



NORWEGIAN CRUISE LINE HOLDINGS LTD.

2019 ANNUAL REPORT





NORWEGIAN CRUISE LINE HOLDINGS LTD.

Norwegian Cruise Line Holdings Ltd. (NYSE: NCLH) is a leading global cruise company which operates the Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises brands. With a combined fleet of 28 ships with approximately 59,150 berths, these brands offer itineraries to more than 490 destinations worldwide. The Company has nine additional ships on order for its three award-winning brands.

MISSION

To provide exceptional vacation experiences, delivered by passionate team members committed to world-class hospitality and innovation

VISION

To be the vacation of choice for everyone around the world

VALUES

- Flawless Execution
- Dedication to Family and Community
- Spirit of Entrepreneurship
- Financial Excellence
- Environmental Stewardship



Norwegian Encore, Basseterre, St. Kitts



As the innovator in global cruise travel, Norwegian Cruise Line has been breaking the boundaries of traditional cruising for over 53 years. Most notably, the cruise line revolutionized the industry by offering guests the freedom and flexibility to design their ideal vacation on their preferred schedule with no assigned dining and entertainment times and no formal dress codes. Today, its fleet of 17 contemporary ships sails to nearly 300 of some of the world's most desirable destinations, including Great Stirrup Cay, the company's private island in the Bahamas, and its resort destination Harvest Caye in Belize.



Riviera, Valletta, Malta



Oceania Cruises is the world's leading culinary- and destination-focused cruise line. The line's six intimate and luxurious ships carry only 684 or 1,250 guests and offer an unrivaled vacation experience featuring the finest cuisine at sea and destination-rich itineraries that span the globe. Expertly crafted voyages aboard designer-inspired, intimate ships call on more than 450 ports across Europe, Alaska, Asia, Africa, Australia, New Zealand, New England-Canada, Bermuda, the Caribbean, the Panama Canal, Tahiti and the South Pacific and epic 180-day Around the World Voyages. The brand has two 1,200-guest Allura-class ships on order.



Seven Seas Explorer®, Sorrento, Italy



Regent Seven Seas Cruises offers an unrivaled experience to luxury travelers, visiting more than 450 iconic and immersive destinations around the world. The cruise line's modern fleet recently expanded with *Seven Seas Splendor™* in 2020 as the fleet's fifth ship and has an additional ship on order. All luxuries are included in Regent Seven Seas Cruises voyages, such as all-suite accommodations, round-trip business-class air on intercontinental flights from the U.S. and Canada, the largest collection of unlimited shore excursions, unlimited internet access, highly personalized service, exquisite cuisine, fine wines and spirits, gratuities and ground transfers.

DEAR FELLOW SHAREHOLDERS,

I am pleased to report that 2019 was another remarkable year for Norwegian Cruise Line Holdings Ltd. Along with delivering record financial results, the year marked several key milestones for us, including the highly anticipated debut of the 27th ship in our fleet, the best-in-class Norwegian Encore; the tremendously successful introduction of Norwegian Joy to the North American market; the unveiling of Silver Cove, the new and exclusive oceanfront, resort-style complex at Great Stirrup Cay; additional investments to enhance the guest experience at each of our three award-winning brands; and the continued expansion of our global environmental program, *Sail & Sustain*, which puts our commitment to the protection and preservation of our oceans, the environment and the destinations that we visit at the very core of our everyday operations.



Reception Area, Silver Cove at Great Stirrup Cay



New York Stock Exchange

STRONG FINANCIAL RESULTS

In 2019, we benefited from the continued robust booking environment and strong global demand for cruise vacations on our brands. We achieved best-in-class Net Yield* of \$257.20, marking our seventh consecutive year of Net Yield* growth, and generated record Adjusted EPS* of \$5.09.

Our impressive results were achieved despite several headwinds in the year, including the sudden termination of sailings to Cuba as well as the impact from record-setting Hurricane Dorian. These events represented a negative impact of \$0.67 to Adjusted EPS* and 200 basis points to Net Yield* for the year. If not for these uncontrollable events, our financial results would have significantly exceeded our initial expectations for Net Yield* growth and Adjusted EPS.* Despite these uncontrollable headwinds, our strong earnings for the year underscored the continued strength of our core business.

FULL YEAR 2019 HIGHLIGHTS

Record Revenue

\$6.5^B

Record Adjusted EPS

\$5.09*

BEST-IN-CLASS YIELDS

Gross Yield of

\$336.00

Net Yield of

\$257.20*

*Net Yield and Adjusted EPS are non-GAAP financial measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in *Management's Discussion and Analysis of Financial Condition and Results of Operation* and in the Annex to this Annual Report.

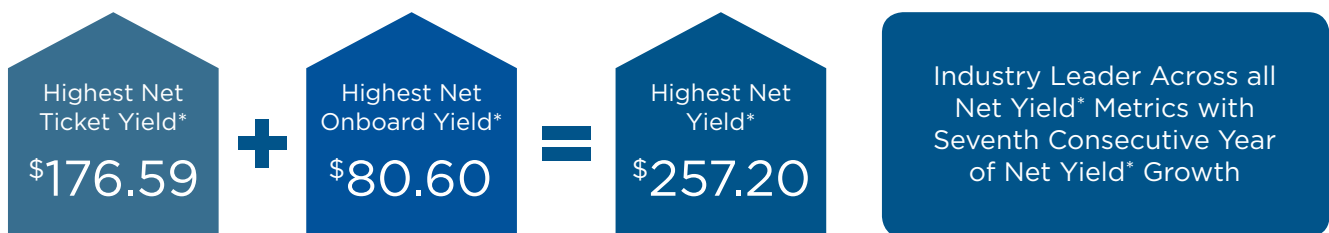


We also further strengthened our balance sheet, with Net Leverage* of 3.4x at year end. Concurrently, our operations continued to generate significant cash in 2019, a key differentiator versus industry peers. In addition, since January 1, 2018, we have returned over \$1 billion of capital to shareholders by repurchasing 19 million shares, or 9% of our outstanding shares as of year end 2019.



Captain Niklas Persson, Norwegian Encore (L)
Frank Del Rio, President and Chief Executive Officer, Norwegian Cruise Line Holdings Ltd. (R)

2019 RECORD FINANCIAL PERFORMANCE



*Net Leverage, Net Yield, Net Ticket Yield and Net Onboard Yield are non-GAAP financial measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in Management's Discussion and Analysis of Financial Condition and Results of Operation and in the Annex to this Annual Report.



Norwegian Encore, St. Thomas

HIGHLY ANTICIPATED NORWEGIAN ENCORE JOINS FLEET



Laser Tag



Galaxy Pavilion



Onda by Scarpetta

Our newest and most innovative ship, Norwegian Encore, was welcomed into the Norwegian Cruise Line fleet in November as the best booked and highest priced Caribbean-introduced ship in our history. Following an extended inaugural program that introduced the ship to thousands of travel partners in several of the world's leading cruise ports and garnered over 2.4 billion media impressions, Norwegian Encore was officially christened at her home in Miami, Florida, on November 21, 2019.

GRAMMY Award-winning singer and television host Kelly Clarkson served as the ship's Godmother. This milestone marked the culmination of our most successful class of ships, the Breakaway Plus Class, which first debuted in Miami with the introduction of Norwegian Escape in 2015.



Kelly Clarkson performance at the Norwegian Encore Inaugural

Norwegian Encore takes the brand's exclusive, stand-out attractions to the next level, featuring the world's longest electric go-cart race track at sea with four high-speed curves extending up to 13 feet over the side of the ship; the largest outdoor laser tag arena at sea at nearly 10,000 square feet; and new immersive escape room and interactive theater and virtual reality experiences in the 10,000-square-foot Galaxy Pavilion.

In addition to featuring many of the highly rated restaurants and lounges exclusive to the Breakaway Plus Class, Norwegian Encore also debuted a new elevated Italian dining experience, Onda by Scarpetta, in collaboration with LDV Hospitality. The Tony Award®-winning musical *Kinky Boots* headlines the world-class entertainment on board, with returning guest favorites *The Choir of Man*, *Happy Hour Prohibition: The Musical* and the rocking Beatles cover band at The Cavern Club.

COMMITMENT TO ESG INITIATIVES

We are committed to driving a positive impact on society and the environment through the advancement of our global Environmental, Social and Governance (ESG) strategy. In 2019, we established the Technology, Environmental, Safety and Security (TESS) Committee of our Board of Directors. The TESS Committee oversees matters related to corporate social responsibility and sustainability. The committee is chaired by Mary E. Landry, a former rear admiral of the U.S. Coast Guard, who has developed a strong background in marine safety, risk management and government policy over the course of her 35-year career with the U.S. government.



55 MILLION

Plastic straws eliminated fleetwide annually



11 MILLION

Plastic water bottles eliminated fleetwide annually

We continue to expand our global sustainability program, *Sail & Sustain*, which remains a core focus in our everyday operations and has now been integrated into our culture. As we continue our efforts to transition away from single-use plastics, Norwegian Cruise Line became the first major global cruise company to become plastic water bottle free with its partnership with JUST Goods, Inc. As of January 1, 2020, the cruise line replaced all single-use plastic water bottles across its fleet with JUST Water, 100% spring water in a plant-based carton that is refillable and recyclable. The brand expects to eliminate over six million plastic water bottles each year as part of its effort to provide guests with more environmentally friendly and sustainable options at sea. Regent and Oceania Cruises both announced partnerships with Vero Water® to replace single-use plastic water bottles on board, which together are expected to eliminate an additional five million plastic water bottles each year.



HOPE
STARTS HERE

\$3 MILLION

Donated to help rebuild the Bahamas after Hurricane Dorian

Norwegian Cruise Line was proud to donate the use of Norwegian Encore to host the Boys & Girls Club of Miami-Dade's Wild About Kids Gala in November. The Boys & Girls Club supports youth from low-income families and single-parent households by providing safe and nurturing activities such as after-school programs, summer school and sports league services. More than 1,600 guests attended the gala and the event raised over \$1.4 million.



60%

of Company's Board of Directors comprised of members with diverse backgrounds



In addition, with Norwegian Joy's North American debut, we also launched the *Giving Joy* campaign, which honored deserving teachers that are doing the most to bring joy to their students. Thirty teachers were awarded a complimentary seven-day cruise for two, and three grand prize finalists were also awarded with cash prizes of \$25,000, \$15,000 and \$10,000 for their school's general operating fund.

We are taking a proactive approach to ESG efforts, and earlier this year we announced the creation of a dedicated ESG department. This new function will further enhance our overall ESG strategy while coordinating closely with departments across the organization including Health, Medical, Safety and Environmental Operations, Human Resources, Supply Chain and Legal. This new department will also be responsible for all updates to the Board of Directors including the TESS Committee.

Partnerships





HOPE STARTS HERE

HURRICANE RELIEF

We relaunched our *Hope Starts Here* hurricane relief campaign in partnership with *All Hands and Hearts* to provide immediate short-term relief for those affected by the devastating Hurricane Dorian. In less than one month, the program received donations from our valued team members, loyal guests and travel and business partners, which we matched with a \$2 million cash contribution as well as nearly \$1 million of in-kind donations to assist *All Hands and Hearts* with emergency response efforts across The Bahamas, including debris cleanup and removal, and the rebuilding of community infrastructure such as housing and schools.



Nassau, Bahamas

In addition, we coordinated with local Bahamian authorities to bring needed provisions to the affected areas, and Norwegian Breakaway departed Miami with hurricane relief supplies donated by our employees, as well as items collected by the City of Miami and other local organizations.

\$3 MILLION
DOLLARS
TO HELP REBUILD THE BAHAMAS



Over 2,200 lbs.
of Fresh Produce



115,000
Non-Perishable
Food Items



125,000
Bottles of Water



60,000
Batteries



9,000
Medical Items



50
Generators



6
Trucks



50,000
sq. ft. of Plywood



Norwegian Joy, Alaska

ITINERARY OPTIMIZATION

NORWEGIAN JOY

Norwegian Joy made her U.S. debut in late April following a transformative renovation, which made her amenities and experiences nearly identical to her highly successful sister ship, Norwegian Bliss. Her redeployment to serve the North American market was incredibly successful, with meaningful contributions to the top and bottom lines. She joined Norwegian Bliss to form the cornerstone of a strong Alaska deployment in 2019 after which she redeployed to sail Mexican Riviera and Panama Canal cruises.



Nassau, Bahamas

RE-ROUTING OF CUBA SAILINGS

The abrupt termination of sailings to Cuba was an unforeseen headwind we faced mid-year. Teams across our three brands did an incredible job in reacting quickly to comply with the new regulations, providing itinerary alternatives, creating new itineraries and even completely new deployments for affected vessels. For the two Norwegian brand vessels with sailings to Cuba, itineraries were modified to include Freeport and/or Nassau in place of Havana, while continuing to call on Great Stirrup Cay.



Istanbul, Turkey

Oceania Cruises converted its near-term Cuba program into Eastern and Western Caribbean voyages. For the second half of 2019, the brand extended its premium-priced fall Mediterranean season and complemented it with a new and exotic collection of sailings to the Eastern Mediterranean including calls to Turkey and the Holy Land, the Arabian Peninsula and into Southeast Asia. Lastly, Regent, which had the least exposure to Cuba of our three brands, replaced its Cuba program with additional sailings to South America, the Panama Canal and Bermuda.



Seven Seas Splendor™, Miami

SEVEN SEAS SPLENDOR, LUXURY PERFECTED



Regent Suite, Seven Seas Splendor

Earlier this year, we introduced the highly anticipated *Seven Seas Splendor*, the second Explorer-Class ship, to the Regent Seven Seas Cruises fleet. At 750 berths, the all-suite, all-balcony ship embodies and perfects the elegance, style and luxury that have made sister ship *Seven Seas Explorer*® renowned as the most luxurious ship ever built. Over an acre of Italian marble adorns *Seven Seas Splendor*, and her 375 suites include nearly 52,000 square feet of balcony space, featuring some of the largest balconies at sea. *Seven Seas Splendor* also features a multimillion-dollar art collection, a Culinary Arts Kitchen with 18 stations for hands-on gourmet cooking experiences presented by master chef instructors, and the newly created Serene Spa & Wellness™, a globally inspired tranquil haven of health, beauty and wellness.



Christie Brinkley, Seven Seas Splendor's Godmother

Christie Brinkley, a universally beloved beauty and fashion icon who is synonymous worldwide for her beauty, style and commitment to health and happiness, fittingly served as the ship's Godmother. During her inaugural 2020 season, *Seven Seas Splendor* will be helmed by Captain Serena Melani, a 30-year veteran and the first woman in cruise industry history to captain a new ocean cruise ship at launch.



Captain Serena Melani



NAVIGATING THROUGH UNPRECEDENTED CHALLENGES

It is my extraordinary privilege to lead and work alongside our more than 36,000 dedicated and passionate team members across the globe to deliver exceptional vacation experiences to our guests. I am very proud of our team's many accomplishments in 2019 and had high expectations for another successful year in 2020.

Prior to the emergence of the COVID-19 coronavirus, 2020 was shaping up to be an incredibly good year, and we continued to experience strong demand across our three brands, which resulted in a record booked position entering this year. The impact of the global outbreak has been swift, severe and significant on our business. In a short time, our focus has shifted from optimizing the strong demand environment to adapting to a new challenging one that evolves daily. The fluidity of this new operating environment has required us to be nimble and adapt swiftly. Our number one priority is the health, safety and security of our guests, crew and the communities we visit. As such, we made the difficult but necessary decision to temporarily suspend global cruise operations to do our part in containing the spread of the virus.

I am extremely proud of how our team has joined together to navigate through these unprecedented times. We are an extremely resilient company, as is our industry, and we have demonstrated our resilience by overcoming several exogenous headwinds over the past fifty-plus years we have been in operation. We look forward to providing exceptional vacation experiences, delivered by passionate team members committed to world-class hospitality and innovation for many years to come.

Thank you for your continued support.

Frank Del Rio
President and Chief Executive Officer
Norwegian Cruise Line Holdings Ltd.

NORWEGIAN CRUISE LINE
FLEET



LEONARDO CLASS - Coming Soon



NORWEGIAN ENCORE



NORWEGIAN BLISS



NORWEGIAN JOY



NORWEGIAN ESCAPE



NORWEGIAN GETAWAY



NORWEGIAN BREAKAWAY



NORWEGIAN EPIC



NORWEGIAN GEM



NORWEGIAN PEARL



NORWEGIAN JADE



NORWEGIAN JEWEL



PRIDE OF AMERICA



NORWEGIAN DAWN



NORWEGIAN STAR



NORWEGIAN SUN



NORWEGIAN SKY



NORWEGIAN SPIRIT

REGENT SEVEN SEAS CRUISES
FLEET



EXPLORER-CLASS III – Coming Soon



SEVEN SEAS SPLENDOR™



SEVEN SEAS EXPLORER®



SEVEN SEAS VOYAGER®



SEVEN SEAS MARINER™



SEVEN SEAS NAVIGATOR®

OCEANIA CRUISES
FLEET



ALLURA – Coming Soon



ALLURA-CLASS II – Coming Soon



RIVIERA



MARINA



SIRENA



NAUTICA



REGATTA



INSIGNIA

SAIL & SUSTAIN

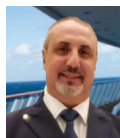
To help fulfill our commitment to the environment, every ship in our fleet has an Environmental Officer (EO) who oversees shipboard environmental compliance, answers guests' environmental questions and identifies areas for improvement.



Norwegian Cruise Line: **ALANA REIS ENES RIBEIRO**

Ms. Ribeiro was born in Brazil and joined the company in 2015. She has served on both Norwegian Sun and Norwegian Jewel.

"I am proud to do my best to conserve the oceans. Working at a cruise line that takes environmental issues seriously makes all the difference."



Oceania Cruises: **SALVATORE GIUNTA**

Mr. Giunta was born in Pozzallo, Italy, a small town on the southeast coastline of Sicily. He joined Regent Seven Seas Cruises in 2006 and Oceania Cruises in 2009 and is currently serving as the EO on board *Regatta*.

"As an EO, I feel like I am playing my role in protecting the world from pollution."



Regent Seven Seas Cruises: **MATIJA STAROVESKI**

Mr. Staroveski was born in Zadar, Croatia, and had an interest in the ocean from a young age. He joined Regent Seven Seas Cruises in 2009 and has served on several Oceania Cruises and Regent Seven Seas ships, most recently on *Seven Seas Splendor*™.

"I enjoy having a chance to help save our planet and working with people from all around the world."

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

OR

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

For the transition period from _____ to _____

Commission file number: 001-35784

NORWEGIAN CRUISE LINE HOLDINGS LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0691007
(I.R.S. Employer
Identification No.)

7665 Corporate Center Drive, Miami, Florida 33126
(Address of principal executive offices) (zip code)

(305) 436-4000

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Ordinary shares, par value \$0.001 per share	NCLH	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of voting stock held by non-affiliates of the registrant based upon the closing sales price for the registrant's ordinary shares as reported on The New York Stock Exchange was \$11.5 billion.

There were 213,202,541 ordinary shares outstanding as of February 14, 2020.

Documents Incorporated by Reference

Portions of the Proxy Statement for the registrant's 2020 Annual General Meeting of Shareholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2019, are incorporated by reference in Part III herein.

NORWEGIAN CRUISE LINE HOLDINGS LTD.

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Terms Used in this Annual Report

Unless otherwise indicated or the context otherwise requires, references in this annual report to (i) the “Company,” “we,” “our” and “us” refer to NCLH (as defined below) and its subsidiaries, (ii) “NCLC” refers to NCL Corporation Ltd., (iii) “NCLH” refers to Norwegian Cruise Line Holdings Ltd., (iv) “Norwegian Cruise Line” or “Norwegian” refers to the Norwegian Cruise Line brand and its predecessors, (v) “Prestige” refers to Prestige Cruises International S. de R.L. (formerly Prestige Cruises International, Inc.), together with its consolidated subsidiaries, including Oceania Cruises S. de R.L. (formerly Oceania Cruises, Inc.) (“Oceania Cruises”) and Seven Seas Cruises S. de R.L. (“Regent”) (Oceania Cruises also refers to the brand by the same name and Regent also refers to the brand Regent Seven Seas Cruises), (vi) “Apollo” refers to Apollo Global Management, LLC, its subsidiaries and the affiliated funds it manages, (vii) “Genting HK” refers to Genting Hong Kong Limited and/or its affiliates, and (viii) “Sponsors” refers to Apollo, certain affiliates of TPG Global, LLC and/or Genting HK.

References to the “U.S.” are to the United States of America, and “dollars” or “\$” are to U.S. dollars, the “U.K.” are to the United Kingdom and “euros” or “€” are to the official currency of the Eurozone.

This annual report includes certain non-GAAP financial measures, such as Net Revenue, Net Yield, Net Cruise Cost, Adjusted Net Cruise Cost Excluding Fuel, Adjusted EBITDA, Adjusted Net Income and Adjusted EPS. Definitions of these non-GAAP financial measures are included below. For further information about our non-GAAP financial measures including detailed adjustments made in calculating our non-GAAP financial measures and a reconciliation to the most directly comparable GAAP financial measure, we refer you to “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Unless otherwise indicated in this annual report, the following terms have the meanings set forth below:

- *Acquisition of Prestige.* In November 2014, we acquired Prestige in a cash and stock transaction for total consideration of \$3.025 billion, including the assumption of debt.
- *Adjusted EBITDA.* EBITDA adjusted for other income (expense), net and other supplemental adjustments.
- *Adjusted EPS.* Adjusted Net Income divided by the number of diluted weighted-average shares outstanding.
- *Adjusted Net Cruise Cost Excluding Fuel.* Net Cruise Cost Excluding Fuel adjusted for supplemental adjustments.
- *Adjusted Net Income.* Net income adjusted for supplemental adjustments.
- *Allura Class Ships.* Oceania Cruises’ two ships on order.
- *Berths.* Double occupancy capacity per cabin (single occupancy per studio cabin) even though many cabins can accommodate three or more passengers.
- *Breakaway Class Ships.* Norwegian Breakaway and Norwegian Getaway.
- *Breakaway Plus Class Ships.* Norwegian Escape, Norwegian Joy, Norwegian Bliss and Norwegian Encore.
- *Capacity Days.* Available Berths multiplied by the number of cruise days for the period.
- *Constant Currency.* A calculation whereby foreign currency-denominated revenue and expenses in a period are converted at the U.S. dollar exchange rate of a comparable period to eliminate the effects of foreign exchange fluctuations.

