2001. In February 2002, the Group signed an agreement with a syndicate of banks to provide up to US$450 million in loans (the "Facility") to refinance the 5-year Barclays syndicated term loan. Based on this refinancing commitments, the 5-year Barclays syndicated term loan has been classified as a long-term loan as at 31 December 2001.

The Facility bears interest at rates, which vary according to the London Interbank Offer Rate, and is repayable in 12 equal instalments payable at six-monthly intervals commencing 18 months from the facility agreement date.

Gearing ratio

The gearing ratio as at 31 December 2001 was 0.53 times (2000: 0.50 times). The calculation of gearing ratio is based on total outstanding borrowings of the Group of US$2,215.1 million (2000: US$1,960 million) divided by the total assets at the end of the year of US$4,219.0 million (2000: US$3,929 million).

As a result of drawndown of borrowings to finance the final payments to the shipyards upon deliveries of the ships to the Group and losses reported during the year, the gearing ratio has increased slightly to 0.53 from 0.50.

Contingent Liabilities

Details of the contingent liabilities of the Group as at 31 December 2001 are disclosed in note 27 to the accounts.

Future Commitments and Funding Sources

As at 31 December 2001, the Group had aggregate capital expenditure commitments of approximately US$330.7 million relating to the construction of m.v. Norwegian Dawn.

Aqua Restaurant, Norwegian Star

The Group expects that future cash from operations will be the Group's principal funding source for debt service requirements and working capital. As at 31 December 2001, the Group had available aggregate credit facilities of US$2.5 billion of which approximately US$313.4 million was unutilised. The unutilised credit facilities are to be used for the Group's capital commitments for the new ship, m.v. Norwegian Dawn. The Group had total outstanding bank borrowings of approximately US$2.2 billion. Details of bank borrowings and a schedule setting out the repayments of such borrowings are disclosed in note 20 to the accounts. These outstanding bank borrowings are secured by legal charges over vessels including fixed and floating charges over assets of the Group of US$2.7 billion and guarantees given by the Group.

To the extent that the Group requires additional financing in order to refinance any part of NCL's debt, or to fund future capital commitments, or in order for NCL to provide a higher performance guarantee (see note 27(i) to the accounts), the Directors believe that the Group will be able to secure additional financing from institutional lenders, the offering of debt and/or equity securities in the public and private markets and from other sources. There can be no assurance that such sources will be sufficient to fund such commitments.

Ginza Restaurant, Norwegian Sun