- *Dry-dock*. A process whereby a ship is positioned in a large basin where all of the fresh/sea water is pumped out in order to carry out cleaning and repairs of those parts of a ship which are below the water line.
- *EBITDA*. Earnings before interest, taxes, and depreciation and amortization.
- *EPS*. Earnings per share.
- *Explorer Class Ships*. Regent's Seven Seas Explorer, Seven Seas Splendor, and an additional ship on order.
- *GAAP*. Generally accepted accounting principles in the U.S.
- *Gross Cruise Cost*. The sum of total cruise operating expense and marketing, general and administrative expense.
- *Gross Tons*. A unit of enclosed passenger space on a cruise ship, such that one gross ton equals 100 cubic feet or 2.831 cubic meters.
- *Gross Yield*. Total revenue per Capacity Day.
- *IMO*. International Maritime Organization, a United Nations agency that sets international standards for shipping.
- *IPO*. The initial public offering of 27,058,824 ordinary shares, par value \$0.001 per share, of NCLH, which was consummated on January 24, 2013.
- *Net Cruise Cost*. Gross Cruise Cost less commissions, transportation and other expense and onboard and other expense.
- *Net Cruise Cost Excluding Fuel*. Net Cruise Cost less fuel expense.
- *Net Revenue*. Total revenue less commissions, transportation and other expense and onboard and other expense.
- *Net Yield*. Net Revenue per Capacity Day.
- *Occupancy Percentage*. The ratio of Passenger Cruise Days to Capacity Days. A percentage greater than 100% indicates that three or more passengers occupied some cabins.
- *Passenger Cruise Days*. The number of passengers carried for the period, multiplied by the number of days in their respective cruises.
- *Project Leonardo*. The next generation of ships for our Norwegian brand.
- *Revolving Loan Facility*. \$875.0 million senior secured revolving credit facility.
- *SEC*. U.S. Securities and Exchange Commission.
- *Secondary Equity Offering(s)*. Secondary public offering(s) of NCLH's ordinary shares in December 2018, March 2018, November 2017, August 2017, December 2015, August 2015, May 2015, March 2015, March 2014, December 2013 and August 2013.
- *Shipboard Retirement Plan*. An unfunded defined benefit pension plan for certain crew members which computes benefits based on years of service, subject to certain requirements.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this annual report constitute forward-looking statements within the meaning of the U.S. federal securities laws intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts contained, or incorporated by reference, in this annual report, including, without limitation, those regarding our business strategy, financial position, results of operations, plans, prospects and objectives of management for future operations (including expected fleet additions, development plans, objectives relating to our activities and expected performance in new markets), are forward-looking statements. Many, but not all, of these statements can be found by looking for words like “expect,” “anticipate,” “goal,” “project,” “plan,” “believe,” “seek,” “will,” “may,” “forecast,” “estimate,” “intend,” “future” and similar words. Forward-looking statements do not guarantee future performance and may involve risks, uncertainties and other factors which could cause our actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in those forward-looking statements. Examples of these risks, uncertainties and other factors include, but are not limited to the impact of:

- adverse events impacting the security of travel, such as terrorist acts, armed conflict and threats thereof, acts of piracy, and other international events;
- adverse incidents involving cruise ships;
- adverse general economic and related factors, such as fluctuating or increasing levels of unemployment, underemployment and the volatility of fuel prices, declines in the securities and real estate markets, and perceptions of these conditions that decrease the level of disposable income of consumers or consumer confidence;
- the spread of epidemics and viral outbreaks;
- breaches in data security or other disturbances to our information technology and other networks or our actual or perceived failure to comply with requirements regarding data privacy and protection;
- changes in fuel prices and the type of fuel we are permitted to use and/or other cruise operating costs;
- mechanical malfunctions and repairs, delays in our shipbuilding program, maintenance and refurbishments and the consolidation of qualified shipyard facilities;
- the risks and increased costs associated with operating internationally;
- fluctuations in foreign currency exchange rates;
- the unavailability of ports of call;
- overcapacity in key markets or globally;
- our expansion into and investments in new markets;
- our inability to obtain adequate insurance coverage;
- our indebtedness and restrictions in the agreements governing our indebtedness that limit our flexibility in operating our business, including the significant portion of assets that are collateral under these agreements;
- pending or threatened litigation, investigations and enforcement actions;

- volatility and disruptions in the global credit and financial markets, which may adversely affect our ability to borrow and could increase our counterparty credit risks, including those under our credit facilities, derivatives, contingent obligations, insurance contracts and new ship progress payment guarantees;
- our inability to recruit or retain qualified personnel or the loss of key personnel or employee relations issues;
- our reliance on third parties to provide hotel management services for certain ships and certain other services;
- future increases in the price of, or major changes or reduction in, commercial airline services;
- our inability to keep pace with developments in technology;
- changes involving the tax and environmental regulatory regimes in which we operate; and
- other factors set forth under “Risk Factors.”

The above examples are not exhaustive and new risks emerge from time to time. Such forward-looking statements are based on our current beliefs, assumptions, expectations, estimates and projections regarding our present and future business strategies and the environment in which we expect to operate in the future. These forward-looking statements speak only as of the date made. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement to reflect any change in our expectations with regard thereto or any change of events, conditions or circumstances on which any such statement was based, except as required by law.

PART I

Item 1. Business

History and Development of the Company

Norwegian commenced operations from Miami in 1966, launching the modern cruise industry by offering weekly departures from Miami to the Caribbean. In February 2011, NCLH, a Bermuda limited company, was formed with the issuance to the Sponsors of, in aggregate, 10,000 ordinary shares, with a par value of \$0.001 per share. In January 2013, NCLH completed its IPO and the ordinary shares of NCLC, which were owned entirely by the Sponsors, were exchanged for the ordinary shares of NCLH, and NCLH became the owner of 100% of the ordinary shares and parent company of NCLC (the “Corporate Reorganization”). At the same time, NCLH contributed \$460.0 million to NCLC and the historical financial statements of NCLC became those of NCLH. The Corporate Reorganization was affected solely for the purpose of reorganizing our corporate structure. As a result of the Secondary Equity Offerings, as of December 2018, the Sponsors no longer owned the ordinary shares they held in NCLH.

In November 2014, we completed the Acquisition of Prestige. We believe that the combination of Norwegian and Prestige creates a cruise operating company with a rich product portfolio and strong market presence.

Additional Information

Our registered offices are located at Walkers Corporate (Bermuda) Limited, Park Place, 3rd Floor, 55 Par-la-Ville Road, Hamilton HM 11, Bermuda. Our principal executive offices are located at 7665 Corporate Center Drive, Miami, Florida 33126. Daniel S. Farkas, the Company’s Executive Vice President, General Counsel and Assistant Secretary, is our agent for service of process at our principal executive offices.

Our Company

Business Overview

We are a leading global cruise company which operates the Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises brands. As of December 31, 2019, we had 27 ships with approximately 58,400 Berths and had orders for 10 additional ships through 2027, subject to certain conditions.

Seven Seas Splendor was delivered in January 2020. We have one additional Explorer Class Ship on order for delivery in the fall of 2023. We have two Allura Class Ships on order for delivery in the winter of 2022 and spring of 2025. Project Leonardo will introduce an additional six ships with expected delivery dates from 2022 through 2027. These additions to our fleet will increase our total Berths to approximately 82,000.

Our brands offer itineraries to worldwide destinations including Europe, Asia, Australia, New Zealand, South America, Africa, Canada, Bermuda, Caribbean, Alaska and Hawaii. Norwegian’s U.S.-flagged ship, Pride of America, provides the industry’s only entirely inter-island itinerary in Hawaii.

All of our brands offer an assortment of features, amenities and activities, including a variety of accommodations, multiple dining venues, bars and lounges, spa, casino and retail shopping areas and numerous entertainment choices. All brands also offer a selection of shore excursions at each port of call as well as hotel packages for stays before or after a voyage.

Our Fleet

The following table presents information about our ships and their primary areas of operation based on current and future itineraries, which are subject to change.

Ship (1)	Year Built	Primary Areas of Operation
Norwegian		
Norwegian Encore	2019	Alaska, Bermuda, Canada & New England, Caribbean
Norwegian Bliss	2018	Alaska, Bahamas, Caribbean, Mexico-Pacific
Norwegian Joy	2017	Alaska, Bermuda, Canada & New England, Caribbean, Central America, Mexico-Pacific
Norwegian Escape	2015	Caribbean, Europe
Norwegian Getaway	2014	Bahamas, Caribbean, Europe
Norwegian Breakaway	2013	Bahamas, Bermuda, Canada & New England, Caribbean
Norwegian Epic	2010	Caribbean, Europe
Norwegian Gem	2007	Bermuda, Canada & New England, Caribbean, Mexico-Pacific
Norwegian Jade	2006	Africa, Asia, Caribbean, Europe
Norwegian Pearl	2006	Bahamas, Canada & New England, Caribbean, Europe,
Norwegian Jewel	2005	Alaska, Australia & New Zealand, Hawaii, South Pacific
Pride of America	2005	Hawaii
Norwegian Dawn	2002	Asia, Bahamas, Bermuda, Caribbean, Europe
Norwegian Star	2001	Europe, South America
Norwegian Sun	2001	Alaska, Bahamas, Caribbean, Central America
Norwegian Sky	1999	Bahamas, Caribbean
Norwegian Spirit	1998	Africa, Asia, Europe
Oceania Cruises		
Oceania Riviera	2012	Caribbean, Europe
Oceania Marina	2011	Europe, South America
Oceania Nautica	2000	Africa, Asia, Europe
Oceania Sirena	1999	Africa, Asia, Caribbean, Europe
Oceania Regatta	1998	Alaska, Asia, Australia & New Zealand, Central America, South Pacific
Oceania Insignia	1998	Africa, Alaska, Asia, Bermuda, Canada & New England, Caribbean, Europe, Hawaii, Mexico-Pacific, South America, South Pacific
Regent		
Seven Seas Splendor (2)	2020	Caribbean, Central America, Europe
Seven Seas Explorer	2016	Alaska, Asia, Australia & New Zealand, Caribbean, Europe
Seven Seas Voyager	2003	Africa, Asia, Australia & New Zealand, Europe, South America
Seven Seas Mariner	2001	Alaska, Asia, Australia & New Zealand, Caribbean, Europe, South America
Seven Seas Navigator	1999	Australia & New Zealand, Canada & New England, Caribbean, Central America, Europe, Hawaii, South America, South Pacific

(1) The table above does not include an additional 9 ships on order.

(2) Seven Seas Splendor was delivered in January 2020.

Our Mission and Competitive Strengths

Our core mission is to provide exceptional vacation experiences delivered by passionate team members committed to world-class hospitality and innovation. We believe that the following business strengths support our overall strategy to deliver on our mission:

Rich Stateroom Mix

The Norwegian, Oceania Cruises and Regent fleets offer an attractive mix of staterooms, suites and villas. Norwegian's accommodations include the groundbreaking Studio staterooms designed for solo travelers centered around the Studio Lounge, a private lounge area solely for Studio guests, as well as ocean views, balconies and connecting accommodations to meet the needs of all types of cruisers. Norwegian's suites range from two-bedroom family suites to penthouses and owner suites, as well as three-bedroom Garden Villas measuring up to 6,694 square feet. In addition, 11 of Norwegian's ships offer The Haven, a key-card access enclave on the upper decks with luxurious suite accommodations, exclusive amenities, and 24/7 butler and concierge service. The Haven suites surround a private courtyard with pool, hot tubs, sundeck, fitness center and steam rooms. On board Norwegian Epic, the Breakaway Class Ships and the Breakaway Plus Class Ships, The Haven also includes a private lounge and fine dining restaurant.

The spacious and elegant accommodations on Oceania Cruises' six award-winning ships, the 684-Berth Regatta, Insignia, Sirena and Nautica, and the 1,250-Berth Marina and Riviera, range from 143-square foot inside staterooms to opulent 2,030-square foot owner suites. The Regent fleet is comprised of five ships. Seven Seas Voyager, Seven Seas Mariner, Seven Seas Explorer and Seven Seas Splendor feature all-suite, all-balcony accommodations, and a majority of the accommodations on Seven Seas Navigator include balconies. The two newest ships in the Regent fleet, Seven Seas Splendor and Seven Seas Explorer, also feature the Regent Suite, a 4,443 square-foot luxurious suite accommodation that includes an in-suite spa retreat, a 1,300 square-foot wraparound veranda, and a glass-enclosed solarium sitting area.

High-Quality Service

The Norwegian, Oceania Cruises and Regent brands all offer a high level of onboard service. We collaborate amongst the brands to provide an enhanced guest experience. Norwegian offers guests the freedom and flexibility to design their ideal cruise vacation on their schedule with no set dining times, a variety of entertainment options and no formal dress codes. Oceania Cruises and Regent are known for their quality of service, including some of the highest crew-to-guest ratios in the industry and a staff trained to deliver personalized and attentive service.

Diverse Selection of Premium Itineraries

We continually look to enhance our already broad range of premium itineraries. Our fleet has a worldwide deployment, offering voyages ranging from three days to a 180-day around-the-world cruise. Our vessels call on several ports in Scandinavia, Russia, the Mediterranean, the Greek Isles, Alaska, Canada and New England, Asia, Tahiti and the South Pacific, Australia and New Zealand, Africa, India, South America, the Panama Canal and the Caribbean. We have also developed destinations to enhance the shore experience for our guests. In 2016, we introduced Harvest Caye in Southern Belize. The destination features Belize's only cruise ship pier, an expansive seven-acre white sand beach, 15,000 sq. ft. pool with swim up bar, multiple dining options and a nature center with wildlife experiences plus adventure tours. We were the first cruise line to offer calls to a private destination at Great Stirrup Cay in the Bahamas.

Strong Cash Flow

We believe our business model will generate a significant amount of cash flow with high revenue visibility. All three of our brands afford the ability to pre-sell tickets, receive customer deposits and sell onboard activities in advance with long lead times ahead of sailing. In terms of newbuild capital expenditures, the cash flow impact is mitigated as we have obtained export credit financing for the ships which is expected to fund approximately 80% of the contract price of each ship expected to be delivered through 2027, subject to certain conditions.

Highly Experienced Team

Our senior management team is comprised of executives with extensive experience in the cruise, travel, leisure and hospitality-related industries. See "Information about our Executive Officers" below.

Our Business Strategies

Driving Demand

We seek to attract vacationers to our products and services in several ways, including:

- delivering an enhanced, value-added vacation experience to our guests relative to other vacation alternatives;
- creating diverse and unique itineraries in new and existing markets;
- utilizing effective marketing and sales initiatives with a market-to-fill strategy; and
- strengthening our global footprint.

Our value-added-vacation product, itinerary diversification, marketing and sales initiatives and the strengthening of our global footprint contribute to driving increased revenues for our fleet. Our market-to-fill strategy maintains pricing integrity by offering both the best price early in the booking cycle and value-added promotions when necessary to mitigate the need to compromise on price.

Our destination management team reviews deployments across the fleet, either repositioning ships to new destinations or fine-tuning itineraries, with the goal of diversifying our deployment and creating product scarcity which, in turn, leads to higher pricing.

We also seek to increase demand through effective marketing campaigns across various channels such as branding campaigns on nationwide television, robust and varied digital campaigns or targeted mail campaigns aimed at supporting seasonal deployments. Our sales forces are also drivers of demand, particularly in terms of educating travel advisors on our products and services in order to better sell to potential vacationers.

Lastly, our international efforts are aimed at strengthening our global footprint by increasing brand awareness across the globe which allows us to diversify our guest sourcing. We maintain numerous sales offices which support sales and marketing efforts in various markets outside of North America including the United Kingdom, Europe, Hong Kong, Australia, New Zealand, Brazil, India, Japan and Singapore.

Maximize Revenue

We focus on growing revenue through various initiatives aimed at increasing ticket prices and Occupancy Percentages as well as onboard spending to drive higher overall revenue. Our specific initiatives include:

Strategic Relationships. We have strategic relationships with travel advisors and tour operators who commit to purchasing a certain level of inventory with long lead times.

Bundling Strategy. The Norwegian brand offers guests the choice of a more inclusive, value-add product offering on certain sailings and in certain stateroom selections by allowing guests to choose from multiple amenities.

Casino Player Strategy. We have non-exclusive arrangements with casino partners worldwide whereby loyal gaming guests are offered cruise reward certificates redeemable for cruises. Through property sponsored events and joint marketing programs, we have the opportunity to market cruises to these guests. These arrangements with casino partners have the dual benefit of filling open inventory and reaching guests expected to generate above average onboard revenue through the casino and other onboard spending.

Itinerary Optimization. We manage our ships' deployments to promote better breadth of itineraries, sell cruises further in advance and maximize profitability.

Ship Refurbishments. We have invested in revitalizations to our ships which provides an enhanced product that we believe delivers higher guest satisfaction and, in turn, higher pricing.

Initiatives to Suppress Costs

We continue to leverage the combined purchasing power of our three brands to further reduce costs throughout the organization. This initiative is bolstered by our Supply Chain and Logistics Management function which supports our three brands as well as our corporate and international offices.

Our new ships are designed to enhance energy efficiency and we have several initiatives in place to improve efficiency on our existing fleet. Some of these initiatives include LED lighting upgrades, waste heat recovery, new hull coatings and itinerary optimization.

Enhanced Product Offering and Guest Experience

We believe our brands deliver a strong product offering and superb guest experience. Norwegian's ships offer up to 28 dining options, a diverse range of accommodations and what we believe is the widest array of entertainment at sea. Oceania Cruises' award-winning onboard dining, with multiple open seating dining venues, is a central highlight of its cruise experience. Regent's all-inclusive offering includes air transportation, shore excursions, pre-cruise hotel stays (for concierge level and above), specialty restaurants, premium spirits and fine wines, gratuities, Wi-Fi and other amenities. We continually look for ways to enhance the already strong product offering and guest experience on board our three brands and in the destinations in which we call. We do so through ship refurbishments, enhancements to dining and entertainment offerings, expansion of immersive shore excursion offerings and more.

Measured Fleet Expansion

Norwegian Encore was delivered in October 2019. This ship is the largest in our fleet at approximately 169,000 Gross Tons. With approximately 4,000 Berths, she is similar in design to Norwegian Bliss and includes additional innovative features. Project Leonardo consists of six ships on order for the Norwegian brand with expected delivery dates through 2027, subject to certain conditions. Each of the six Project Leonardo ships are approximately 140,000 Gross Tons and 3,300 Berths. For the Regent brand, Seven Seas Splendor was delivered in January 2020. We have an order for one additional Explorer Class Ship to be delivered in 2023. Each of the Explorer Class Ships will be approximately 55,000 Gross Tons and 750 Berths. For the Oceania Cruises brand, we have orders for two Allura Class Ships to be delivered in 2022 and 2025. Each of the Allura Class Ships will be approximately 67,000 Gross Tons and 1,200 Berths.

We believe these new ships will allow us to continue expanding the reach of our brands, positioning us for accelerated growth and providing an optimized return on invested capital. We have obtained export credit financing which is expected to fund approximately 80% of the contract price of each ship expected to be delivered through 2027, subject to certain conditions.

Expand and Strengthen Our Product Distribution Channels

As part of our growth strategy, we continually look for ways to deepen and expand our sales channels.

The retail/travel advisor channel represents the majority of our ticket sales. Our travel partner base is comprised of an extensive network of approximately 23,000 independent travel advisors worldwide. We have made substantial investments with improvements in booking technologies, transparent pricing strategies, effective marketing tools, improved communication and cooperative marketing initiatives to enhance and facilitate the ability of travel advisors to market and sell our products. We have expanded sales teams who work closely with our travel advisor partners on maximizing their marketing and sales effectiveness across all three of our brands. Our focused account management is designed to create solutions catered to the individual retailer through product and sales training. This education creates a deeper understanding of all our product offerings.

We continue to invest in our brands by enhancing websites, mobile applications and passenger services departments including our personal cruise consultants, who offer personalized service throughout the process of designing cruise vacations for our guests. We have also enhanced our capabilities to enable guests to customize their vacation experience with certain onboard product offerings. We also have an onboard cruise sales channel where guests can book their next cruise or purchase cruise certificates to apply to their next cruise while vacationing on our ships.

Our meetings, incentives and charters channel focuses on full ship charters as well as corporate meetings and incentive travel. These sales often have very long lead times and can fill a significant portion of the ship's capacity, or even an entire sailing, in one transaction. Sixthman, a subsidiary company specializing in developing and delivering music-oriented charters, provides a market that enables travel advisors to sell high-quality music experiences at sea to guests.

Itineraries

We offer cruise itineraries ranging from a few days to 180-days calling on worldwide locations, including destinations in Scandinavia, Russia, the Mediterranean, the Greek Isles, Alaska, Canada and New England, Asia, Tahiti and the South Pacific, Australia and New Zealand, Africa, India, South America, the Panama Canal and the Caribbean. We have developed, and are continuing to develop, innovative itineraries to position our ships in new and niche markets as well as in the mainstream markets throughout the world.

We believe that these destination-focused itineraries, complemented by a comprehensive shore excursion program (which is included in the all-inclusive fare for cruises on the Regent ships), differentiate our brands from many of our competitors. We call on varied destinations, many of which include overnight stays in port, allowing guests to have more in-depth experiences than would otherwise be possible in only a single day port call.

For some of our longer itineraries, we strive to maximize profitability by selling segments of the longer itineraries as shorter cruises (i.e., which last 7 to 20 days) in order to capture more time-constrained customers. We believe the deployment flexibility created by the use of longer itineraries translates off-peak seasons into more profitable portions of longer cruises.

Passenger Ticket Revenue

We offer our guests a wide variety of cruise fare options when booking a cruise. Our cruise ticket prices generally include cruise fare and a wide variety of onboard activities and amenities, meals, entertainment and port fees and taxes. In some instances, cruise ticket prices include round-trip airfare to and from the port of embarkation, complimentary beverages, unlimited shore excursions, free internet, pre-cruise hotel packages, and on some of the exotic itineraries pre or post land packages. Prices vary depending on the particular cruise itinerary, stateroom category selected and the time of year that the voyage takes place.

Onboard and Other Revenue

All three brands generate onboard and other revenue for additional products and services which are not included in the cruise fare, including casino operations, certain food and beverage, shore excursions, gift shop purchases, spa services, photo services, Wi-Fi services and other similar items. Food and beverage, casino operations, photo services and shore excursions are generally managed directly by us while retail shops, spa services, art auctions and internet services may be managed through contracts with third-party concessionaires. These contracts generally entitle us to a percentage of the gross sales derived from these concessions. Norwegian's ticket prices typically include cruise accommodations, meals in certain dining facilities and many onboard activities such as entertainment, pool-side activities and various sports programs. To maximize onboard revenue, all three brands use various cross-marketing and promotional tools which are supported by point-of-sale systems permitting "cashless" transactions for the sale of these products and services. Oceania Cruises' ticket prices may include air transportation and certain other amenities. Regent's ticket prices typically include air transportation, unlimited shore excursions, a pre-cruise hotel night stay (for concierge level and above), premium wines and top shelf liquors, specialty restaurants, Wi-Fi and gratuities.

Onboard and other revenue accounted for 30%, 30% and 31% of our consolidated revenue in 2019, 2018 and 2017, respectively.

Revenue Management Practices

Our revenue management function performs extensive analyses in order to determine booking history and uses trends by sailing, stateroom category, travel partner, market segment, itinerary and distribution channel in order to optimize cruise ticket revenue. We utilize a market-to-fill strategy to encourage guests to book earlier which extends our booking window and drives higher pricing. Our targeted and high-frequency marketing campaigns communicate a message of a value-packed cruise offering. We emphasize communication to keep the travel advisors engaged and informed and utilize call centers to drive high potential targeted customers and increase the effectiveness of these targeted marketing programs. This marketing strategy assists in maximizing the revenue potential from each customer contact generated. We believe these strategies and other initiatives executed by our distribution channels will drive sustainable growth in the number of guests carried and in Net Yields achieved.

Seasonality

Our revenue is seasonal and based on the demand for cruises. Historically, the seasonality of the North American cruise industry generally results in the greatest demand for cruises during the Northern Hemisphere's summer months. This predictable seasonality in demand has resulted in fluctuations by quarter in our revenue and results of operations. The seasonality of our results is increased due to ships being taken out of service for regularly scheduled Dry-docks, which we typically schedule during non-peak demand periods.

Competition

Our primary competition includes operators such as Carnival Corporation and Carnival plc, which owns and operates Carnival Cruise Line, Holland America Line, Princess Cruises and Seabourn Cruise Line, among others, and Royal Caribbean Cruises Ltd., which owns and operates Royal Caribbean International, Celebrity Cruises, Azamara Club Cruises and Silversea Cruises among others, as well as other cruise lines such as MSC Cruises, Crystal Cruises, Viking Ocean Cruises and Virgin Voyages. In addition, we compete with land-based vacation alternatives, such as hotels and resorts, vacation ownership properties, casinos, and tourist destinations throughout the world.

Sales of cruises and onboard offerings are subject to consumer discretionary spending levels and may be influenced by geopolitical events and economic conditions.

Marketing Strategy

Our marketing teams work to enhance brand awareness and consideration of our products and services among consumers and travel partners with the ultimate goal of driving sales. We utilize a multi-channel strategy that may include a combination of print, television, radio, website/e-commerce, direct mail, social media, mobile and e-mail campaigns, partnerships, customer loyalty initiatives, market research, and business-to-business events.

Building customer loyalty among our past guests is an important element of our marketing strategy. We believe that attending to the needs and motivations of our past guests creates a cost-effective means of attracting business, particularly to our new ships and itineraries, because past guests are familiar with our brands, products and services and often return to cruise with us. We continue to optimize our customer databases and targeting capabilities to further enhance our communications with our past guests who receive e-mail, direct mail and brochures with informative destination and product information and promotional amenities. Our marketing mix includes a balance of initiatives that both allow us to build our brand awareness to attract new-to-brand customers, while also focusing on more targeted marketing communications aimed at retaining our current guest base. Continued investments in our websites is also key not only to driving interest and bookings, but also to ensuring the optimal pre-cruise planning experience offering guests the ability to shop, reserve and purchase a breadth of onboard products and services. We have a strong communications stream that provides customized pre-cruise information to help guests maximize their cruise experience as well as a series of communications to welcome them home and ultimately engage them in booking another cruise.

Travel advisors are crucial to our marketing and distribution efforts. We provide robust marketing support and enhanced tools for our travel advisor partners through a variety of programs. Our travel partners can benefit from our online travel partner education programs that include a wide variety of courses about our ships, itineraries and other best-selling practices. Advisors can also easily customize a multitude of consumer marketing materials for their use in promoting our products through our online platform.

Guest feedback is also a critically important element in the development of our overall marketing and business strategies. We regularly initiate guest feedback studies among both travel partners and consumers to assess the impact of various programs and/or to solicit information that helps shape future direction.

Ship Operations and Cruise Infrastructure

Ship Maintenance and Logistics

Sophisticated and efficient maintenance and operations systems support the technical superiority and modern look of our fleet. In addition to routine repairs and maintenance performed on an ongoing basis and in accordance with applicable requirements, each of our ships is generally taken out of service, approximately every 24 to 60 months, for a period of one or more weeks for scheduled maintenance work, repairs and improvements performed in Dry-dock. Dry-dock interval is a statutory requirement controlled under IMO requirements reflected in chapters of the International Convention of the Safety of Life at Seas (“SOLAS”) and to some extent the International Load Lines Convention. Under these regulations, it is required that a passenger ship Dry-dock once in five years (depending on age of vessel) or twice in five years (depending on flag state and age of vessel) and the maximum interval between each Dry-dock cannot exceed three years (depending on flag state and age of vessel). However, most of our international ships qualify under a special exemption provided by the Bahamas and/or Marshall Islands (flag state), as applicable, after meeting certain criteria set forth by the ship’s flag state to Dry-dock once every five years. To the extent practical, each ship’s crew, catering and hotel staff remain with the ship during the Dry-dock period and assist in performing repair and maintenance work. Accordingly, Dry-dock work is typically performed during non-peak demand periods to minimize the adverse effect on revenue that results from ships being out of service. Dry-docks are typically scheduled in spring or autumn and depend on shipyard availability. We take this opportunity to upgrade the vessels in all areas of both guest-facing services and innovative compliance technology.

Suppliers

Our largest capital expenditures are for ship construction and acquisition. Our largest operating expenditures are for payroll and related (including our contract with a third party who provides certain crew services), fuel, food and beverage, advertising and marketing and travel advisor services. Most of the supplies that we require are available from numerous sources at competitive prices. In addition, due to the large quantities that we purchase, we can obtain favorable prices for many of our supplies. Our purchases are denominated primarily in U.S. dollars. Payment terms granted by the suppliers are generally customary terms for the cruise industry.

Crew and Staff

Best-in-class guest service levels are paramount in the markets in which we operate, where travelers have discriminating tastes and high expectations for service quality. We have dedicated increasing attention and resources to ensure that our service offerings on all of our ships meet the demands of our guests. Among other initiatives, we have implemented rigorous onboard training programs, with a focus on career development. We believe that our dedication to anticipating and meeting our guests’ every need differentiates our operations and fosters close relationships between our guests and crew, helping to build customer loyalty.

We place the utmost importance on the safety of our guests and crew. We operate all of our vessels to meet and exceed the requirements of SOLAS and International Management Code for the Safe Operation of Ships and for Pollution Prevention (“ISM Code”), the international safety standards which govern the cruise industry. Crew members are trained in the Company’s stringent safety protocols, participating in regular safety trainings, exercises and drills onboard every one of our ships to familiarize themselves and become proficient with the safety equipment onboard.

Our captains and chief engineers are experienced seafarers. Our bridge and technical officers regularly undergo rigorous operations training such as leadership, navigation, stability, statutory and environmental regulatory compliance. To support our deck and engine officers while at sea, we have bridge and engine resource management protocols in place, dictating specific standard operating procedures. Our bridge teams conduct a voyage planning process prior to sailing, where the upcoming itinerary is reviewed and discussed by the captain and bridge team prior to departure and in preparation for arrival. In addition, all of our ships employ state-of-the-art navigational equipment and technology to ensure that our bridge teams have accurate data regarding the planned itinerary.

Prior to every cruise setting sail, we hold a mandatory safety drill for all guests during which important safety information is reviewed and demonstrated. We also show a safety video which runs continuously on the stateroom televisions. Our fleet is equipped with modern navigational control and fire prevention and control systems. We have developed a Safety Management System (“SMS”), which establishes policies, procedures, training, qualification, quality, compliance, audit and self-improvement standards. SMS also provides real-time reports and information to support the fleet and risk management decisions. Through these systems, our senior managers, as well as ship management, can focus on consistent, high quality operation of the fleet. Our SMS is approved and audited regularly by our classification society, Lloyds Register, and it also undergoes regular internal audits as well as periodic inspections by the U.S. Coast Guard, flag state and other port and state authorities.

Insurance

We maintain insurance on the hull and machinery of our ships, which are maintained in amounts related to the estimated market value of each ship. The coverage for each of the hull and machinery policies is maintained with syndicates of insurance underwriters from the European and U.S. insurance markets.

In addition to the insurance coverage on the hull and machinery of our ships, we seek to maintain comprehensive insurance coverage and believe that our current coverage is at appropriate levels to protect against most of the accident-related risks involved in the conduct of our business. The insurance we carry includes:

- Protection and indemnity insurance (coverage for passenger, crew and third-party liabilities), including insurance against risk of pollution liabilities;
- War risk insurance, including terrorist risk insurance. The terms of our war risk policies include provisions where underwriters can give seven days’ notice to the insured that the policies will be cancelled in the event of a change of risk which is typical for policies in the marine industry. Upon any proposed cancellation the insurer shall, before expiry of the seven day period, submit new terms; and
- Insurance for our shoreside property, cybersecurity, directors and officers, general liability risks and other insurance coverages.

Our insurance coverage, including those noted above, is subject to certain limitations, exclusions and deductible levels.

Trademarks and Tradenames

Under the Norwegian brand, we own a number of registered trademarks relating to, among other things, the names “NORWEGIAN CRUISE LINE” and “FEEL FREE,” the names of our ships (except where trademark applications for these have been filed and are pending), incentive programs and specialty services rendered on our ships and specialty accommodations such as “THE HAVEN BY NORWEGIAN.” In addition, we own registered trademarks relating to the “FREESTYLE” family of names, including, “FREESTYLE CRUISING,” “FREESTYLE DINING” and “FREESTYLE VACATION.” We believe that these trademarks are widely recognized throughout North America, Europe and other areas of the world and have considerable value.

Under the Oceania Cruises brand, we own a number of registered trademarks relating to, among other things, the names “OCEANIA CRUISES” and its logo, “REGATTA,” “INSIGNIA,” and “YOUR WORLD. YOUR WAY.”

Under the Regent brand, we own registered trademarks relating to, among other things, the names “SEVEN SEAS CRUISES” and “AN UNRIVALED EXPERIENCE” as well as the names of our ships (except where trademark applications have been filed and are pending).

We also claim common law rights in trademarks and tradenames used in conjunction with our ships, incentive programs, customer loyalty program and specialty services rendered onboard our ships for each of our brands.

The Regent ships have been operating under the Regent brand since 2006. We entered into a trademark license agreement with Regent Hospitality Worldwide, Inc., which we amended in February 2011, granting us the right to use the “Regent” brand family of marks. The amended trademark license agreement allows Regent to use the Regent tradename, in conjunction with cruises, in perpetuity, subject to the terms and conditions in the agreement.

Regulatory Issues

Registration of Our Ships

Nineteen of the ships that we currently operate are registered in the Bahamas. One of our ships, Pride of America, is a U.S.-flagged ship. Eight of our ships are registered in the Marshall Islands. Our ships registered in the Bahamas and the Marshall Islands are inspected at least annually pursuant to Bahamian and Marshall Islands requirements and are subject to International laws and regulations and to various U.S. federal regulatory agencies, including, but not limited to, the U.S. Public Health Service and the U.S. Coast Guard. Our U.S.-registered ship is subject to laws and regulations of the U.S. federal government, including, but not limited to, the Food and Drug Administration (“FDA”), the U.S. Coast Guard and U.S. Department of Labor. The international, national, state and local laws, regulations, treaties and other legal requirements applicable to our operations change regularly, depending on the itineraries of our ships and the ports and countries visited.

Our ships are subject to inspection by the port regulatory authorities in the various countries that they visit. Such inspections include verification of compliance with the maritime safety, security, environmental, customs, immigration, health and labor regulations applicable to each port as well as with international requirements.

Environmental Protection

Our ships are subject to various international, national, state and local laws and regulations relating to environmental protection, including those that govern air emissions, waste discharge, waste water management and disposal, and use and disposal of hazardous substances such as chemicals, solvents and paints. Under such laws and regulations, we are prohibited from discharging certain materials, such as petrochemicals and plastics, into waterways, and we must adhere to various water and air quality-related requirements.

With regard to air quality requirements, the International Maritime Organization’s (“IMO”) convention entitled Prevention of Pollution from Ships (“MARPOL”) has set a global limit on fuel sulfur content of 0.5% beginning January 2020. Various compliance methods, such as the use of alternative fuels, or exhaust gas cleaning systems that reduce an equivalent amount of sulfur emissions, may be utilized.

MARPOL also requires stricter limitations on sulfur emissions within designated Emission Control Areas (“ECAs”), which include the Baltic Sea, the North Sea/English Channel, North American waters and the U.S. Caribbean Sea. Ships operating in these waters are required to use fuel with a sulfur content of no more than 0.1% or use approved alternative emission reduction methods. ECAs have also been established to limit emissions of oxides of nitrogen from newly built ships. Additional ECAs may also be established in the future, with areas around Norway, Japan, and the Mediterranean Sea being considered.

Ballast water discharges are governed by the MARPOL Ballast Water Management Convention, which came into force in 2017 (“The Convention”), and which governs the discharge of ballast water from ships. Ballast water, which is seawater held onboard ships and used for stabilization, may contain a variety of marine species. The Convention is designed to regulate the treatment and discharge of ballast water to avoid the transfer of marine species to new, different,

or potentially unsuitable environments. Applicable vessels sailing in specific itineraries have also been upgraded with ballast water treatment systems to further prevent the spread of invasive species.

MARPOL also sets forth requirements for discharges of garbage, oil and sewage from ships, including regulations regarding the ships' equipment and systems for the control of such discharges, and the provision of port reception facilities for sewage handling. Ships are generally prohibited from discharging sewage into the sea within a specified distance from the nearest land. Governments are required to ensure the provision of adequate reception facilities at ports and terminals for the reception of sewage, without causing delay to ships. Ships are generally required to be equipped with either approved sewage treatment plants, disinfecting systems or sewage holding tanks.

Recently adopted amendments to MARPOL will make the Baltic Sea a "Special Area" where sewage discharges from passenger ships will be prohibited. Stricter discharge restrictions went into effect for new passenger ships in 2019, and for existing passenger ships starting in 2021.

These requirements may impact our operations unless suitable port waste facilities are available, or new technologies for onboard waste treatment are developed. Accordingly, the cost of complying with these requirements is not determinable at this time.

In the U.S., the Clean Water Act of 1972, and other laws and regulations, provide the Environmental Protection Agency ("EPA") and the U.S. Coast Guard with the authority to regulate commercial vessels' incidental discharges of ballast water, bilge water, gray water, anti-fouling paints and other substances during normal operations while a vessel is in inland waters, within three nautical miles of land, and in designated federally-protected waters. The U.S. National Pollutant Discharge Elimination System ("NPDES") program, authorized by the Clean Water Act, was established to reduce pollution within U.S. territorial waters. For our affected ships, all of the NPDES requirements are set forth in the EPA's Vessel General Permit ("VGP"). The VGP establishes effluent limits for 26 specific discharge streams incidental to the normal operation of a vessel. In addition to these discharge- and vessel-specific requirements, the VGP includes requirements for inspections, monitoring, reporting and recordkeeping.

The Act to Prevent Pollution from Ships, which implements certain elements of MARPOL in the U.S., provides for potentially severe civil and criminal penalties related to ship-generated pollution for incidents in U.S. waters within three nautical miles of land and, in some cases, within the 200-nautical mile Exclusive Economic Zone ("EEZ").

The Oil Pollution Act of 1990 ("OPA 90") provides for strict liability for water pollution caused by the discharge of oil in the 200-nautical mile EEZ of the U.S., subject to defined monetary limits. OPA 90 requires that in order for us to operate in U.S. waters, we must have Certificates of Financial Responsibility ("COFR") from the U.S. Coast Guard for each ship. Our continued OPA 90 certification signifies our ability to meet the requirements for related OPA 90 liability in the event of an oil spill or release of a hazardous substance.

Many coastal U.S. states have also enacted environmental regulations that impose strict liability for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law and, in some cases, the laws have no statutory limits of liability. Among the most stringent requirements are those set by the State of Alaska, which has enacted legislation that prohibits certain discharges in designated state waters and requires that certain discharges be monitored to verify compliance with the established standards. The legislation also provides that repeat violators of the regulations could be prohibited from operating in Alaskan waters.

The European Union ("EU") has also adopted a substantial and diverse range of environmental measures aimed at maintaining or improving the quality of the environment. To support the implementation and enforcement of European environmental legislation, the EU has adopted directives on environmental liability and enforcement as well as a recommendation providing for minimum criteria for environmental inspections.

With regard to air emissions from seagoing ships, the EU requires the use of low sulfur (less than 0.1%) marine gas oil in EU ports. Passenger ships on regular service to EU ports (and not operating in an ECA) are required to use fuels containing a maximum sulfur content of 1.5%. The EU has set January 2020 as the compliance date for the 0.5% fuel sulfur limit within their jurisdictional waters.

In addition to the existing legal requirements, we are committed to helping to preserve the environment, because a clean, unspoiled environment is a key element that attracts guests to our ships. Furthermore, NCL (Bahamas) Ltd. and NCL America LLC are certified under the International Organization for Standardization's 14001 Standard. This voluntary standard sets requirements for establishment and implementation of a comprehensive environmental management system which we have adopted for our operations. Currently we operate under an Environmental Management System that is incorporated into the Company's SMS and promote environmental awareness among our stakeholders both through our Sail & Sustain program and annual Stewardship Report.

If we violate or fail to comply with environmental laws, regulations or treaties, we could be fined or otherwise sanctioned by regulators. We have made, and will continue to make, capital and other expenditures to comply with changing environmental laws, regulations and treaties. Any fines or other sanctions for violation or failure to comply with environmental requirements or any expenditures required to comply with environmental requirements could have a material adverse effect on our business, operations, cash flow or financial condition.

Permits for Glacier Bay, Alaska

In connection with certain Alaska cruise operations, we rely on concession permits from the U.S. National Park Service to operate our ships in Glacier Bay National Park and Preserve. We currently hold a concession permit allowing for 41 calls annually through September 30, 2029.

Passenger Well-Being

In the U.S., we must meet the U.S. Public Health Service's requirements, which include vessel ratings by inspectors from the Vessel Sanitation Program of the Centers for Disease Control and Prevention ("CDC") and the FDA. We rate at the top of the range of CDC and FDA scores achieved by the major cruise lines. In addition, the cruise industry and the U.S. Public Health Service have agreed on regulations for food, water and hygiene, aimed at proactively protecting the health of travelers and preventing illness transmission to U.S. ports.

Security and Safety

The IMO has adopted safety standards as part of the SOLAS convention, which apply to all of our ships. SOLAS establishes requirements for vessel design, structural features, construction methods and materials, refurbishment standards, life-saving equipment, fire protection and detection, safe management and operation and security in order to help ensure the safety and security of our guests and crew. All of our crew undergo regular security and safety training exercises that meet all international and national maritime regulations.

SOLAS requires that all cruise ships are certified as having safety procedures that comply with the requirements of the International Management Code for the Safe Operation of Ships and for Pollution Prevention ("ISM Code"). All of our ships are certified as to compliance with the ISM Code. Each such certificate is granted for a five-year period and is subject to periodic verification.

The SOLAS requirements are amended and extended by the IMO from time to time. For example, the International Port and Ship Facility Code ("ISPS Code") was adopted by the IMO in December 2002 with the goal of strengthening maritime security by placing new requirements on governments, port authorities and shipping companies. Amendments to SOLAS required that ships constructed in accordance with pre-1974 SOLAS requirements install automatic sprinkler systems. IMO adopted an amendment to SOLAS which requires partial bulkheads on stateroom balconies to be of non-combustible construction. The SOLAS regulation implemented Long-Range Identification and Tracking. All of our ships are in compliance with the requirements of SOLAS as amended and/or as applicable to the keel-laying date.

In addition to the requirements of the ISPS Code, the U.S. Congress enacted the Maritime Transportation Security Act of 2002 ("MTSA") which implements a number of security measures at ports in the U.S. including measures that apply to ships registered outside the U.S. while docking at ports in the U.S. The U.S. Coast Guard has published MTSA regulations that require a security plan for every ship entering the territorial waters of the U.S., provide for identification

requirements for ships entering such waters and establish various procedures for the identification of crew members on such ships. The Transportation Workers Identification Credential is a U.S. requirement for accessibility into and onto U.S. ports and U.S.-flagged ships.

Maritime-Labor

In 2006, the International Labor Organization (“ILO”), an agency of the United Nations that develops and oversees international labor standards, adopted a new Consolidated Maritime Labor Convention (“MLC 2006”). MLC 2006 contains a comprehensive set of global standards based on those that are already found in 68 maritime labor Conventions and Recommendations adopted by the ILO since 1920. MLC 2006 includes a broad range of requirements, such as a broader definition of a seafarer, minimum age of seafarers, medical certificates, recruitment practices, training, repatriation, food, recreational facilities, health and welfare, hours of work and rest, accommodations, wages and entitlements. MLC 2006 added requirements not previously in effect, in the areas of occupational safety and health. MLC 2006 became effective in certain countries commencing August 2013. The Standard of Training Certification and Watch Keeping for Seafarers, as amended (“STCW”), establishes minimum standards relating to training, certification and watch-keeping for our seafarers.

Financial Requirements

The Federal Maritime Commission (“FMC”) requires evidence of financial responsibility for those offering transportation on passenger ships operating out of U.S. ports to indemnify passengers in the event of non-performance of the transportation. Accordingly, each of our three brands are required to maintain a \$32.0 million third-party performance guarantee in respect of liabilities for non-performance of transportation and other obligations to passengers. The guarantee requirements are subject to additional consumer price index-based adjustments. Also, our brands have a legal requirement to maintain security guarantees based on cruise business originated from the U.K., and certain jurisdictions require us to establish financial responsibility to meet liability in the event of non-performance of our obligations to passengers from those jurisdictions. As of December 31, 2019, we have in place approximately British Pound Sterling 41.5 million of security guarantees for our brands as well as a consumer protection policy covering up to €110.0 million.

From time to time, various other regulatory and legislative changes have been or may in the future be proposed that may have an effect on our operations in the U.S. and the cruise industry in general.

For information regarding risks associated with our compliance with legal and regulatory requirements, see Part I Item 1A-Risk Factors in this annual report on Form 10-K, including the risk factor titled “We are subject to complex laws and regulations, including environmental, health and safety, labor, data privacy and protection and maritime laws and regulations, which could adversely affect our operations and any changes in the current laws and regulations could lead to increased costs or decreased revenue.”

Taxation

U.S. Income Taxation

The following discussion is based upon current provisions of the Internal Revenue Code (the “Code”), U.S. Treasury regulations, administrative rulings and court decisions, all of which are subject to change, possibly with retroactive effect. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below.

Exemption of International Shipping Income under Section 883 of the Code

Under Section 883 of the Code (“Section 883”) and the related regulations, a foreign corporation will be exempt from U.S. federal income taxation on its U.S.-source income derived from the international operation of ships (“shipping income”) if: (a) it is organized in a qualified foreign country, which is one that grants an “equivalent exemption” from tax to corporations organized in the U.S. in respect of each category of shipping income for which exemption is being

claimed under Section 883; and (b) either: (1) more than 50% of the value of its stock is beneficially owned, directly or indirectly, by qualified shareholders, which includes individuals who are “residents” of a qualified foreign country; (2) one or more classes of its stock representing, in the aggregate, more than 50% of the combined voting power and value of all classes of its stock are “primarily and regularly traded on one or more established securities markets” in a qualified foreign country or in the U.S. (the “publicly traded test”); or (3) it is a “controlled foreign corporation” (a “CFC”) for more than half of the taxable year and more than 50% of its stock is owned by qualified U.S. persons for more than half of the taxable year (the “CFC test”). In addition, U.S. Treasury Regulations require a foreign corporation and certain of its direct and indirect shareholders to satisfy detailed substantiation and reporting requirements.

NCLH is incorporated in Bermuda, a qualified foreign country which grants an equivalent exemption, and NCLH meets the publicly traded test because its ordinary shares were primarily and regularly traded on the Nasdaq Stock Market (the “Nasdaq”) until December 18, 2017, and since December 19, 2017, have been primarily and regularly traded on the New York Stock Exchange (“NYSE”). Both the Nasdaq and the NYSE are considered to be established securities markets in the U.S. Therefore, we believe that NCLH qualifies for the benefits of Section 883.

We believe and have taken the position that substantially all of NCLH’s income, including the income of its ship-owning subsidiaries, is properly categorized as shipping income, and that we do not have a material amount of non-qualifying income. It is possible, however, that the IRS interpretation of shipping income could differ from ours and that a much larger percentage of our income does not qualify (or will not qualify) as shipping income. Moreover, the exemption for shipping income is only available for years in which we will satisfy complex tests under Section 883. There are factual circumstances beyond our control, including changes in the direct and indirect owners of NCLH’s ordinary shares, which could cause NCLH or its subsidiaries to lose the benefit of the exemption under Section 883. Further, any changes in our operations could significantly increase our exposure to taxation on shipping income, and we can give no assurances on this matter.

Under certain circumstances, changes in the identity, residence or holdings of NCLH’s direct or indirect shareholders could cause NCLH’s ordinary shares not to be regularly traded on an established securities market within the meaning of the regulations under Section 883. Therefore, as a precautionary matter, NCLH has provided protections in its bye-laws to reduce the risk of such changes impacting our ability to meet the publicly traded test by prohibiting any person from owning, directly, indirectly or constructively, more than 4.9% of NCLH’s ordinary shares unless such ownership is approved by NCLH’s Board of Directors (the “4.9% limit”). Any outstanding shares held in excess of the 4.9% limit will be transferred to and held in a trust.

For U.S. federal income tax purposes, Regent and its non-U.S. subsidiaries are disregarded as entities separate from their immediate foreign parent and Oceania Cruises was treated as a corporation until December 31, 2017, and a disregarded entity as of January 1, 2018. For 2019, 2018 and 2017, both Regent and Oceania Cruises relied on NCLH’s ability to meet the requirements necessary to qualify for the benefits of Section 883 as discussed above.

Taxation of International Shipping Income Where Section 883 of the Code is Inapplicable

Unless exempt from U.S. federal income taxation, a foreign corporation is subject to U.S. federal income tax in respect of its “shipping income” that is derived from sources within the U.S. If we fail to qualify for the exemption under Section 883 in respect of our U.S.-sourced shipping income, or if the provision was repealed, then we will be subject to taxation in the U.S. on such income.

Generally, “shipping income” is any income that is derived from the use of vessels, from the hiring or leasing of vessels for use on a time, voyage or bareboat charter basis or from the performance of services directly related to those uses. For these purposes, shipping income attributable to transportation that begins or ends, but that does not both begin and end, in the U.S., which we refer to as “U.S.- source shipping income,” will be considered to be 50% derived from sources within the U.S.

If we do not qualify for exemption under Section 883, or if the provision was repealed, then any U.S.-sourced shipping income or any other income that is considered to be effectively connected income would be subject to U.S. federal corporate income taxation on a net basis (generally at a 21% rate) and state and local taxes, and our effectively

connected earnings and profits may also be subject to an additional branch profits tax of 30%, unless a lower treaty rate applies (the “Net Tax Regime”). Our U.S. source shipping income is considered effectively connected income if we have, or are considered to have, a fixed place of business in the U.S. involved in the earning of U.S. source shipping income, and substantially all of our U.S. source shipping income is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the U.S.

If we do not have a fixed place of business in the U.S. or substantially all of our income is not derived from regularly scheduled transportation, the income will generally not be considered to be effectively connected income. In that case, we would be subject to a special 4% tax on our U.S. source shipping income (the “4% Tax Regime”).

Other United States Taxation

U.S. Treasury Regulations list several items of income which are not considered to be incidental to the international operation of ships and, to the extent derived from U.S. sources, are subject to U.S. federal income taxes under the Net Tax Regime discussed above. Income items considered non-incidental to the international operation of ships include income from the sale of single-day cruises, shore excursions, air and other transportation, and pre- and post-cruise land packages. We believe that substantially all of our income currently derived from the international operation of ships is shipping income.

Income from U.S.-flagged Operation under the NCL America

Income derived from our U.S.-flagged operation generally will be subject to U.S. corporate income taxes both at the federal and state levels. We expect that such income will not be subject to U.S. branch profits tax nor a U.S. dividend withholding tax under the U.S.-U.K. Income Tax Treaty.

U.K. Income Taxation

NCLH and NCLC are tax residents of the U.K. and are subject to normal U.K. corporation tax.

U.S. Taxation of Gain on Sale of Vessels

Gains from the sale of vessels should generally also be exempt from tax under Section 883 provided NCLH qualifies for exemption from tax under Section 883 in respect of our shipping income. If, however, our gain does not qualify for exemption under Section 883, or if the provision was repealed, then such gain could be subject to either the Net Tax Regime or the 4% Tax Regime.

Certain State, Local and Non-U.S. Tax Matters

We may be subject to state, local and non-U.S. income or non-income taxes in various jurisdictions, including those in which we transact business, own property or reside. We may be required to file tax returns in some or all of those jurisdictions. Our state, local or non-U.S. tax treatment may not conform to the U.S. federal income tax treatment discussed above. We may be required to pay non-U.S. taxes on dispositions of foreign property, or operations involving foreign property may give rise to non-U.S. income or other tax liabilities in amounts that could be substantial.

Changes in Tax Laws

The various tax regimes to which we are currently subject result in a relatively low effective tax rate on our worldwide income. These tax regimes, however, are subject to change, possibly with retroactive effect. For example, legislation has been proposed in the past that would eliminate the benefits of the exemption from U.S. federal income tax under Section 883 and subject all or a portion of our shipping income to taxation in the U.S. Moreover, we may become subject to new tax regimes and may be unable to take advantage of favorable tax provisions afforded by current or future law including exemption of branch profits and dividend withholding taxes under the U.S.-U.K. Income Tax Treaty on income derived in respect of our U.S.-flagged operation.

Employees

As of December 31, 2019, we employed approximately 4,000 employees worldwide in our shoreside operations and approximately 32,000 shipboard employees. Regent and Oceania Cruises' ships also utilize a third party to provide additional hotel and restaurant employees onboard. We refer you to "Risk Factors—Our inability to recruit or retain qualified personnel or the loss of key personnel or employee relations issues may materially adversely affect our business, financial condition and results of operations" for more information regarding our relationships with union employees and our collective bargaining agreements that are currently in place.

Ports and Facilities

We own a private island in the Bahamas, Great Stirrup Cay, which we utilize as a port-of-call on certain itineraries. We also operate a cruise destination in Belize, Harvest Caye, which we introduced in November 2016. We have agreed to develop, in conjunction with PortMiami, a new terminal, which will be our primary facility at the port. In addition, we have entered into various agreements relating to port or berthing rights for our ships, which include the following:

- an agreement with the Government of Bermuda whereby we are permitted weekly calls in Bermuda through 2028 from Boston and New York.
- contracts for the Port of New Orleans, PortMiami, Port Canaveral, Manhattan Cruise Terminal, A.J. Juneau Dock, Ogden Point Cruise Ship Terminal in Victoria, BC, Puerto Costa Maya, Port of Roatan, Puerto Plata, and various Hawaiian ports pursuant to which we receive preferential Berths to the exclusion of other vessels for certain specified days of the week at the terminals.
- a concession permit with the U.S. National Park Service whereby our ships are permitted to call on Glacier Bay during each summer cruise season through September 30, 2029.
- an agreement with the British Virgin Islands Port Authority granting priority berthing rights for a 15-year term through April 2032 with options to extend the agreement for two additional five-year terms.
- an agreement with the West Indian Company Limited granting priority berthing rights in St. Thomas for a 10-year term through September 2026 with an option to extend the agreement for an additional five years.
- an agreement with the Port of Seattle for a 15-year lease through October 2030 with an option to extend the agreement for an additional five years.
- an agreement with the Huna Totem Corporation to develop a second pier in Icy Strait Point, Alaska, which includes preferential berthing rights.
- a 30-year preferential berthing agreement with Ward Cove Dock Group, LLC, which allows for construction of a new double ship pier in Ward Cove, Ketchikan, Alaska. The pier will be built to simultaneously accommodate two of Norwegian Cruise Line's 4,000 passenger Breakaway Plus Class Ships and is expected to be ready for the summer 2020 season.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the SEC. Our SEC filings are available to the public at the SEC's website at <http://www.sec.gov>.

We also maintain an Internet site at <http://www.nclhltinvestor.com>. We will, as soon as reasonably practicable after we electronically file or furnish our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports, if applicable, make available such reports free of charge on our

website. Our website also contains other items of interest to our investors, including, but not limited to, investor events, press and earnings releases and sustainability initiatives. **Our website and the information contained therein or connected thereto are not incorporated into this annual report on Form 10-K.**

Information about our Executive Officers

The following table sets forth certain information regarding NCLH’s executive officers as of February 17, 2020.

Name	Age	Position
Frank J. Del Rio	65	Director, President and Chief Executive Officer
Mark A. Kempa	48	Executive Vice President and Chief Financial Officer
Robert Binder	55	Vice Chairman Oceania Cruises and Regent, President and Chief Executive Officer, Oceania Cruises brand
Jason M. Montague	46	President and Chief Executive Officer, Regent brand
Harry Sommer	52	President and Chief Executive Officer, Norwegian brand
Daniel S. Farkas	51	Executive Vice President, General Counsel and Assistant Secretary
T. Robin Lindsay	62	Executive Vice President, Vessel Operations
Faye L. Ashby	48	Senior Vice President and Chief Accounting Officer

All the executive officers listed above hold their offices at the pleasure of our Board of Directors, subject to rights under any applicable employment agreements. There are no family relationships between or among any directors and executive officers.

Frank J. Del Rio has served as President and Chief Executive Officer of NCLH since January 2015 and became a director of NCLH in August 2015. Mr. Del Rio has been responsible for the successful integration of NCLH and Prestige and oversees the financial, operational and strategic performance of the Norwegian, Regent and Oceania Cruises brands. Mr. Del Rio founded Oceania Cruises in October 2002 and served as Chief Executive Officer of Prestige or its predecessor from October 2002 through September 2016. Mr. Del Rio was instrumental in the growth of Oceania Cruises and Regent. Prior to founding Oceania Cruises, Mr. Del Rio played a vital role in the development of Renaissance Cruises, serving as Co-Chief Executive Officer, Executive Vice President and Chief Financial Officer from 1993 to April 2001. Mr. Del Rio holds a B.S. in Accounting from the University of Florida and is a Certified Public Accountant (inactive license).

Mark A. Kempa has served as Executive Vice President and Chief Financial Officer since August 2018. Prior to that, he served as Interim Chief Financial Officer from March 2018 to August 2018 and as NCLH’s Senior Vice President, Finance, from November 2014 to August 2018. From September 2008 to November 2014, he served as Vice President, Corporate and Capital Planning, and was an instrumental figure in the completion of NCLH’s IPO in 2013. From January 2007 to August 2008, he served as Director, Corporate and Capital Planning. From January 2003 to December 2006, he served as Director, Newbuild Cost and Control. In this role, he spent almost three years representing the financial interests of the Company’s expansive newbuild program while positioned overseas in Germany. From May 1998 to December 2002, he served in various roles in accounting and internal audit. Prior to joining the Company, Mr. Kempa served as the Assistant Controller for International Voyager Media, a travel portfolio company. Mr. Kempa holds a Bachelor’s degree in Accounting from Barry University.

Robert J. Binder has served as President and Chief Executive Officer of the Oceania Cruises brand since September 2016 and as Vice Chairman, Oceania Cruises and Regent since May 2015. He served as President of International Operations from February 2015 until May 2015. Prior to the Acquisition of Prestige in November 2014, Mr. Binder served as the Vice Chairman of Prestige since May 2011 and as President of Prestige since January 2008, where he oversaw the global expansion of the Prestige brands and was responsible for sales, marketing and branding efforts internationally. Mr. Binder is co-founder of Oceania Cruises and previously served as President of Oceania Cruises. Before launching Oceania Cruises, Mr. Binder was the President of Meadowoods Consulting, which provided consulting services to the financial and travel services industries. From 1992 to 2001, he held several executive posts in the cruise industry. Mr. Binder also held senior management positions at JP Morgan Chase, where he was a Strategic Planning

Officer, and at Renaissance Cruises, where he was Vice President of Sales. Mr. Binder earned master's degrees in both Finance and Marketing from Cornell University and did his undergraduate studies at Purdue University.

Jason M. Montague has served as President and Chief Executive Officer of the Regent brand since September 2016. In this role, he is responsible for financial and day-to-day operations of the Regent brand. Previously, he served as President and Chief Operating Officer for the Oceania Cruises and Regent brands from December 2014 until September 2016, where he successfully oversaw the launch of Sirena for the Oceania Cruises brand and the Seven Seas Explorer for the Regent brand. Prior to that, he served as Executive Vice President and Chief Integration Officer for NCLH during the Acquisition of Prestige. Before the acquisition by NCLH, he served as Chief Financial Officer and Executive Vice President for Prestige, from September 2010 until November 2014. During his 12-year tenure at Prestige, Mr. Montague helped build the business plan for the launch of Oceania Cruises in 2002, including oversight for the purchase of its initial three R-class vessels, was involved with the equity investment by Apollo Global Management, LLC and acquisition of Regent Seven Seas Cruises, and drove financing and delivery of Oceania Cruises' newbuilds, Marina and Riviera. Mr. Montague served as Oceania Cruises' Vice President and Treasurer from 2004 to 2007 and Senior Vice President of Finance from 2008 to 2010. Prior to joining Oceania Cruises, Mr. Montague operated a successful consulting practice focused on strategic planning and development of small to medium-sized companies. Previously, he held the position of Vice President, Finance for Alton Entertainment Corporation, a brand equity marketer that was majority owned by the Interpublic Group of Companies. Mr. Montague holds a B.B.A. in Accounting from the University of Miami.

Harry Sommer has served as President and Chief Executive Officer, Norwegian Cruise Line, since January 2020 and was President, International, from January 2019 to January 2020. Prior to that, he served as Executive Vice President, International Business Development from May 2015 to January 2019. From February 2015 until May 2015, he served as Executive Vice President and Chief Integration Officer for NCLH. Mr. Sommer previously served as Senior Vice President and Chief Marketing Officer of Prestige from October 2013 until February 2015, Senior Vice President, Finance, and Chief Information Officer of Prestige from September 2011 until October 2013 and Senior Vice President, Accounting, Chief Accounting Officer and Controller of Prestige from August 2009 until August 2011. Prior to joining Prestige, Mr. Sommer was the co-founder and President of Luxury Cruise Center, a high-end travel agency and prior to that, held various marketing and finance roles at Renaissance Cruises. Mr. Sommer holds an M.B.A. from Pace University and a B.B.A. from Baruch College.

Daniel S. Farkas has served as Executive Vice President and General Counsel of NCLH since January 2019. He has also served as Assistant Secretary of the Company since 2013. Since Mr. Farkas joined the Company in January 2004, he has held the positions of Secretary from 2010 to 2013, Senior Vice President and General Counsel from 2008 through 2018, Vice President and Assistant General Counsel from 2005 to 2008, and Assistant General Counsel from 2004 to 2005 and was instrumental in the Company's IPO and the Acquisition of Prestige. Mr. Farkas was formerly a partner in the Miami offices of the law firm Mase and Gassenheimer specializing in maritime litigation. Before that he was an Assistant State Attorney for the Eleventh Judicial Circuit in and for Miami-Dade County, Florida. Mr. Farkas currently serves as Chairman of the board of directors of the Cruise Industry Charitable Foundation and on the board of directors of the Steamship Mutual Underwriting Association Limited. Mr. Farkas earned a B.A., cum laude, in English and American Literature from Brandeis University and a J.D. from the University of Miami.

T. Robin Lindsay has served as Executive Vice President, Vessel Operations, for NCLH since January 2015. From November 2014 until January 2015, Mr. Lindsay served as Executive Vice President, Newbuild, for Prestige. Prior to the Acquisition of Prestige, he served as the Executive Vice President of Vessel Operations for Prestige from January 2008 until November 2014 and Senior Vice President of Hotel Operations from February 2003 until January 2008 and oversaw all marine, technical and hotel operations. Mr. Lindsay was instrumental in the extensive refurbishment and launch of Oceania Cruises' Regatta, Insignia and Nautica and the development of the Marina and Riviera. Mr. Lindsay possesses a substantial amount of experience in the cruise industry and has overseen the design and construction of many of the industry's most acclaimed cruise ships. Prior to joining Oceania Cruises in 2003, Mr. Lindsay was the Senior Vice President of Vessel Operations at Silversea Cruises and, prior to that, Vice President of Operations at Radisson Seven Seas Cruises. Mr. Lindsay earned his B.S. degree from Louisiana Tech University.

Faye L. Ashby has served as Senior Vice President and Chief Accounting Officer of NCLH since February 2016. She joined NCLH as Controller in November 2014 after the Acquisition of Prestige and served in that position until February 2016. From January 2012 to November 2014, Ms. Ashby served as Controller for Prestige, where she managed and developed the Accounting and External Financial Reporting teams. From March 2010 to December 2011, Ms. Ashby held the position of Senior Director of Financial Reporting with Prestige, where she started the Financial Reporting Department and was responsible for the preparation of annual financial statements, coordination of external audits and researching technical accounting issues. Before joining Prestige, Ms. Ashby was a Senior Manager at the international public accounting firm of Deloitte. She has an M.B.A. and B.B.A. with concentrations in accounting from the University of Miami and is a Certified Public Accountant in Florida.

Item 1A. Risk Factors

In addition to the other information contained in this annual report, you should carefully consider the following risk factors in evaluating us and our business. If any of the risks discussed in this annual report actually occur, our business, financial condition and results of operations could be materially adversely affected. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition and results of operations. The ordering of the risk factors set forth below is not intended to reflect an indication of priority or likelihood. In connection with the forward-looking statements that appear in this annual report, you should also carefully review the cautionary statement referred to under “Cautionary Statement Concerning Forward-Looking Statements.”

Risks Related to the Company

Terrorist acts, armed conflict and threats thereof, acts of piracy, and other international events impacting the security of travel could adversely affect the demand for cruises.

The threat or possibility of future terrorist acts, an outbreak of hostilities or armed conflict abroad or the possibility or fear of such events, political unrest and instability, the issuance of travel advisories or elevated national threat warnings by national governments, an increase in the activity of pirates, and other geo-political uncertainties have had in the past and may again in the future have an adverse impact on the demand for cruises, and consequently, the pricing for cruises. Decreases in demand and reduced pricing in response to such decreased demand would adversely affect our business by reducing our profitability.

Adverse incidents involving cruise ships may adversely affect our business, financial condition and results of operations.

The operation of cruise ships carries an inherent risk of loss caused by adverse weather conditions and maritime disasters, including, but not limited to, oil spills and other environmental mishaps, extreme weather conditions such as hurricanes, floods and typhoons, fire, mechanical failure, collisions, human error, war, terrorism, piracy, political action, civil unrest and insurrection in various countries and other circumstances or events. Any such event may result in loss of life or property, loss of revenue or increased costs and the frequency and severity of natural disasters may increase due to climate change. The operation of cruise ships also involves the risk of other incidents at sea or while in port, including missing guests, inappropriate crew or passenger behavior and onboard crimes, which may bring into question passenger safety, may adversely affect future industry performance and may lead to litigation against us. Although we place passenger safety as the highest priority in the design and operation of our fleet, we have experienced accidents and other incidents involving our cruise ships and there can be no assurance that similar events will not occur in the future. It is possible that we could be forced to cancel a cruise or a series of cruises due to these factors or incur increased port-related and other costs resulting from such adverse events. Any such event involving our cruise ships or other passenger cruise ships may adversely affect guests' perceptions of safety or result in increased governmental or other regulatory oversight. An adverse judgment or settlement in respect of any of the ongoing claims against us may also lead to negative publicity about us. The expanded use of social media has increased the speed that negative publicity spreads and makes it more difficult to mitigate reputational damage. Anything that damages our reputation (whether or not justified), including adverse publicity about passenger safety, could have an adverse impact on demand, which could lead to price discounting and a reduction in our sales and could adversely affect our business, financial condition and

results of operations. If there is a significant accident, mechanical failure or similar problem involving a ship, we may have to place a ship in an extended Dry-dock period for repairs. This could result in material lost revenue and/or increased expenditures.

The adverse impact of general economic and related factors, such as fluctuating or increasing levels of unemployment, underemployment and the volatility of fuel prices, declines in the securities and real estate markets and perceptions of these conditions can decrease the level of disposable income of consumers or consumer confidence. The demand for cruises is affected by international, national and local economic conditions.

The demand for cruises is affected by international, national and local economic conditions. Adverse changes in the perceived or actual economic climate in North America or globally, such as the volatility of fuel prices, higher interest rates, stock and real estate market declines and/or volatility, more restrictive credit markets, higher unemployment or underemployment rates, higher taxes, changes in governmental policies and political developments impacting international trade, trade disputes and increased tariffs, could reduce the level of discretionary income or consumer confidence in the countries from which we source our guests. Consequently, this may negatively affect demand for cruise vacations in these countries, which are a discretionary purchase. Decreases in demand for cruise vacations could result in price discounting, which, in turn, could reduce the profitability of our business. In addition, these conditions could also impact our suppliers, which could result in disruptions in our suppliers' services and financial losses for us.

Epidemics and viral outbreaks could have an adverse effect on our business, financial condition and results of operations.

Public perception about the safety of travel and adverse publicity related to passenger or crew illness, such as incidents of viral illnesses, stomach flu or other contagious diseases may impact demand for cruises and result in cruise cancellations and employee absenteeism. For example, the recent outbreak of the COVID-19 coronavirus has resulted in costs and lost revenue related to customer compensation, itinerary modifications, travel restrictions and advisories, the unavailability of ports and/or destinations, cancellations and redeployments and has impacted consumer sentiment regarding cruise travel. The spread of the COVID-19 coronavirus, particularly in North America, could exacerbate its effect on us. Any future wide-ranging health scares would also likely adversely affect our business, financial condition and results of operations.

Breaches in data security or other disturbances to our information technology and other networks or our actual or perceived failure to comply with requirements regarding data privacy and protection could impair our operations, subject us to significant fines, penalties and damages, and have a material adverse impact on our business, financial condition and results of operations.

The integrity and reliability of our information technology systems and networks are crucial to our business operations and disruptions to these systems or networks could impair our operations, have an adverse impact on our financial results and negatively affect our reputation and customer demand. In addition, certain networks are dependent on third-party technologies, systems and service providers for which there is no certainty of uninterrupted availability. Among other things, actual or threatened natural disasters, information systems failures, computer viruses, denial of service attacks and other cyber-attacks may cause disruptions to our information technology, telecommunications and other networks. Our business continuity, disaster recovery, data restoration plans and data and information technology security may not prevent disruptions that could result in adverse effects on our operations and financial results. We carry limited business interruption insurance for certain shoreside operations, subject to limitations, exclusions and deductibles.

As part of our ordinary business operations, we and certain of our third-party service providers collect, process, transmit and store a large volume of personally identifiable information. The security of the systems and networks where we and our service providers store this data is a critical element of our business. Our systems and networks may be vulnerable to computer viruses, malware, worms, hackers and other security issues, including physical and electronic break-ins, router disruption, sabotage or espionage, disruptions from unauthorized access and tampering (including through social engineering such as phishing attacks), impersonation of authorized users and coordinated denial-of-service attacks. For example, in October 2018, we discovered limited instances of unauthorized access to certain employee e-mail communications, some of which contained proprietary business and personally identifiable information. We have

implemented additional safeguards, and we do not believe that we experienced any material losses related to this incident; however, there can be no assurance that this or any other breach or incident will not have a material impact on our operations and financial results in the future. In addition, we may not be in a position to promptly address security breaches, unauthorized access or other cyber-attacks or incidents or to implement adequate preventative measures if we are unable to immediately detect such incidents. Our failure to successfully prevent, mitigate or timely respond to such incidents could impair our ability to conduct business and damage our reputation.

We are also subject to laws in multiple jurisdictions relating to the privacy and protection of personal data, including the European Union's General Data Protection Regulation and the California Consumer Privacy Act. Noncompliance with these and other privacy laws or the compromise of information systems used by us or our service providers resulting in the loss, disclosure, misappropriation of or access to the personally identifiable information of our guests, prospective guests, employees or vendors could result in governmental investigation, civil liability or regulatory penalties under laws protecting the privacy of personal information, any or all of which could disrupt our operations and materially adversely affect our business. Additionally, any material failure by us or our service providers to maintain compliance with the Payment Card Industry security requirements or to rectify a data security issue may result in fines and restrictions on our ability to accept credit cards as a form of payment. The regulatory framework for data privacy and protection is uncertain for the foreseeable future, and it is possible that legal and regulatory obligations may continue to increase and may be interpreted and applied in a manner that is inconsistent or possibly conflicting from one jurisdiction to another.

In the event of a data security breach of our systems and/or third-party systems or a cyber-attack or other cyber incident, we may incur costs associated with the following: response, notification, forensics, regulatory investigations, public relations, consultants, credit identity monitoring, credit freezes, fraud alert, credit identity restoration, credit card cancellation, credit card reissuance or replacement, data restoration, regulatory fines and penalties, vendor fines and penalties, legal fees, damages and settlements. In addition, data security breaches, a cyber-attack or other cyber incident may cause business interruption, information technology disruption, disruptions as a result of regulatory investigation or litigation, digital asset loss related to corrupted or destroyed data, loss of company assets, damage to our reputation, damages to intangible property and other intangible damages, such as loss of consumer confidence, all of which could impair our operations and have an adverse impact on our financial results.

Changes in fuel prices and the type of fuel we are permitted to use and/or other cruise operating costs would impact the cost of our cruise ship operations and our hedging strategies may not protect us from increased costs related to fuel prices.

Fuel expense is a significant cost for our Company. Future increases in the cost of fuel globally or regulatory requirements which require us to use more expensive types of fuel would increase the cost of our cruise ship operations. For example, as of January 2020, the IMO's convention entitled Prevention of Pollution from Ships (MARPOL) set a global limit on fuel sulfur content of 0.5% (reduced from the previous 3.5% global limit). Various compliance methods, such as the use of low-sulfur fuels or exhaust gas cleaning systems that reduce an equivalent amount of sulfur emissions, may be utilized. We have elected to install exhaust gas cleaning systems on some ships in our fleet, which will allow us to continue to use high-sulfur fuel on those ships in certain areas. However, if exhaust gas cleaning systems are not widely used in the industry, low demand for high-sulfur fuel may increase the price for such fuel. Ships in our fleet that do not have exhaust gas cleaning systems, and in specified areas even ships with exhaust gas cleaning systems, will be required to use low-sulfur fuels. Low-sulfur fuels may be costly due to increased demand and scarcity if suppliers are not able to produce sufficient quantities. In addition, we could experience increases in other cruise operating costs due to market forces and economic or political instability resulting from increases or volatility in fuel expense. Our hedging program may not be successful in mitigating higher fuel costs, and any price protection provided may be limited due to market conditions, including choice of hedging instruments, breakdown of correlation between hedging instrument and market price of fuel and failure of hedge counterparties. To the extent that we use hedge contracts that have the potential to create an obligation to pay upon settlement if fuel prices decline significantly, such hedge contracts may limit our ability to benefit fully from lower fuel costs in the future. There can be no assurance that our hedging arrangements will be cost-effective or that our counterparties will be able to perform under our hedging arrangements. Additionally, deterioration in our financial condition could negatively affect our ability to enter into new hedge contracts in the future.

Mechanical malfunctions and repairs, delays in our shipbuilding program, maintenance and refurbishments and the consolidation of qualified shipyard facilities could adversely affect our results of operations and financial condition.

The new construction, refurbishment, repair and maintenance of our ships are complex processes and involve risks similar to those encountered in other large and sophisticated equipment construction, refurbishment and repair projects. Our ships are subject to the risk of mechanical failure or accident, which we have occasionally experienced and have had to repair. For example, in the past we have had to delay or cancel cruises due to mechanical issues on our ships. There can be no assurance that we will not experience similar events in the future. If there is a mechanical failure or accident in the future, we may be unable to procure spare parts when needed or make repairs without incurring material expense or suspension of service, especially if a problem affects certain specialized maritime equipment, such as the radar, a pod propulsion unit, the electrical/power management system, the steering gear or the gyro system.

In addition, availability, work stoppages, insolvency or financial problems in the shipyards' construction, refurbishment or repair of our ships, or other "force majeure" events that are beyond our control and the control of shipyards or subcontractors, could also delay or prevent the newbuild delivery, refurbishment and repair and maintenance of our ships. Any termination or breach of contract following such an event may result in, among other things, the forfeiture of prior deposits or payments made by us, potential claims and impairment of losses. A significant delay in the delivery of a new ship, or a significant performance deficiency or mechanical failure of a new ship could also have an adverse effect on our business. The consolidation of the control of certain European cruise shipyards could result in higher prices for the construction of new ships and refurbishments and could limit the availability of qualified shipyards to construct new ships. Also, the lack of qualified shipyard repair facilities could result in the inability to repair and maintain our ships on a timely basis. These potential events and the associated losses, to the extent that they are not adequately covered by contractual remedies or insurance, could adversely affect our results of operations and financial condition.

Conducting business internationally may result in increased costs and risks.

We operate our business internationally and plan to continue to develop our international presence. Operating internationally exposes us to a number of risks, including political risks, risks of increases in duties and taxes, risks relating to anti-bribery laws, as well as risks that laws and policies affecting cruising, vacation or maritime businesses, or governing the operations of foreign-based companies may change. Additional risks include imposition of trade barriers, withholding and other taxes on remittances and other payments by subsidiaries and changes in and application of foreign taxation structures, including value added taxes. If we are unable to address these risks adequately, our business, financial condition and results of operations could be materially and adversely affected.

Operating internationally also exposes us to numerous and sometimes conflicting legal and regulatory requirements. In many parts of the world, including countries in which we operate, practices in the local business communities might not conform to international business standards. We have implemented safeguards and policies to prevent violations of various anti-corruption laws that prohibit improper payments or offers of payments to foreign governments and their officials for the purpose of obtaining or retaining business by our employees and agents. However, our existing safeguards and policies and any future improvements may prove to be less than effective and our employees or agents may engage in conduct prohibited by our policies, but for which we nevertheless may be held responsible. If our employees or agents violate our policies, if we fail to maintain adequate record-keeping and internal accounting practices to accurately record our transactions or if we fail to implement or maintain other adequate safeguards, we may be subject to regulatory sanctions or severe criminal or civil sanctions and penalties.

We have operations in and source passengers from the U.K. and member countries of the European Union. Effective as of January 31, 2020, the U.K. withdrew from the European Union, commonly referred to as "Brexit." During a transition period (set to expire on December 31, 2020), it will remain in the single market and be subject to the European Union's rules and regulations while the British government continues to negotiate the terms of the U.K.'s future relationship with the European Union. The outcome of these negotiations is uncertain, and we do not know to what extent Brexit will ultimately impact the business environment in the U.K., the rest of the European Union, or other countries. The withdrawal could also adversely affect tax, legal and regulatory regimes to which our business in the region is subject and disrupt the free movement of goods, services and people between the U.K. and the European

Union, which could make it more difficult to source passengers from these regions. These events could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in foreign currency exchange rates could adversely affect our financial results.

We earn revenues, pay expenses, purchase and own assets and incur liabilities in currencies other than the U.S. dollar; most significantly a portion of our revenue and expenses are denominated in foreign currencies, particularly British pound, Canadian dollar, euro and Australian dollar. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenues and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. The strengthening of the U.S. dollar against our other major currencies may adversely affect our U.S. dollar financial results and will reduce the U.S. dollar amount received upon conversion of these currencies into U.S. dollars.

We have historically and may in the future enter into ship construction contracts denominated in euros or other foreign currencies. While we have entered into foreign currency derivatives to manage a portion of the currency risk associated with such contracts, we are exposed to fluctuations in the euro exchange rate for the portions of the ship construction contracts that have not been hedged. Additionally, if the shipyard is unable to perform under the related ship construction contract, any foreign currency hedges that were entered into to manage the currency risk would need to be terminated.

Unavailability of ports of call may materially adversely affect our business, financial condition and results of operations.

We believe that attractive port destinations are a major reason why guests choose to go on a particular cruise or on a cruise vacation. The availability of ports, including the specific port facility at which our guests will embark and disembark, is affected by a number of factors, including, but not limited to, existing capacity constraints, security, safety, health and environmental concerns, adverse weather conditions and natural disasters such as hurricanes, floods, typhoons and earthquakes, financial limitations on port development, political instability, exclusivity arrangements that ports may have with our competitors, local governmental regulations and fees, local community concerns about port development and other adverse impacts on their communities from additional tourists and sanctions programs implemented by the Office of Foreign Assets Control of the United States Treasury Department or other regulatory bodies. For example, we had to temporarily change certain itineraries in the Caribbean due to damage some ports sustained during an active hurricane season in 2017. There can be no assurance that our ports of call will not be similarly affected in the future. Additionally, in June 2019, the Office of Foreign Assets Control of the United States Department of the Treasury removed the authorization for group people-to-people educational travel by U.S. persons to Cuba. Concurrently, the United States Department of Commerce's Bureau of Industry and Security removed the authorization to travel for most non-commercial aircraft and all passenger and recreational vessels, including cruise ships, on temporary sojourn in Cuba. Combined, these rulings effectively eliminated the ability of cruise lines to offer cruise travel to Cuba. Due to environmental and over-crowding concerns, some local governments have begun to take measures to limit the number of cruise ships and passengers allowed at certain destinations. For example, Dubrovnik, Venice and Barcelona have either implemented or considered implementing such limitations on cruise ships and passengers. Limitations on the availability of ports of call or on the availability of shore excursions and other service providers at such ports have adversely affected our business, financial condition and results of operations in the past and could do so in the future.

Overcapacity in key markets or globally could adversely affect our operating results.

We continue to expand our fleet through our newbuild program and expect to add nine additional ships to our fleet through 2027. Our competitors have also announced similar expansions to their fleets. These increases in capacity in the cruise industry globally and potential overcapacity in certain key markets may cause us to lower pricing, which would reduce profitability and adversely affect our results of operations. Additionally, older ships in our fleet may not be as competitive as new ships enter the market and we may not be able to sell such older ships at optimal prices.

Our expansion into and investments in new markets may not be successful.

We believe there remains significant opportunity to expand our passenger sourcing into major markets, such as Europe and Australia, as well as into emerging markets and to expand our itineraries in new markets, and we are in the process of such expansion efforts. Expansion into new markets requires significant levels of investment and attention from management. There can be no assurance that these markets will develop as anticipated or that we will have success in these markets, and if we do not, we may be unable to recover our investment spent to expand our business into these markets and may forgo opportunities in more lucrative markets, which could adversely impact our business, financial condition and results of operations.

Our inability to obtain adequate insurance coverage may adversely affect our business, financial condition and results of operations.

There can be no assurance that our risks are fully insured against or that any particular claim will be fully paid by our insurance. Such losses, to the extent they are not adequately covered by contractual remedies or insurance, could affect our financial results. In addition, we have been and continue to be subject to calls, or premiums, in amounts based not only on our own claim records, but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity coverage for tort liability. Our payment of these calls and increased premiums could result in significant expenses to us. If we, or other members of our protection and indemnity associations, were to sustain significant losses in the future, our ability to obtain insurance coverage at commercially reasonable rates or at all could be materially adversely affected. For example, in the past our protection and indemnity associations have increased certain deductibles and determined not to cover certain categories of claims. Moreover, irrespective of the occurrence of such events, there can still be no assurance that we will be able to obtain adequate insurance coverage at commercially reasonable rates or at all.

Our indebtedness, and the agreements governing our indebtedness, may limit our flexibility in operating our business and a significant portion of our assets, including many of our ships, are collateral under our debt agreements.

A substantial portion of our cash flow from operations is dedicated to the repayment of our indebtedness, which may limit our available funds for other business functions and strategic opportunities and may make us more vulnerable to downturns in our business, the economy and the industry in which we operate. We may not be able to generate sufficient cash to service our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, including refinancing our indebtedness, which may not be successful. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

In addition, the agreements governing our indebtedness contain, and any instruments governing future indebtedness of ours may contain, covenants that impose significant operating and financial restrictions on us, including restrictions or prohibitions on our ability to, among other things: incur or guarantee additional debt or issue certain preference shares; pay dividends on or make distributions in respect of our share capital or make other restricted payments, including the ability of NCLH's subsidiaries, including NCLC, to pay dividends or make distributions to NCLH; repurchase or redeem capital stock or subordinated indebtedness; make certain investments or acquisitions; transfer, sell or create liens on certain assets; and consolidate or merge with, or sell or otherwise dispose of all or substantially all of our assets to other companies. As a result of these covenants, we are limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs.

Our existing debt agreements also require us, and any instruments governing future indebtedness of ours may require us, to maintain minimum level of liquidity, as well as limit our net funded debt-to-capital ratio and maintain certain other financial ratios. Our ability to meet those financial ratios can be affected by events beyond our control, and there can be no assurance that we will meet those ratios. A failure to comply with the covenants contained in our debt agreements could result in an event of default under such agreements, which, if not cured or waived, could have a material adverse

effect on our business, financial condition and results of operations. In the event of any default under our debt agreements, the holders of our indebtedness thereunder:

- could elect to declare all indebtedness outstanding, together with accrued and unpaid interest and fees, to be due and payable and terminate all commitments to extend further credit, if applicable; and/or
- could require us to apply all of our available cash to repay such indebtedness.

Such actions by the holders of our indebtedness could cause cross defaults under our other indebtedness, and there is no assurance that we would have sufficient current assets to repay such indebtedness in full. If we were unable to repay those amounts, the holders of our secured indebtedness could proceed against the collateral granted to them to secure that indebtedness, which includes a significant portion of our assets including many of our ships. Any such action would have an adverse impact on our business, financial condition and results of operations.

Litigation, enforcement actions, fines or penalties could adversely impact our financial condition or results of operations and damage our reputation.

Our business is subject to various U.S. and international laws and regulations that could lead to enforcement actions, fines, civil or criminal penalties or the assertion of litigation claims and damages. In addition, improper conduct by our employees or agents could damage our reputation and/or lead to litigation or legal proceedings that could result in civil or criminal penalties, including substantial monetary fines. In certain circumstances, it may not be economical to defend against such matters, and a legal strategy may not ultimately result in us prevailing in a matter. Such events could lead to an adverse impact on our financial condition or results of operations.

As a result of any ship-related or other incidents, litigation claims, enforcement actions and regulatory actions and investigations, including, but not limited to, those arising from personal injury, loss of life, loss of or damage to personal property, business interruption losses or environmental damage to any affected coastal waters and the surrounding area, may be asserted or brought against various parties, including us and/or our cruise brands. The time and attention of our management may also be diverted in defending such claims, actions and investigations. Subject to applicable insurance coverage, we may also incur costs both in defending against any claims, actions and investigations and for any judgments, fines, civil or criminal penalties if such claims, actions or investigations are adversely determined.

The U.S. Government announced that, effective May 2, 2019, it will no longer suspend the right of private parties to bring litigation under Title III of the Cuban Liberty and Solidarity (Libertad) Act of 1996, popularly known as the Helms-Burton Act, allowing certain individuals whose property was confiscated by the Cuban government beginning in 1959 to sue anyone who "traffics" in the property in question in U.S. courts. Claims have now been brought against us and other companies who have done business in Cuba. If these suits are successful, they could result in substantial monetary damages against the Company.

The impact of volatility and disruptions in the global credit and financial markets may adversely affect our ability to borrow and could increase our counterparty credit risks, including those under our credit facilities, derivatives, contingent obligations, insurance contracts and new ship progress payment guarantees.

There can be no assurance that we will be able to borrow additional money on terms as favorable as our current debt, on commercially acceptable terms, or at all. Economic downturns, including failures of financial institutions and any related liquidity crisis, can disrupt the capital and credit markets. Such disruptions could cause counterparties under our credit facilities, derivatives, contingent obligations, insurance contracts and new ship progress payment guarantees to be unable to perform their obligations or to breach their obligations to us under our contracts with them, which could include failures of financial institutions to fund required borrowings under our loan agreements and to pay us amounts that may become due under our derivative contracts and other agreements. Also, we may be limited in obtaining funds to pay amounts due to our counterparties under our derivative contracts and to pay amounts that may become due under other agreements. If we were to elect to replace any counterparty for their failure to perform their obligations under such instruments, we would likely incur significant costs to replace the counterparty. Any failure to replace any counterparties under these circumstances may result in additional costs to us or an ineffective instrument.

Certain of our debt agreements use LIBOR as a reference rate for interest rate calculations. In July 2017, the U.K.'s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. The U.S. Federal Reserve has begun publishing a Secured Overnight Funding Rate, which is intended to replace U.S. dollar LIBOR. Plans for alternative reference rates for other currencies have also been announced. At this time, we cannot predict how markets will respond to these proposed alternative rates or the effect of any changes to LIBOR or the discontinuation of LIBOR. If LIBOR is no longer available or if our lenders have increased costs due to changes in LIBOR, we may experience potential increases in interest rates on our variable rate debt, which could adversely impact our results of operations. In addition, some of our debt agreements which use LIBOR as a reference rate do not contain fallback reference rates. If LIBOR is discontinued, we may incur additional costs related to contract renegotiation for such agreements.

Our inability to recruit or retain qualified personnel or the loss of key personnel or employee relations issues may materially adversely affect our business, financial condition and results of operations.

Our success is dependent upon our personnel and our ability to recruit and retain high quality employees. We must continue to recruit, retain and motivate management and other employees in order to maintain our current business and support our projected growth. We need to hire and train a considerable number of qualified crew members to staff the ships that will be joining our fleet in the coming years. This may require significant efforts on the part of our management team, and our inability to hire a sufficient number of qualified crew members would adversely affect our business.

Our executive officers and other members of senior management have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected loss of services of one or more of these individuals could materially adversely affect us.

Currently, we are a party to collective bargaining agreements with certain crew members. Any future amendments to such collective bargaining agreements or inability to satisfactorily renegotiate such agreements may increase our labor costs and have a negative impact on our financial condition. In addition, although our collective bargaining agreements have a no-strike provision, they may not prevent a disruption in work on our ships in the future. Any such disruptions in work could have a material adverse effect on our financial results.

We rely on third parties to provide hotel management services for certain ships and certain other services, and we are exposed to risks facing such providers. In certain circumstances, we may not be able to replace such third parties or we may be forced to replace them at an increased cost to us.

We rely on external third parties to provide hotel management services for certain ships and certain other services that are vital to our business. If these service providers suffer financial hardship or are otherwise unable to continue providing such services, we cannot guarantee that we will be able to replace such service providers in a timely manner, which may cause an interruption in our operations. To the extent that we are able to replace such service providers, we may be forced to pay an increased cost for equivalent services. Both the interruption of operations and the replacement of the third-party service providers at an increased cost could adversely impact our financial condition and results of operations.

We rely on scheduled commercial airline services for passenger and crew connections. Increases in the price of, or major changes or reduction in, commercial airline services could undermine our customer base or disrupt our operations.

A number of our passengers and crew depend on scheduled commercial airline services to transport them to ports of embarkation for our cruises. Increases in the price of airfare due to increases in fuel prices, fuel surcharges, changes in commercial airline services as a result of strikes, weather or other events, or the lack of availability due to schedule changes or a high level of airline bookings could adversely affect our ability to deliver guests and crew to or from our ships and thereby increase our cruise operating expenses which would, in turn, have an adverse effect on our financial condition and results of operations.

A failure to keep pace with developments in technology could impair our operations or competitive position.

Our business continues to demand the use of sophisticated systems and technology. These systems and technologies must be refined, updated and replaced with more advanced systems on a regular basis in order for us to meet our customers' demands and expectations. If we are unable to do so on a timely basis or within reasonable cost parameters, or if we are unable to appropriately and timely train our employees to operate any of these new systems, our business could suffer. We also may not achieve the benefits that we anticipate from any new system or technology, such as fuel abatement technologies, and a failure to do so could result in higher than anticipated costs or could impair our operating results.

Risks Related to the Regulatory Environment in Which We Operate

Future changes in applicable tax laws, or our inability to take advantage of favorable tax regimes, could increase the amount of taxes we must pay.

We believe and have taken the position that our income that is considered to be derived from the international operation of ships as well as certain income that is considered to be incidental to such income ("shipping income"), is exempt from U.S. federal income taxes under Section 883, based upon certain assumptions as to shareholdings and other information as more fully described in "Item 1—Business—Taxation." The provisions of Section 883 are subject to change at any time, possibly with retroactive effect.

We believe and have taken the position that substantially all of our income derived from the international operation of ships is properly categorized as shipping income and that we do not have a material amount of non-qualifying income. It is possible, however, that a much larger percentage of our income does not qualify (or will not qualify) as shipping income. Moreover, the exemption for shipping income is only available for years in which NCLH will satisfy complex stock ownership tests or the publicly traded test under Section 883 as described in "Item 1—Business—Taxation—Exemption of International Shipping Income under Section 883 of the Code." There are factual circumstances beyond our control, including changes in the direct and indirect owners of NCLH's ordinary shares, which could cause us or our subsidiaries to lose the benefit of this tax exemption. Finally, any changes in our operations could significantly increase our exposure to either the Net Tax Regime or the 4% Regime (each as defined in "Item 1—Business—Taxation"), and we can give no assurances on this matter.

If we or any of our subsidiaries were not to qualify for the exemption under Section 883, our or such subsidiary's U.S.-source income would be subject to either the Net Tax Regime or the 4% Regime (each as defined in "Item 1—Business—Taxation"). As of the date of this filing, we believe that NCLH and its subsidiaries will satisfy the publicly traded test imposed under Section 883 and therefore believe that NCLH will qualify for the exemption under Section 883. However, as discussed above, there are factual circumstances beyond our control that could cause NCLH to not meet the stock ownership or publicly traded tests. Therefore, we can give no assurances on this matter. We refer you to "Item 1—Business—Taxation."

We may be subject to state, local and non-U.S. income or non-income taxes in various jurisdictions, including those in which we transact business, own property or reside. We may be required to file tax returns in some or all of those jurisdictions. Our state, local or non-U.S. tax treatment may not conform to the U.S. federal income tax treatment discussed above. We may be required to pay non-U.S. taxes on dispositions of foreign property or operations involving foreign property that may give rise to non-U.S. income or other tax liabilities in amounts that could be substantial.

The various tax regimes to which we are currently subject result in a relatively low effective tax rate on our worldwide income. These tax regimes, however, are subject to change, possibly with retroactive effect. For example, legislation has been proposed in the past that would eliminate the benefits of the exemption from U.S. federal income tax under Section 883 and subject all or a portion of our shipping income to taxation in the U.S. Moreover, we may become subject to new tax regimes and may be unable to take advantage of favorable tax provisions afforded by current or future law, including exemption of branch profits and dividend withholding taxes under the U.S. – U.K. Income Tax Treaty on income derived in respect of our U.S.-flagged operation.

The government of Bermuda recently enacted the Economic Substance Act 2018 which sets forth minimum economic substance requirements for entities established in Bermuda. The Company is currently analyzing these rules in anticipation of further guidance from Bermuda authorities on the application of the Economic Substance Act 2018. If the Company is unable to comply with such requirements, the Company may consider alternate jurisdictions or otherwise become subject to tax regimes which may be less favorable.

We are subject to complex laws and regulations, including environmental, health and safety, labor, data privacy and protection and maritime laws and regulations, which could adversely affect our operations and any changes in the current laws and regulations could lead to increased costs or decreased revenue.

Increasingly stringent and complex international, federal, state, and local laws and regulations addressing environmental protection and health and safety of workers could affect our operations. The IMO, a United Nations agency with responsibility for the safety and security of shipping and the prevention of marine pollution by ships, the Council of the European Union, individual countries, the United States, and individual states have implemented and are considering, new laws and rules to manage cruise ship operations. Many aspects of the cruise industry are subject to international treaties such as SOLAS, an international safety regulation, MARPOL, IMO's requirements governing environmental protection, and STCW, an IMO regulation governing ship manning. In the United States, the Environmental Protection Agency and the U.S. Coast Guard both have regulations addressing cruise ship operations.

The U.S. and various state and foreign government and regulatory agencies have enacted or are considering new environmental regulations and policies aimed at reducing the threat of invasive species in ballast water, requiring the use of low-sulfur fuels, increasing fuel efficiency requirements and further restricting emissions, including those of greenhouse gases, and improving sewage and greywater-handling capabilities. Compliance with such laws and regulations may entail significant expenses for ship modification and changes in operating procedures which could adversely impact our operations as well as our competitors' operations.

The International Labor Organization's Maritime Labor Convention, 2006 regulates many aspects of maritime crew labor and impacts the worldwide sourcing of new crew members. MARPOL regulations have established special Emission Control Areas ("ECAs") with stringent limitations on sulfur and nitrogen oxide emissions from fuel burning aboard ships. Ships operating in designated ECAs (which include the Baltic Sea, the North Sea/English Channel, and many of the waters within 200 nautical miles of the U.S. and Canadian coasts including the Hawaiian Islands and waters surrounding Puerto Rico and the U.S. Virgin Islands) are generally expected to meet the new sulfur oxide emissions limits through the use of low-sulfur fuels or installation of exhaust gas cleaning systems.

These issues are, and we believe will continue to be, areas of focus by the relevant authorities throughout the world. This could result in the enactment of more stringent regulation of cruise ships that would subject us to increasing compliance costs in the future. Some environmental groups continue to lobby for more extensive oversight of cruise ships and have generated negative publicity about the cruise industry and its environmental impact.

In the past, states have implemented taxes that impact the cruise industry. It is possible that other states, countries or ports of call that our ships regularly visit may also decide to assess new taxes or fees or change existing taxes or fees specifically applicable to the cruise industry and its employees and/or guests, which could increase our operating costs and/or could decrease the demand for cruises.

Existing and future legal and regulatory restrictions on our ability to collect and use data could also negatively affect our ability to market our business, result in increased compliance costs, and otherwise affect our business processes, all of which could have an adverse effect on our financial results.

Risks Related to NCLH's Ordinary Shares

Shareholders of NCLH may have greater difficulties in protecting their interests than shareholders of a U.S. corporation.

We are a Bermuda exempted company. The Companies Act 1981 of Bermuda (the "Companies Act"), which applies to NCLH, differs in material respects from laws generally applicable to U.S. corporations and their shareholders. Taken together with the provisions of NCLH's bye-laws, some of these differences may result in you having greater difficulties in protecting your interests as a shareholder of NCLH than you would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction with our Company, what approvals are required for business combinations by our Company with a large shareholder or a wholly-owned subsidiary, what rights you may have as a shareholder to enforce specified provisions of the Companies Act or NCLH's bye-laws, and the circumstances under which we may indemnify our directors and officers.

NCLH does not currently pay dividends on its ordinary shares.

NCLH does not currently pay dividends to its shareholders and NCLH's Board of Directors may never declare a dividend. Our existing debt agreements restrict, and any of our future debt arrangements may restrict, among other things, the ability of NCLH's subsidiaries, including NCLC, to pay distributions to NCLH and NCLH's ability to pay cash dividends to its shareholders. In addition, any determination to pay dividends in the future will be entirely at the discretion of NCLH's Board of Directors and will depend upon our results of operations, cash requirements, financial condition, business opportunities, contractual restrictions, restrictions imposed by applicable law and other factors that NCLH's Board of Directors deems relevant. We are not legally or contractually required to pay dividends. In addition, NCLH is a holding company and would depend upon its subsidiaries for their ability to pay distributions to NCLH to finance any dividend or pay any other obligations of NCLH. Investors seeking dividends should not purchase NCLH's ordinary shares.

Provisions in NCLH's constitutional documents may prevent or discourage takeovers and business combinations that NCLH's shareholders might consider to be in their best interests.

NCLH's bye-laws contain provisions that may delay, defer, prevent or render more difficult a takeover attempt that its shareholders consider to be in their best interests. As a result, these provisions may prevent NCLH's shareholders from receiving a premium to the market price of NCLH's shares offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of NCLH's shares if they are viewed as discouraging takeover attempts in the future. These provisions include:

- the ability of NCLH's Board of Directors to designate one or more series of preference shares and issue preference shares without shareholder approval;
- a classified board of directors;
- the sole power of a majority of NCLH's Board of Directors to fix the number of directors;
- the power of NCLH's Board of Directors to fill any vacancy on NCLH's Board of Directors in most circumstances, including when such vacancy occurs as a result of an increase in the number of directors or otherwise; and
- advance notice requirements for nominating directors or introducing other business to be conducted at shareholder meetings.

Additionally, NCLH's bye-laws contain provisions that prevent third parties from acquiring beneficial ownership of more than 4.9% of its outstanding shares without the consent of NCLH's Board of Directors and provide for the lapse of

rights, and sale, of any shares acquired in excess of that limit. The effect of these provisions may preclude third parties from seeking to acquire a controlling interest in NCLH in transactions that shareholders might consider to be in their best interests and may prevent them from receiving a premium above market price for their shares.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Information about our cruise ships may be found under “Item 1. Business—Our Fleet” and “Item. 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.”

NCLH’s principal executive offices are located in Miami, Florida where we lease approximately 335,900 square feet of facilities.

We lease a number of domestic and international offices throughout Europe, Asia, South America and Australia to administer our brand operations globally. Norwegian owns a private island in the Bahamas, Great Stirrup Cay, which we utilize as a port-of-call on some of our itineraries. We operate a cruise destination in Belize, Harvest Caye.

We believe that our facilities are adequate for our current needs, and that we are capable of obtaining additional facilities as necessary.

Item 3. Legal Proceedings

Booksafe Travel Protection Plan

As previously disclosed in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2019, June 30, 2019, and September 30, 2019, on September 21, 2018, a proposed class-action lawsuit was filed by Marta and Jerry Phillips and others against NCL Corporation Ltd. in the United States District Court for the Southern District of Florida relating to the marketing and sales of our Booksafe Travel Protection Plan. The plaintiffs purport to represent an alleged class of passengers who purchased Booksafe Travel Protection Plans. The complaint alleged that the Company concealed that it received proceeds on the sale of the travel insurance portion of the plan. The complaint sought an unspecified amount of damages, fees and costs. The Company moved to invoke the arbitration clause of the ticket contract to move the case out of Federal Court. On May 29, 2019, the Court granted the motion and compelled the plaintiffs to submit their claims to arbitration on an individual basis, dismissing the claims before the Court with prejudice. The plaintiffs filed an appeal on October 28, 2019. We believe we have meritorious defenses to the claim and that any liability which may arise as a result of this action will not have a material impact on our consolidated financial statements.

Helms-Burton Act

On August 27, 2019, two lawsuits were filed against Norwegian Cruise Line Holdings Ltd. in the United States District Court for the Southern District of Florida under Title III of the Cuban Liberty and Solidarity (Libertad) Act of 1996, also known as the Helms-Burton Act. The complaint filed by Havana Docks Corporation alleges it holds an interest in the Havana Cruise Port Terminal and the complaint filed by Javier Garcia-Bengochea alleges that he holds an interest in the Port of Santiago, Cuba, both of which were expropriated by the Cuban Government. The complaints further allege that the Company “trafficked” in those properties by embarking and disembarking passengers at these facilities. The plaintiffs seek all available statutory remedies, including the value of the expropriated property, plus interest, treble damages, attorneys’ fees and costs. On January 7, 2020, the United States District Court for the Southern District of Florida dismissed the claim by Havana Docks Corporation. We believe that the plaintiff plans to appeal the order. We believe we have meritorious defenses to the claims and intend to vigorously defend these matters.

Other

In the normal course of our business, various claims and lawsuits have been filed or are pending against us. Most of these claims and lawsuits are covered by insurance and, accordingly, the maximum amount of our liability is typically limited to our deductible amount.

Nonetheless, the ultimate outcome of these claims and lawsuits that are not covered by insurance cannot be determined at this time. We have evaluated our overall exposure with respect to all of our threatened and pending litigation and, to the extent required, we have accrued amounts for all estimable probable losses associated with our deemed exposure. We are currently unable to estimate any other potential contingent losses beyond those accrued, as discovery is not complete nor is adequate information available to estimate such range of loss or potential recovery. However, based on our current knowledge, we do not believe that the aggregate amount or range of reasonably possible losses with respect to these matters will be material to our consolidated results of operations, financial condition or cash flows. We intend to vigorously defend our legal position on all claims and, to the extent necessary, seek recovery.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Since December 19, 2017, NCLH's ordinary shares have been listed on the NYSE under the symbol "NCLH." Prior to December 19, 2017, NCLH's ordinary shares were listed on the Nasdaq Stock Market LLC (Nasdaq Global Select Market) under the symbol "NCLH."

Holders

As of February 14, 2020, there were 248 record holders of NCLH's ordinary shares. Since certain of NCLH's ordinary shares are held by brokers and other institutions on behalf of shareholders, the foregoing number is not representative of the number of beneficial owners.

Dividends

NCLH does not currently pay dividends to its shareholders. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, financial condition, restrictions imposed by applicable law and our financing agreements and other factors that our Board of Directors deems relevant.

Purchases of Equity Securities by the Issuer

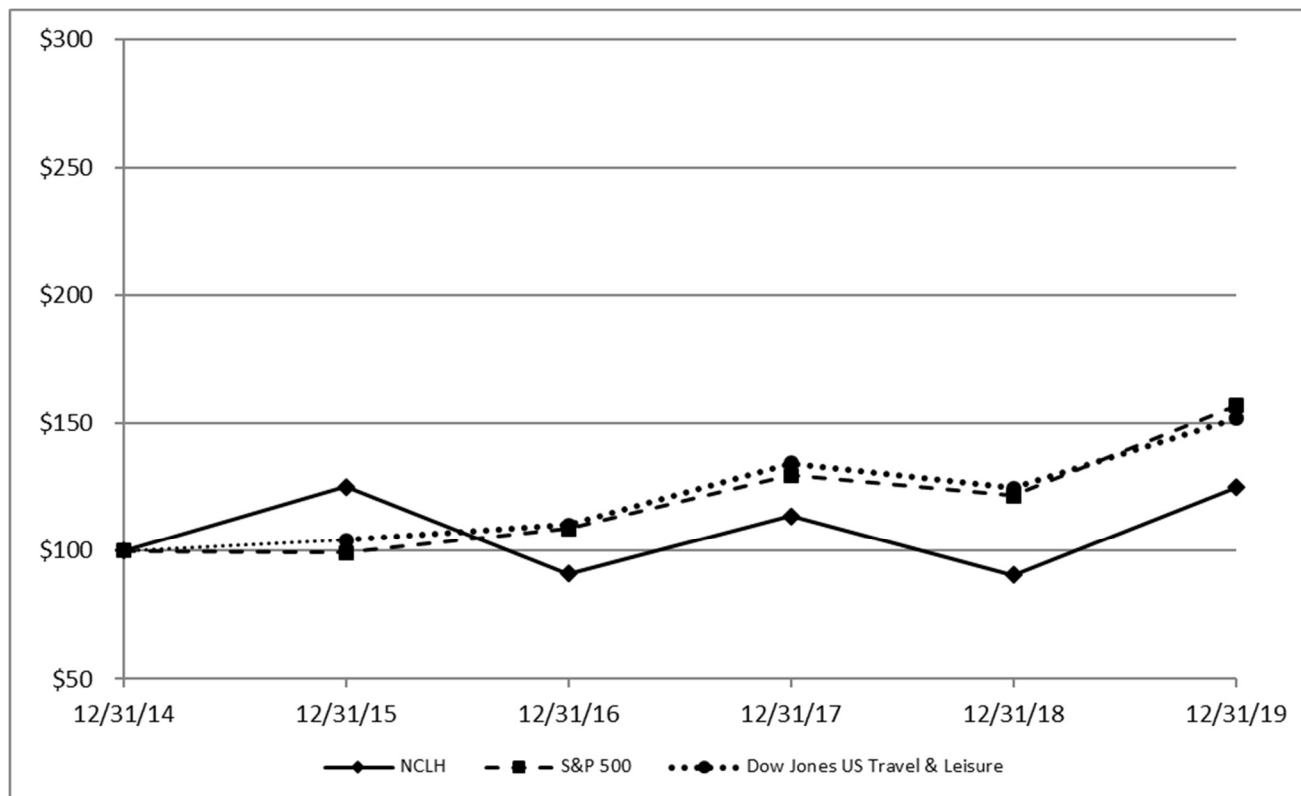
On April 17, 2018, the Board of Directors of NCLH approved a three-year share repurchase program under which NCLH may purchase up to \$1.0 billion of its ordinary shares (the "Repurchase Program"). Pursuant to the Repurchase Program, NCLH may repurchase its ordinary shares from time to time, in amounts, at prices and at such times as it deems appropriate, subject to market conditions and other considerations. Repurchases under the Repurchase Program may take place in the open market or in privately negotiated transactions, including structured and derivative transactions such as accelerated share repurchase transactions and may be made under a Rule 10b5-1 plan. There was no share repurchase activity during the three months ended December 31, 2019 and approximately \$248.8 million remained available under the Repurchase Program.

Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of NCLH under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph shows a comparison of the cumulative total return for our ordinary shares, the Standard & Poor's 500 Composite Stock Index and the Dow Jones United States Travel and Leisure index. The Stock Performance Graph assumes that \$100 was invested at the closing price of our ordinary shares on the Nasdaq and in each index on the last

trading day of fiscal 2014. Past performance is not necessarily an indicator of future results. The stock prices used were as of the close of business on the respective dates.



Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with the consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this annual report.

The consolidated financial statements as of December 31, 2019 include the impact of a change in accounting policy related the adoption of Accounting Standards Codification 842 – *Leases* on January 1, 2019. See Note 5, *Leases*, to the Notes to the Consolidated Financial Statements included herein for additional information about these changes in accounting policy.

As of or for the Year Ended December 31,

(in thousands, except share data, per share data and operating data)	2019	2018	2017	2016	2015
Statement of operations data:					
Total revenue	\$ 6,462,376	\$ 6,055,126	\$ 5,396,175	\$ 4,874,340	\$ 4,345,048
Operating income	\$ 1,178,077	\$ 1,219,061	\$ 1,048,819	\$ 925,464	\$ 702,486
Net income	\$ 930,228	\$ 954,843	\$ 759,872	\$ 633,085	\$ 427,137
EPS:					
Basic	\$ 4.33	\$ 4.28	\$ 3.33	\$ 2.79	\$ 1.89
Diluted	\$ 4.30	\$ 4.25	\$ 3.31	\$ 2.78	\$ 1.86
Weighted-average shares outstanding:					
Basic	214,929,977	223,001,739	228,040,825	227,121,875	226,591,437
Diluted	216,475,076	224,419,205	229,418,326	227,850,286	230,040,132
Balance sheet data:					
Total assets	\$ 16,684,599	\$ 15,205,970	\$ 14,094,869	\$ 12,973,911	\$ 12,264,757
Property and equipment, net	\$ 13,135,337	\$ 12,119,253	\$ 11,040,488	\$ 10,117,689	\$ 9,458,805
Long-term debt, including current portion	\$ 6,801,693	\$ 6,492,091	\$ 6,307,765	\$ 6,398,687	\$ 6,397,537
Total shareholders' equity	\$ 6,515,579	\$ 5,963,001	\$ 5,749,766	\$ 4,537,726	\$ 3,780,880
Operating data:					
Passengers carried	2,695,718	2,795,101	2,519,324	2,337,311	2,164,404
Passenger Cruise Days	20,637,949	20,276,568	18,523,030	17,588,707	16,027,743
Capacity Days	19,233,459	18,841,678	17,363,422	16,376,063	14,700,990
Occupancy Percentage	107.3 %	107.6 %	106.7 %	107.4 %	109.0 %

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Financial Presentation

The following discussion and analysis contains forward-looking statements within the meaning of the federal securities laws, and should be read in conjunction with the disclosures we make concerning risks and other factors that may affect our business and operating results. You should read this information in conjunction with the consolidated financial statements and the notes thereto included in this annual report. See also “Cautionary Statement Concerning Forward-Looking Statements” immediately prior to Part I, Item 1 in this annual report.

We categorize revenue from our cruise and cruise-related activities as either “passenger ticket” revenue or “onboard and other” revenue. Passenger ticket revenue and onboard and other revenue vary according to product offering, the size of the ship in operation, the length of cruises operated and the markets in which the ship operates. Our revenue is seasonal based on demand for cruises, which has historically been strongest during the Northern Hemisphere’s summer months. Passenger ticket revenue primarily consists of revenue for accommodations, meals in certain restaurants on the ship, certain onboard entertainment, port fees and taxes and includes revenue for service charges and air and land transportation to and from the ship to the extent guests purchase these items from us. Onboard and other revenue primarily consists of revenue from casino, beverage sales, shore excursions, specialty dining, retail sales, spa services and photo services. Our onboard revenue is derived from onboard activities we perform directly or that are performed by independent concessionaires, from which we receive a share of their revenue.

Our cruise operating expense is classified as follows:

- Commissions, transportation and other primarily consists of direct costs associated with passenger ticket revenue. These costs include travel advisor commissions, air and land transportation expenses, related credit card fees, certain port fees and taxes and the costs associated with shore excursions and hotel accommodations included as part of the overall cruise purchase price.
- Onboard and other primarily consists of direct costs incurred in connection with onboard and other revenue, including casino, beverage sales and shore excursions.
- Payroll and related consists of the cost of wages and benefits for shipboard employees and costs of certain inventory items, including food, for a third party that provides crew and other hotel services for certain ships.
- Fuel includes fuel costs, the impact of certain fuel hedges and fuel delivery costs.
- Food consists of food costs for passengers and crew on certain ships.
- Other consists of repairs and maintenance (including Dry-dock costs), ship insurance and other ship expenses.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of revenue and expenses during the periods presented. We rely on historical experience and on various other assumptions that we believe to be reasonable under the circumstances to make these estimates and judgments. Actual results could differ materially from these estimates. We believe that the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of our consolidated financial statements. These critical accounting policies, which are presented in detail in our notes to our audited consolidated financial statements, relate to ship accounting and asset impairment.

Ship Accounting

Ships represent our most significant assets, and we record them at cost less accumulated depreciation. Depreciation of ships is computed on a straight-line basis over the weighted average useful lives of primarily 30 years after a 15% reduction for the estimated residual value of the ship. Ship improvement costs that we believe add value to our ships are capitalized to the ship and depreciated over the shorter of the improvements' estimated useful lives or the remaining useful life of the ship. When we record the retirement of a ship component included within the ship's cost basis, we estimate the net book value of the component being retired and remove it from the ship's cost basis. Repairs and maintenance activities are charged to expense as incurred. We account for Dry-dock costs under the direct expense method which requires us to expense all Dry-dock costs as incurred.

We determine the weighted average useful lives of our ships based primarily on our estimates of the useful lives of the ships' major component systems on the date of acquisition, such as cabins, main diesels, main electric, superstructure and hull. The useful lives of ship improvements are estimated based on the economic lives of the new components. In addition, to determine the useful lives of the ship or ship components, we consider the impact of the historical useful lives of similar assets, manufacturer recommended lives and anticipated changes in technological conditions. Given the large and complex nature of our ships, our accounting estimates related to ships and determinations of ship improvement costs to be capitalized require judgment and are uncertain. Should certain factors or circumstances cause us to revise our estimate of ship service lives or projected residual values, depreciation expense could be materially lower or higher. If circumstances cause us to change our assumptions in making determinations as to whether ship improvements should be capitalized, the amounts we expense each year as repairs and maintenance costs could increase, partially offset by a decrease in depreciation expense. If we reduced our estimated weighted average 30-year ship service life by one year, depreciation expense for the year ended December 31, 2019 would have increased by \$12.9 million. In addition, if our ships were estimated to have no residual value, depreciation expense for the same period would have increased by \$66.4 million. We believe our estimates for ship accounting are reasonable and our methods are consistently applied. We believe that depreciation expense is based on a rational and systematic method to allocate our ships' costs to the periods that benefit from the ships' usage.

Asset Impairment

We review our long-lived assets, principally ships, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. We consider historical performance and future estimated results in our evaluation of potential impairment and then compare the carrying amount of the asset to the estimated future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds the estimated expected undiscounted future cash flows, we measure the amount of the impairment by comparing the carrying amount of the asset to its fair value. We estimate fair value based on the best information available utilizing estimates, judgments and projections as necessary. Our estimate of fair value is generally measured by discounting expected future cash flows at discount rates commensurate with the associated risk.

We evaluate goodwill and tradenames for impairment annually or more frequently when an event occurs or circumstances change that indicates the carrying value of a reporting unit may not be recoverable. For our evaluation of goodwill we use the Step 0 Test which allows us to first assess qualitative factors to determine whether it is more likely than not (i.e., more than 50%) that the fair value of a reporting unit is less than its carrying value. For tradenames we also provide a qualitative assessment to determine if there is any indication of impairment.

In order to make this evaluation, we consider whether any of the following factors or conditions exist:

- Changes in general macroeconomic conditions such as a deterioration in general economic conditions; limitations on accessing capital; fluctuations in foreign exchange rates; or other developments in equity and credit markets;
- Changes in industry and market conditions such as a deterioration in the environment in which an entity operates; an increased competitive environment; a decline in market-dependent multiples or metrics (in both

absolute terms and relative to peers); a change in the market for an entity's products or services; or a regulatory or political development;

- Changes in cost factors that have a negative effect on earnings and cash flows;
- Decline in overall financial performance (for both actual and expected performance);
- Entity and reporting unit specific negative events such as changes in management, key personnel, strategy, or customers; litigation; or a change in the composition or carrying amount of net assets; and
- Decline in share price (in both absolute terms and relative to peers).

We also may conduct a quantitative assessment comparing the fair value of each reporting unit to its carrying value, including goodwill. This is called the Step I Test which consists of a combined approach using discounted future cash flows and market multiples to determine the fair value of the reporting units. The market approach considers revenue and EBITDA multiples from an appropriate peer group. Our discounted cash flow valuation reflects our principal assumptions of 1) forecasted future operating results and growth rates, 2) forecasted capital expenditures for fleet growth and ship improvements and 3) a weighted average cost of capital of market participants, adjusted for an optimal capital structure. We believe that the combined approach is the most representative method to assess fair value as it utilizes expectations of long-term growth as well as current market conditions. For the tradenames, we may also use a quantitative assessment, which utilizes the relief from royalty method and includes the same forecasts and discount rates from the discounted cash flow valuation in the goodwill assessment along with a tradename royalty rate assumption.

We have concluded that our business has three reporting units. Each brand, Oceania Cruises, Regent Seven Seas and Norwegian, constitutes a business for which discrete financial information is available and management regularly reviews the operating results and, therefore, each brand is considered an operating segment.

As of December 31, 2019, there was \$523.0 million, \$462.1 million and \$403.8 million of goodwill for the Oceania Cruises, Regent Seven Seas and Norwegian reporting units, respectively. For our 2019 annual goodwill impairment evaluation, we elected to perform quantitative tests for the each of the reporting units. Based on the results of the Step 1 Tests, we determined there was no impairment of goodwill because the fair value of the Regent Seven Seas and Norwegian reporting units substantially exceeded their carrying values. The fair value of the Oceania Cruises reporting unit exceeded the carrying value by 24%. However, a change in the conditions of any reporting unit may result in a decline in fair value in future periods. As of December 31, 2019, our tests supported the carrying values of these assets and we believe that we have made reasonable estimates and judgments.

Non-GAAP Financial Measures

We use certain non-GAAP financial measures, such as Net Revenue, Net Yield, Net Cruise Cost, Adjusted Net Cruise Cost Excluding Fuel, Adjusted EBITDA, Adjusted Net Income and Adjusted EPS, to enable us to analyze our performance. See "Terms Used in this Annual Report" for the definitions of these and other non-GAAP financial measures. We utilize Net Revenue and Net Yield to manage our business on a day-to-day basis and believe that they are the most relevant measures of our revenue performance because they reflect the revenue earned by us net of significant variable costs. In measuring our ability to control costs in a manner that positively impacts net income, we believe changes in Net Cruise Cost and Adjusted Net Cruise Cost Excluding Fuel to be the most relevant indicators of our performance.

As our business includes the sourcing of passengers and deployment of vessels outside of the U.S., a portion of our revenue and expenses are denominated in foreign currencies, particularly British pound, Canadian dollar, euro and Australian dollar which are subject to fluctuations in currency exchange rates versus our reporting currency, the U.S. dollar. In order to monitor results excluding these fluctuations, we calculate certain non-GAAP measures on a Constant Currency basis, whereby current period revenue and expenses denominated in foreign currencies are converted to U.S. dollars using currency exchange rates of the comparable period. We believe that presenting these non-GAAP measures

on both a reported and Constant Currency basis is useful in providing a more comprehensive view of trends in our business.

We believe that Adjusted EBITDA is appropriate as a supplemental financial measure as it is used by management to assess operating performance. We also believe that Adjusted EBITDA is a useful measure in determining our performance as it reflects certain operating drivers of our business, such as sales growth, operating costs, marketing, general and administrative expense and other operating income and expense. Adjusted EBITDA is not a defined term under GAAP nor is it intended to be a measure of liquidity or cash flows from operations or a measure comparable to net income, as it does not take into account certain requirements such as capital expenditures and related depreciation, principal and interest payments and tax payments and it includes other supplemental adjustments.

In addition, Adjusted Net Income and Adjusted EPS are non-GAAP financial measures that exclude certain amounts and are used to supplement GAAP net income and EPS. We use Adjusted Net Income and Adjusted EPS as key performance measures of our earnings performance. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate management's internal comparison to our historical performance. In addition, management uses Adjusted EPS as a performance measure for our incentive compensation. The amounts excluded in the presentation of these non-GAAP financial measures may vary from period to period; accordingly, our presentation of Adjusted Net Income and Adjusted EPS may not be indicative of future adjustments or results. For example, for the year ended December 31, 2018, we incurred Secondary Equity Offering expenses of \$0.9 million. Similar expenses were not incurred in the year ended December 31, 2019. We included this as an adjustment in the reconciliation of Adjusted Net Income since these expenses were not representative of our day-to-day operations and we have included similar non-representative adjustments in prior periods.

You are encouraged to evaluate each adjustment used in calculating our non-GAAP financial measures and the reasons we consider our non-GAAP financial measures appropriate for supplemental analysis. In evaluating our non-GAAP financial measures, you should be aware that in the future we may incur expenses similar to the adjustments in our presentation. Our non-GAAP financial measures have limitations as analytical tools, and you should not consider these measures in isolation or as a substitute for analysis of our results as reported under GAAP. Our presentation of our non-GAAP financial measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our non-GAAP financial measures may not be comparable to other companies. Please see a historical reconciliation of these measures to the most comparable GAAP measure presented in our consolidated financial statements below in the "Results of Operations" section.

Summary of Significant 2019 Events

In January 2019, we (a) reduced the pricing of our existing \$875 million Revolving Loan Facility, (b) reduced the pricing and increased the approximately \$1.3 billion principal amount outstanding under the term loan A facility to \$1.6 billion, and (c) extended the maturity dates for our Revolving Loan Facility and our term loan A facility to 2024, subject to certain conditions.

In June 2019, the Office of Foreign Assets Control of the United States Department of the Treasury removed the authorization for group people-to-people educational travel by U.S. persons to Cuba. As a result, we have stopped sailings to Cuba effective June 5, 2019 and revised the affected itineraries. The estimated negative impact resulting from this regulatory change was approximately \$0.45 to both diluted EPS and Adjusted EPS for the year ended December 31, 2019. We expect the negative impact to diluted EPS and Adjusted EPS to continue into 2020 as a result of the cessation of cruises to Cuba.

In October 2019, Norwegian Encore was delivered.

In December 2019, we redeemed \$565.0 million principal amount of the outstanding 4.75% Senior Notes due 2021 and issued \$565.0 million of 3.625% Senior Notes due 2024.

Throughout 2019, we repurchased approximately \$349.9 million of NCLH’s outstanding ordinary shares under our previously authorized three-year, \$1.0 billion share repurchase program. As of December 31, 2019, \$248.8 million of authorized repurchases remained.

Executive Overview

Total revenue increased 6.7% to \$6.5 billion for the year ended December 31, 2019 compared to \$6.1 billion for the year ended December 31, 2018. Gross Yield increased 4.6%. Net Revenue for the year ended December 31, 2019 increased 5.1% to \$4.9 billion from \$4.7 billion in the same period in 2018 with an increase in Net Yield of 2.9% and an increase in Capacity Days of 2.1%.

For the year ended December 31, 2019, we had net income and diluted EPS of \$930.2 million and \$4.30, respectively. For the year ended December 31, 2018, we had net income and diluted EPS of \$954.8 million and \$4.25, respectively. Operating income decreased 3.4% to slightly below \$1.2 billion for the year ended December 31, 2019 from slightly above \$1.2 billion for the year ended December 31, 2018.

We had Adjusted Net Income and Adjusted EPS of \$1.1 billion and \$5.09, respectively, for the year ended December 31, 2019, including \$170.8 million of adjustments primarily consisting of expenses related to non-cash share-based compensation, amortization of intangible assets, losses on the extinguishment and modification of debt and the redeployment of Norwegian Joy, compared to Adjusted Net Income and Adjusted EPS of \$1.1 billion and \$4.92, respectively, for the year ended December 31, 2018. A 2.0% improvement in Adjusted EBITDA was achieved for the same period. We refer you to our “Results of Operations” below for a calculation of Net Revenue, Net Yield, Adjusted Net Income, Adjusted EPS and Adjusted EBITDA.

In late January 2020, the COVID-19 coronavirus outbreak began impacting the Company’s financial performance and operations. The Company has experienced costs and lost revenue related to itinerary modifications, travel restrictions and advisories, the unavailability of ports and/or destinations, cancellations and redeployments. The COVID-19 coronavirus is also impacting consumer sentiment regarding cruise travel generally, and the full impact of this indirect effect cannot be quantified at this time. See “Epidemics and viral outbreaks could have an adverse effect on our business, financial condition and results of operations” in Part I Item 1A-Risk Factors for further information related to this risk.

Results of Operations

The discussion below compares the results of operations for the year ended December 31, 2019 to the year ended December 31, 2018. For a comparison of the Company’s results of operations for the fiscal years ended December 31, 2017 to the year ended December 31, 2018, see “Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the U.S. Securities and Exchange Commission on February 27, 2019.

We reported total revenue, total cruise operating expense, operating income and net income as follows (in thousands, except per share data):

	Year Ended December 31,	
	2019	2018
Total revenue	\$ 6,462,376	\$ 6,055,126
Total cruise operating expense	\$ 3,663,261	\$ 3,377,076
Operating income	\$ 1,178,077	\$ 1,219,061
Net income	\$ 930,228	\$ 954,843
EPS:		
Basic	\$ 4.33	\$ 4.28
Diluted	\$ 4.30	\$ 4.25

The following table sets forth operating data as a percentage of total revenue:

	Year Ended December 31,	
	2019	2018
Revenue		
Passenger ticket	69.9 %	70.4 %
Onboard and other	30.1 %	29.6 %
Total revenue	<u>100.0 %</u>	<u>100.0 %</u>
Cruise operating expense		
Commissions, transportation and other	17.4 %	16.5 %
Onboard and other	6.1 %	5.8 %
Payroll and related	14.3 %	14.6 %
Fuel	6.3 %	6.5 %
Food	3.4 %	3.5 %
Other	9.2 %	8.9 %
Total cruise operating expense	<u>56.7 %</u>	<u>55.8 %</u>
Other operating expense		
Marketing, general and administrative	15.1 %	14.8 %
Depreciation and amortization	10.0 %	9.3 %
Total other operating expense	<u>25.1 %</u>	<u>24.1 %</u>
Operating income	<u>18.2 %</u>	<u>20.1 %</u>
Non-operating income (expense)		
Interest expense, net	(4.2)%	(4.4)%
Other income (expense), net	0.1 %	0.3 %
Total non-operating income (expense)	<u>(4.1)%</u>	<u>(4.1)%</u>
Net income before income taxes	14.1 %	16.0 %
Income tax benefit (expense)	0.3 %	(0.2)%
Net income	<u>14.4 %</u>	<u>15.8 %</u>

The following table sets forth selected statistical information:

	Year Ended December 31,	
	2019	2018
Passengers carried	2,695,718	2,795,101
Passenger Cruise Days	20,637,949	20,276,568
Capacity Days	19,233,459	18,841,678
Occupancy Percentage	107.3 %	107.6 %

Net Revenue, Gross Yield and Net Yield were calculated as follows (in thousands, except Capacity Days and Yield data):

	Year Ended December 31,		
	2019	2019	2018
	2019	Constant Currency	2018
Passenger ticket revenue	\$ 4,517,393	\$ 4,559,023	\$ 4,259,815
Onboard and other revenue	1,944,983	1,944,983	1,795,311
Total revenue	6,462,376	6,504,006	6,055,126
Less:			
Commissions, transportation and other expense	1,120,886	1,129,491	998,948
Onboard and other expense	394,673	394,673	348,656
Net Revenue	\$ 4,946,817	\$ 4,979,842	\$ 4,707,522
Capacity Days	19,233,459	19,233,459	18,841,678
Gross Yield	\$ 336.00	\$ 338.16	\$ 321.37
Net Yield	\$ 257.20	\$ 258.92	\$ 249.85

Gross Cruise Cost, Net Cruise Cost, Net Cruise Cost Excluding Fuel and Adjusted Net Cruise Cost Excluding Fuel were calculated as follows (in thousands, except Capacity Days and per Capacity Day data):

	Year Ended December 31,		
	2019	2019 Constant Currency	2018
Total cruise operating expense	\$ 3,663,261	\$ 3,684,318	\$ 3,377,076
Marketing, general and administrative expense	974,850	980,047	897,929
Gross Cruise Cost	4,638,111	4,664,365	4,275,005
Less:			
Commissions, transportation and other expense	1,120,886	1,129,491	998,948
Onboard and other expense	394,673	394,673	348,656
Net Cruise Cost	3,122,552	3,140,201	2,927,401
Less: Fuel expense	409,602	409,602	392,685
Net Cruise Cost Excluding Fuel	2,712,950	2,730,599	2,534,716
Less Non-GAAP Adjustments:			
Non-cash deferred compensation (1)	2,135	2,135	2,167
Non-cash share-based compensation (2)	95,055	95,055	115,983
Secondary Equity Offering expenses (3)	—	—	883
Severance payments and other fees (4)	6,514	6,514	—
Redeployment of Norwegian Joy (5)	7,051	7,051	—
Other (6)	—	—	(1,412)
Adjusted Net Cruise Cost Excluding Fuel	<u>\$ 2,602,195</u>	<u>\$ 2,619,844</u>	<u>\$ 2,417,095</u>
Capacity Days	19,233,459	19,233,459	18,841,678
Gross Cruise Cost per Capacity Day	\$ 241.15	\$ 242.51	\$ 226.89
Net Cruise Cost per Capacity Day	\$ 162.35	\$ 163.27	\$ 155.37
Net Cruise Cost Excluding Fuel per Capacity Day	\$ 141.05	\$ 141.97	\$ 134.53
Adjusted Net Cruise Cost Excluding Fuel per Capacity Day	\$ 135.30	\$ 136.21	\$ 128.28

- (1) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses, which are included in payroll and related expense.
- (2) Non-cash share-based compensation expense related to equity awards, which are included in marketing, general and administrative expense and payroll and related expense.
- (3) Secondary Equity Offering expenses are included in marketing, general and administrative expense.
- (4) Severance payments related to restructuring costs are included in marketing, general and administrative expense.
- (5) Expenses related to the redeployment of Norwegian Joy from Asia to the U.S. and the closing of the Shanghai office, which are included in other cruise operating expense and marketing, general and administrative expense.
- (6) Other primarily related to expenses and reimbursements for certain legal costs included in marketing, general and administrative expense.

Adjusted Net Income and Adjusted EPS were calculated as follows (in thousands, except share and per share data):

	Year Ended December 31,	
	2019	2018
Net income	\$ 930,228	\$ 954,843
Non-GAAP Adjustments:		
Non-cash deferred compensation (1)	3,514	3,453
Non-cash share-based compensation (2)	95,055	115,983
Secondary Equity Offering expenses (3)	—	883
Severance payments and other fees (4)	6,514	—
Extinguishment and modification of debt (5)	16,676	6,346
Amortization of intangible assets (6)	18,414	24,890
Redeployment of Norwegian Joy (7)	30,629	—
Other (8)	—	(1,412)
Adjusted Net Income	<u>\$ 1,101,030</u>	<u>\$ 1,104,986</u>
Diluted weighted-average shares outstanding - Net income and Adjusted Net Income	<u>216,475,076</u>	<u>224,419,205</u>
Diluted earnings per share	<u>\$ 4.30</u>	<u>\$ 4.25</u>
Adjusted EPS	<u>\$ 5.09</u>	<u>\$ 4.92</u>

- (1) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses are included in payroll and related expense and other income (expense), net.
- (2) Non-cash share-based compensation expenses related to equity awards are included in marketing, general and administrative expense and payroll and related expense.
- (3) Secondary Equity Offering expenses are included in marketing, general and administrative expense.
- (4) Severance payments related to restructuring costs are included in marketing, general and administrative expense.
- (5) Losses on extinguishments and modifications of debt are included in interest expense, net.
- (6) Amortization of intangible assets related to the Acquisition of Prestige are included in depreciation and amortization expense.
- (7) Expenses related to the redeployment of Norwegian Joy from Asia to the U.S. and the closing of the Shanghai office, which are included in other cruise operating expense, marketing, general and administrative expense and depreciation and amortization expense.
- (8) Other primarily related to expenses and reimbursements for certain legal costs included in marketing, general and administrative expense.

EBITDA and Adjusted EBITDA were calculated as follows (in thousands):

	Year Ended	
	December 31,	
	2019	2018
Net income	\$ 930,228	\$ 954,843
Interest expense, net	272,867	270,404
Income tax (benefit) expense	(18,863)	14,467
Depreciation and amortization expense	646,188	561,060
EBITDA	1,830,420	1,800,774
Other (income) expense, net (1)	(6,155)	(20,653)
Non-GAAP Adjustments:		
Non-cash deferred compensation (2)	2,135	2,167
Non-cash share-based compensation (3)	95,055	115,983
Secondary Equity Offering expenses (4)	—	883
Severance payments and other fees (5)	6,514	—
Redeployment of Norwegian Joy (6)	7,051	—
Other (7)	—	(1,412)
Adjusted EBITDA	\$ 1,935,020	\$ 1,897,742

- (1) Primarily consists of gains and losses, net for forward currency exchanges and proceeds from insurance and litigation settlements.
- (2) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses are included in payroll and related expense.
- (3) Non-cash share-based compensation expense related to equity awards are included in marketing, general and administrative expense and payroll and related expense.
- (4) Secondary Equity Offering expenses are included in marketing, general and administrative expense.
- (5) Severance payments related to restructuring costs are included in marketing, general and administrative expense.
- (6) Expenses related to the redeployment of Norwegian Joy from Asia to the U.S. and the closing of the Shanghai office, which are included in other cruise operating expense and marketing, general and administrative expense.
- (7) Other primarily related to expenses and reimbursement for certain legal costs included in marketing, general and administrative expense.

Year Ended December 31, 2019 (“2019”) Compared to Year Ended December 31, 2018 (“2018”)

Revenue

Total revenue increased 6.7% to \$6.5 billion in 2019 compared to \$6.1 billion in 2018 primarily due to an increase in Capacity Days and improved pricing. Gross Yield increased 4.6%. Net Revenue increased 5.1% to \$4.9 billion in 2019, from \$4.7 billion in 2018, due to an increase in Capacity Days of 2.1% and an increase in Net Yield of 2.9%. The increase in Capacity Days was primarily due to a full year of Norwegian Bliss in 2019 and the introduction of Norwegian Encore to the fleet during the fourth quarter of 2019, partially offset by a reduction in Capacity Days while Norwegian Joy was undergoing revitalization and other repairs and maintenance for our fleet including scheduled Dry-docks. The increase in Gross Yield and Net Yield was primarily due to an increase in passenger ticket pricing and onboard spending. On a Constant Currency basis, Net Yield increased 3.6%.

Expense

Total cruise operating expense increased 8.5% in 2019 compared to 2018, primarily due to the increase in Capacity Days, the redeployment of Norwegian Joy during the second quarter of 2019 and incremental direct costs related to air promotions. Gross Cruise Cost increased 8.5% in 2019 compared to 2018, due to an increase in total cruise operating expense and marketing, general and administrative expenses. Total other operating expense increased 11.1% in 2019 compared to 2018. Marketing, general and administrative expenses increased primarily due to higher advertising expenses. Depreciation and amortization expense increased primarily due to the additions of Norwegian Encore and Norwegian Bliss and ship improvement projects. Net Cruise Cost per Capacity Day increased 4.5% (5.1% on a Constant

Currency basis) due to an increase in marketing, general and administrative expenses, costs associated with the cessation of cruises to Cuba and other ship operating costs. Adjusted Net Cruise Cost Excluding Fuel per Capacity Day increased 5.5% (6.2% on a Constant Currency basis). We refer you to the “Results of Operations” above for a reconciliation of total cruise operating expense to Adjusted Net Cruise Cost Excluding Fuel.

Interest expense, net was \$272.9 million in 2019 compared to \$270.4 million in 2018. The increase in 2019 includes \$16.7 million of losses on extinguishment of debt and debt modification costs. In 2019, interest expense also reflects lower outstanding debt balances and lower margins associated with recent refinancings, partially offset by newbuild financings and an increase in LIBOR. 2018 included losses on extinguishment of debt and debt modification costs of \$6.3 million.

Other income (expense), net was income of \$6.2 million in 2019 compared to income of \$20.7 million in 2018. Other income in 2019 was primarily due to gains from insurance proceeds and a litigation settlement partially offset by losses on foreign currency exchange. Other income in 2018 was primarily due to gains on foreign currency exchange.

Income tax benefit (expense) was a benefit of \$18.9 million in 2019 compared to an expense of \$14.5 million in 2018. During 2018, we implemented certain tax restructuring strategies that created our ability to utilize the net operating loss carryforwards of Prestige, for which we had previously provided a full valuation allowance. As a result, in 2019 we recorded a tax benefit of \$35.7 million in connection with the reversal of substantially all of the valuation allowance.

Liquidity and Capital Resources

General

As of December 31, 2019, our liquidity was \$1.1 billion consisting of \$252.9 million in cash and cash equivalents and \$875.0 million available under our Revolving Loan Facility. Our primary ongoing liquidity requirements are to finance working capital, capital expenditures and debt service.

As of December 31, 2019, we had a working capital deficit of \$2.9 billion. This deficit included \$2.0 billion of advance ticket sales, which represents the total revenue we collect in advance of sailing dates and accordingly are substantially more like deferred revenue balances rather than actual current cash liabilities. Our business model, along with our Revolving Loan Facility, allows us to operate with a working capital deficit and still meet our operating, investing and financing needs.

We evaluate potential sources of additional liquidity, including the capital markets, in the ordinary course of business. We will continue to evaluate opportunities to optimize our capital structure, taking into consideration our current and expected capital requirements, our assessment of prevailing market conditions and expectations regarding future conditions, and the contractual and other restrictions to which we are subject.

Our existing debt agreements restrict, and any of our future debt arrangements may restrict, among other things, the ability of our subsidiaries to make distributions and/or to pay dividends to NCLC and NCLH’s ability to pay cash dividends to its shareholders. NCLH is a holding company and depends upon its subsidiaries for their ability to pay distributions to NCLH to finance any dividend or pay any other obligations of NCLH. However, we do not believe that these restrictions have had or are expected to have an impact on our ability to meet any cash obligations.

In January 2019, we (a) reduced the pricing of our existing \$875.0 million Revolving Loan Facility, (b) reduced the pricing and increased the approximately \$1.3 billion principal amount outstanding under the term loan A facility to \$1.6 billion, and (c) extended the maturity dates for our Revolving Loan Facility and our term loan A facility to 2024, subject to certain conditions. We used the proceeds from the increase in our term loan A facility to prepay all of the then outstanding amounts under the term loan B facility. In addition, in December 2019, we redeemed \$565.0 million principal amount of the then outstanding 4.75% Senior Notes due 2021 and issued \$565.0 million of 3.625% Senior Notes due 2024. See Note 8, Long-Term Debt, to the Notes to the Consolidated Financial Statements included herein for additional information about these refinancing activities as well as our other debt agreements.

Sources and Uses of Cash

In this section, references to 2019 refer to the year ended December 31, 2019 and references to 2018 refer to the year ended December 31, 2018.

Net cash provided by operating activities was \$1.8 billion in 2019 compared to \$2.1 billion in 2018. The net cash provided by operating activities in 2019 included net income of \$930.2 million, an increase in advance ticket sales of \$347.4 million and timing differences in cash receipts and payments relating to various operating assets and liabilities. The change in net cash provided by operating activities in 2018 includes net income of \$954.8 million as well as timing differences in cash receipts and payments relating to various operating assets and liabilities, including an increase in advance ticket sales of \$262.6 million.

Net cash used in investing activities was \$1.7 billion in 2019, primarily related to payments for the delivery of Norwegian Encore, ships under construction, ship improvement projects and shoreside projects. Net cash used in investing activities was \$1.5 billion in 2018, primarily related to payments for the delivery of Norwegian Bliss, ship improvements, ships under construction and shoreside projects.

Net cash used in financing activities was \$53.4 million in 2019, primarily due to the repurchase of \$349.9 million of NCLH's ordinary shares, net repayments of our Revolving Loan Facility and the net refinancing of term loans partially offset by the issuance of new debt. Net cash used in financing activities was \$584.8 million in 2018, reflecting the net repayment of our Revolving Loan Facility, repayments on other loan facilities, the repurchase of NCLH's ordinary shares and deferred financing fees and other, partially offset by the proceeds from borrowings on newbuild loan facilities.

For the Company's cash flow activities for the fiscal year ended December 31, 2017, see "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the U.S. Securities and Exchange Commission on February 27, 2019.

Future Capital Commitments

Future capital commitments consist of contracted commitments, including ship construction contracts, and future expected capital expenditures necessary for operations as well as our ship refurbishment projects. As of December 31, 2019, anticipated capital expenditures were \$1.4 billion, \$1.2 billion and \$2.6 billion for the years ending December 31, 2020, 2021 and 2022, respectively. We have export credit financing in place for the anticipated expenditures related to ship construction contracts of \$0.5 billion, \$0.2 billion and \$1.3 billion for the years ending December 31, 2020, 2021 and 2022, respectively. These future expected capital expenditures will significantly increase our depreciation and amortization expense as we take delivery of the ships.

For the Norwegian Brand, Project Leonardo will introduce an additional six ships, each approximately 140,000 Gross Tons with approximately 3,300 Berths, with expected delivery dates from 2022 through 2027, subject to certain conditions. For the Regent brand, Seven Seas Splendor was delivered in January 2020. We have an order for one additional Explorer Class Ship to be delivered in 2023. Each of the Explorer Class Ships will be approximately 55,000 Gross Tons and 750 Berths. For the Oceania Cruises brand, we have orders for two Allura Class Ships to be delivered in 2022 and 2025. Each of the Allura Class Ships will be approximately 67,000 Gross Tons and 1,200 Berths.

The combined contract prices of the 10 ships on order for delivery as of December 31, 2019, including Seven Seas Splendor, which was delivered in January 2020, was approximately €7.4 billion, or \$8.3 billion based on the euro/U.S. dollar exchange rate as of December 31, 2019. We have obtained export credit financing which is expected to fund approximately 80% of the contract price of each ship, subject to certain conditions. We do not anticipate any contractual breaches or cancellations to occur. However, if any such events were to occur, it could result in, among other things, the forfeiture of prior deposits or payments made by us and potential claims and impairment losses which may materially impact our business, financial condition and results of operations.

Capitalized interest for the years ended December 31, 2019 and 2018 was \$32.9 million and \$30.4 million, respectively, primarily associated with the construction of our newbuild ships.

Off-Balance Sheet Transactions

None.

Contractual Obligations

As of December 31, 2019, our contractual obligations with initial or remaining terms in excess of one year, including interest payments on long-term debt obligations, were as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (1)	\$ 6,926,677	\$ 746,358	\$ 1,566,662	\$ 2,834,787	\$ 1,778,870
Operating leases (2)	287,995	47,796	63,988	63,493	112,718
Ship construction contracts (3)	5,588,490	556,784	1,874,516	2,327,887	829,303
Port facilities (4)	2,086,925	79,418	135,720	145,212	1,726,575
Interest (5)	1,008,378	218,243	361,982	244,247	183,906
Other (6)	1,362,172	311,047	456,938	395,599	198,588
Total (7)	\$ 17,260,637	\$ 1,959,646	\$ 4,459,806	\$ 6,011,225	\$ 4,829,960

- (1) Long-term debt includes premiums aggregating \$0.2 million and capital leases. Long-term debt excludes deferred financing fees which are a direct deduction from the carrying value of the related debt liability in the consolidated balance sheets.
- (2) Operating leases are primarily for offices, motor vehicles and office equipment.
- (3) Ship construction contracts are for our newbuild ships based on the euro/U.S. dollar exchange rate as of December 31, 2019. Export credit financing is in place from syndicates of banks. The amount does not include the two Project Leonardo ships and one Allura Class Ship which were still subject to financing and certain Italian government approvals as of December 31, 2019.
- (4) Port facilities are for our usage of certain port facilities.
- (5) Interest includes fixed and variable rates with LIBOR held constant as of December 31, 2019.
- (6) Other includes future commitments for service, maintenance and other business enhancement capital expenditure contracts.
- (7) Total excludes \$0.7 million of unrecognized tax benefits as of December 31, 2019, because an estimate of the timing of future tax settlements cannot be reasonably determined.

Other

Certain service providers may require collateral in the normal course of our business. The amount of collateral may change based on certain terms and conditions.

As a routine part of our business, depending on market conditions, exchange rates, pricing and our strategy for growth, we regularly consider opportunities to enter into contracts for the building of additional ships. We may also consider the sale of ships, potential acquisitions and strategic alliances. If any of these transactions were to occur, they may be financed through the incurrence of additional permitted indebtedness, through cash flows from operations, or through the issuance of debt, equity or equity-related securities.

Funding Sources

Certain of our debt agreements contain covenants that, among other things, require us to maintain a minimum level of liquidity, as well as limit our net funded debt-to-capital ratio, and maintain certain other ratios and restrict our ability to pay dividends. Substantially all of our ships and other property and equipment are pledged as collateral for certain of our debt. We believe we were in compliance with these covenants as of December 31, 2019.

In addition, our existing debt agreements restrict, and any of our future debt arrangements may restrict, among other things, the ability of our subsidiaries, including NCLC, to make distributions and/or pay dividends to NCLH and NCLH's ability to pay cash dividends to its shareholders. NCLH is a holding company and depends upon its subsidiaries for their ability to pay distributions to it to finance any dividend or pay any other obligations of NCLH. However, we do not believe that these restrictions have had or are expected to have an impact on our ability to meet any cash obligations.

The impact of changes in world economies and especially the global credit markets can create a challenging environment and may reduce future consumer demand for cruises and adversely affect our counterparty credit risks. In the event this environment deteriorates, our business, financial condition and results of operations could be adversely impacted.

We believe our cash on hand, expected future operating cash inflows, additional available borrowings under our Revolving Loan Facility and our ability to issue debt securities or additional equity securities, will be sufficient to fund operations, debt payment requirements, capital expenditures and maintain compliance with covenants under our debt agreements over the next 12-month period. There is no assurance that cash flows from operations and additional financings will be available in the future to fund our future obligations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

General

We are exposed to market risk attributable to changes in interest rates, foreign currency exchange rates and fuel prices. We attempt to minimize these risks through a combination of our normal operating and financing activities and through the use of derivatives. The financial impacts of these derivative instruments are primarily offset by corresponding changes in the underlying exposures being hedged. We achieve this by closely matching the notional, term and conditions of the derivatives with the underlying risk being hedged. We do not hold or issue derivatives for trading or other speculative purposes. Derivative positions are monitored using techniques including market valuations and sensitivity analyses.

Interest Rate Risk

As of December 31, 2019, we had interest rate swap and collar agreements to hedge our exposure to interest rate movements and to manage our interest expense. As of December 31, 2019, 78% of our debt was fixed and 22% was variable, which includes the effects of the interest rate swaps and collars. The notional amount of outstanding debt associated with the interest rate swaps and collars was \$1.7 billion as of December 31, 2019. As of December 31, 2018, 72% of our debt was fixed and 28% was variable, which includes the effects of the interest rate swaps. The notional amount of outstanding debt associated with the interest rate swap agreements was \$1.0 billion as of December 31, 2018. The change in our fixed rate percentage from December 31, 2018 to December 31, 2019 was primarily due to higher outstanding fixed rate debt and additional interest rate swaps and collars executed.

Based on our December 31, 2019 outstanding variable rate debt balance, and adding as variable debt the principle amount of debt associated with interest rate swap agreements that matured on January 2, 2020, a one percentage point increase in annual LIBOR interest rates would increase our annual interest expense by approximately \$20.9 million excluding the effects of capitalization of interest.

Foreign Currency Exchange Rate Risk

As of December 31, 2019, we had foreign currency derivatives to hedge the exposure to volatility in foreign currency exchange rates related to our ship construction contracts denominated in euros. These derivatives hedge the foreign currency exchange rate risk on a portion of the payments on our ship construction contracts. The payments not hedged aggregate €3.0 billion, or \$3.4 billion based on the euro/U.S. dollar exchange rate as of December 31, 2019. As of December 31, 2018, the payments not hedged aggregated €2.2 billion, or \$2.5 billion, based on the euro/U.S. dollar exchange rate as of December 31, 2018. The change from December 31, 2018 to December 31, 2019 was due to the delivery of a ship in October 2019 and additional foreign exchange derivatives executed. We estimate that a 10% change

in the euro as of December 31, 2019 would result in a \$0.3 billion change in the U.S. dollar value of the foreign currency denominated remaining payments.

Fuel Price Risk

Our exposure to market risk for changes in fuel prices relates to the forecasted purchases of fuel on our ships. Fuel expense, as a percentage of our total cruise operating expense, was 11.2% for the year ended December 31, 2019 and 11.6% for the year ended December 31, 2018. We use fuel derivative agreements to mitigate the financial impact of fluctuations in fuel prices and as of December 31, 2019, we had hedged approximately 56%, 50% and 18% of our 2020, 2021 and 2022 projected metric tons of fuel purchases, respectively. As of December 31, 2018, we had hedged approximately 57%, 53% and 33% of our 2019, 2020 and 2021 projected metric tons of fuel purchases, respectively. The change in fuel price risk from December 31, 2018 to December 31, 2019 was due to additional fuel hedges executed.

We estimate that a 10% increase in our weighted-average fuel price would increase our anticipated 2020 fuel expense by \$50.0 million. This increase would be partially offset by an increase in the fair value of our fuel swap agreements of \$23.0 million. Fair value of our derivative contracts is derived using valuation models that utilize the income valuation approach. These valuation models take into account the contract terms such as maturity, as well as other inputs such as fuel types, fuel curves, creditworthiness of the counterparty and the Company, as well as other data points.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and Quarterly Selected Financial Data are included beginning on page F-1 of this report.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Exchange Act Rule 13a-15(e), as of December 31, 2019. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019, to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"). Based on this evaluation under the COSO Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included on page F-1.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only the reasonable assurance that our controls will succeed in achieving their goals under all potential future conditions.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Except for information concerning executive officers (called for by Item 401(b) of Regulation S-K), which is included in Part I of this Annual Report and except as disclosed below with respect to our Code of Ethical Business Conduct, the information required under Item 10 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2019 in connection with our 2020 Annual General Meeting of Shareholders.

Code of Ethical Business Conduct

We have adopted a Code of Ethical Business Conduct that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions, and our directors. This document is posted on our website at www.nclhltinvestor.com. We intend to disclose waivers from, and amendments to, our Code of Ethical Business Conduct that apply to our directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officers or controller and persons performing similar functions, by posting such information on our website www.nclhltinvestor.com to the extent required by applicable rules of the SEC and the NYSE. None of the websites referenced in this Annual Report or the information contained therein is incorporated herein by reference.

Item 11. Executive Compensation

The information required under Item 11 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2019 in connection with our 2020 Annual General Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required under Item 12 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2019 in connection with our 2020 Annual General Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required under Item 13 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2019 in connection with our 2020 Annual General Meeting of Shareholders.

Item 14. Principal Accounting Fees and Services

The information required under Item 14 is incorporated herein by reference to our definitive proxy statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2019 in connection with our 2020 Annual General Meeting of Shareholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(1) Financial Statements

Our Consolidated Financial Statements have been prepared in accordance with Item 8. Financial Statements and Supplementary Data and are included beginning on page F-1 of this report.

(2) Financial Statement Schedules

Schedule II: Valuation and Qualifying Accounts for the three years ended December 31, 2019 are included on page 68.

(3) Exhibits

The exhibits listed below are filed or incorporated by reference as part of this annual report on Form 10-K.

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibit
3.1	Memorandum of Association of Norwegian Cruise Line Holdings Ltd. (incorporated herein by reference to Exhibit 3.1 to amendment no. 5 to Norwegian Cruise Line Holdings Ltd.'s registration statement on Form S-1 filed on January 8, 2013 (File No. 333-175579))
3.2	Amended and Restated Bye-Laws of Norwegian Cruise Line Holdings Ltd., effective as of June 13, 2019 (incorporated herein by reference to Exhibit 3.2 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on June 14, 2019 (File No. 001-35784))
4.1	Indenture, dated as of December 16, 2019, between NCL Corporation Ltd. and U.S. Bank National Association, as trustee, with respect to \$565.0 million aggregate principal amount of 3.625% senior unsecured notes due 2024 (incorporated herein by reference to Exhibit 4.1 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on December 16, 2019 (File No. 001-35784))
4.2	Form of Certificate of Ordinary Shares (incorporated herein by reference to Exhibit 4.7 to amendment no. 5 to Norwegian Cruise Line Holdings Ltd.'s registration statement on Form S-1 filed on January 8, 2013 (File No. 333-175579))
4.3**	Description of Securities of Norwegian Cruise Line Holdings Ltd.
9.1	Deed of Trust, dated January 24, 2013, by and between Norwegian Cruise Line Holdings Ltd. and State House Trust Company Limited (incorporated herein by reference to Exhibit 9.1 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on January 30, 2013 (File No. 001-35784))
10.1	Office Lease Agreement, dated as of November 27, 2006, by and between NCL (Bahamas) Ltd. and Hines Reit Airport Corporate Center LLC and related Guarantee by NCL Corporation Ltd., and First Amendment, dated November 27, 2006 (incorporated herein by reference to Exhibit 4.46 to NCL Corporation Ltd.'s annual report on Form 20-F filed on March 6, 2007 (File No. 333-128780))+
10.2	Amendment No. 1, dated December 1, 2006, Amendment No. 2, dated March 20, 2007, Amendment No. 3, dated July 31, 2007, and Amendment No. 4, dated December 10, 2007, to Office Lease Agreement, dated December 1, 2006, as amended, by and between Hines Reit Airport Corporate Center LLC and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 4.64 to NCL Corporation Ltd.'s annual report on Form 20-F filed on March 13, 2008 (File No. 333-128780))+

- 10.3 Amendment No. 5, dated February 2, 2010, to Office Lease Agreement, dated December 1, 2006, as amended, by and between Hines Reit Airport Corporate Center LLC and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.45 to amendment no. 2 to NCL Corporation Ltd.'s registration statement on Form S-1 filed on January 31, 2011 (File No. 333-170141))
- 10.4 Amendment No. 6, dated April 1, 2012, and Amendment No. 7, dated June 19, 2012, to Office Lease Agreement, dated December 1, 2006, as amended, by and between Hines Reit Airport Corporate Center LLC and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.6 to NCL Corporation Ltd.'s report on Form 6-K filed on November 2, 2012 (File No. 333-128780))+
- 10.5 Amendment No. 8, dated January 28, 2015, to Office Lease Agreement, dated December 1, 2006, as amended, by and between SPUS7 Miami ACC, LP and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.3 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 8, 2015 (File No. 001-35784))+
- 10.6 Amendment No. 9, dated June 30, 2015, to Office Lease Agreement, dated December 1, 2006, as amended, by and between SPUS7 Miami ACC, LP and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.2 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on August 7, 2015 (File No. 001-35784))+
- 10.7 Amendment No. 10, dated March 31, 2016, to Office Lease Agreement, dated December 1, 2006, as amended, by and between SPUS7 Miami ACC, LP and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.5 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 10, 2016 (File No. 001-35784))+
- 10.8 Amendment No. 11, dated February 8, 2017, to Office Lease Agreement, dated December 1, 2006, as amended, by and between SPUS7 Miami ACC, LP and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 10, 2017 (File No. 001-35784))+
- 10.9 Amendment No. 12, dated August 24, 2017, to Office Lease Agreement, dated December 1, 2006, as amended, by and between SPUS7 Miami ACC, LP and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.3 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on November 9, 2017 (File No. 001-35784))
- 10.10 Amendment No. 13, dated November 30, 2017, to Office Lease Agreement, dated December 1, 2006, as amended, by and between SPUS7 Miami ACC, LP and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.13 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2018 (File No. 001-35784))+
- 10.11 Amendment No. 14, dated January 16, 2018, to Office Lease Agreement, dated December 1, 2006, as amended, by and between SPUS7 Miami ACC, LP and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.14 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2018 (File No. 001-35784))
- 10.12 Amendment No. 15, dated March 1, 2018, to Office Lease Agreement, dated December 1, 2006, as amended, by and between SPUS7 Miami ACC, LP and NCL (Bahamas) Ltd. (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 7, 2018 (File No. 001-35784))+
- 10.13** Amendment No. 16, dated November 15, 2019, to Office Lease Agreement, dated December 1, 2006, as amended, by and between W-Crocker Lam Office Owner VIII, L.L.C. and NCL (Bahamas) Ltd.#

- 10.14 €529.8 million Breakaway One Credit Agreement, dated November 18, 2010, by and among Breakaway One, Ltd. and a syndicate of international banks and related Guarantee by NCL Corporation Ltd. (incorporated herein by reference to Exhibit 10.57 to amendment no. 4 to NCL Corporation Ltd.'s registration statement on Form S-1 filed on June 9, 2011 (File No. 333-170141))+
- 10.15 First Amendment, dated May 31, 2012, to €529.8 million Breakaway One Credit Agreement, dated November 18, 2010, as amended, by and among Breakaway One, Ltd. and a syndicate of international banks (incorporated herein by reference to Exhibit 10.13 to NCL Corporation Ltd.'s report on Form 6-K filed on November 2, 2012 (File No. 333-128780))+
- 10.16 Side Letter, dated April 25, 2019, to €529.8 million Breakaway One Credit Agreement, dated November 18, 2010, as amended, by and among Breakaway One, Ltd., NCL Corporation Ltd., NCL International, Ltd. and KfW IPEX Bank GmbH (incorporated herein by reference to Exhibit 10.2 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on August 8, 2019 (File No. 001-35784))#
- 10.17 €529.8 million Breakaway Two Credit Agreement, dated as of November 18, 2010, by and among Breakaway Two, Ltd. and a syndicate of international banks and related Guarantee by NCL Corporation Ltd. (incorporated herein by reference to Exhibit 10.58 to amendment no. 4 to NCL Corporation Ltd.'s registration statement on Form S-1 filed on June 9, 2011 (File No. 333-170141))+
- 10.18 First Amendment, dated December 21, 2010, to €529.8 million Breakaway Two Credit Agreement, dated as of November 18, 2010, by and among Breakaway Two, Ltd. and a syndicate of international banks and a related Guarantee by NCL Corporation Ltd. (incorporated herein by reference to Exhibit 10.59 to amendment no. 2 to NCL Corporation Ltd.'s registration statement on Form S-1 filed on January 31, 2011 (File No. 333-170141))
- 10.19 Second Amendment, dated May 31, 2012, to €529.8 million Breakaway Two Credit Agreement, dated as of November 18, 2010, by and among Breakaway Two, Ltd. and a syndicate of international banks (incorporated herein by reference to Exhibit 10.14 to NCL Corporation Ltd.'s report on Form 6-K filed on November 2, 2012 (File No. 333-128780))+
- 10.20 Side Letter, dated August 7, 2019, to €529.8 million Breakaway Two Credit Agreement, dated November 18, 2010, as amended, by and among Breakaway Two, Ltd., NCL Corporation Ltd., NCL International, Ltd. and KfW IPEX-Bank GmbH (incorporated herein by reference to Exhibit 10.2 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on November 8, 2019 (File No. 001-35784))#
- 10.21 €590.5 million Breakaway Three Credit Agreement, dated October 12, 2012, by and among Breakaway Three, Ltd. and various other lenders therein defined and a related Guaranty by NCL Corporation Ltd. (incorporated herein by reference to Exhibit 10.17 to NCL Corporation Ltd.'s report on Form 6-K/A filed on January 8, 2013 (File No. 333-128780))+
- 10.22 Supplemental Agreement, dated July 26, 2016, to €590.5 million Breakaway Four Credit Agreement, dated October 12, 2012, by and among Breakaway Four, Ltd., as borrower, NCL Corporation Ltd., as guarantor, NCL International, Ltd., as shareholder and KfW IPEX-Bank GmbH, as facility agent and lender (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on November 9, 2016 (File No. 001-35784))+
- 10.23 Fourth Amended and Restated Credit Agreement, dated as of January 2, 2019, by and among NCL Corporation Ltd., as borrower, Voyager Vessel Company, LLC, as co-borrower, JPMorgan Chase Bank, N.A., as administrative agent and as collateral agent and a syndicate of other banks party thereto as joint bookrunners, arrangers, co-documentation agents and lenders (incorporated herein by reference to Exhibit 10.25 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.24 Supplemental Agreement, dated December 22, 2015, to €665.9 million Seahawk One Credit Agreement, dated July 14, 2014, by and among Seahawk One, Ltd. and various other lenders therein defined and a

- related guarantee by NCL Corporation Ltd. (incorporated herein by reference to Exhibit 10.33 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 29, 2016 (File No. 001-35784))+
- 10.25 Second Supplemental Agreement, dated August 15, 2019, to Seahawk Two Credit Agreement, dated July 14, 2014, by and among Seahawk Two, Ltd. and various other lenders therein defined and a related guarantee by NCL Corporation Ltd. (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on November 8, 2019 (File No. 001-35784))#
- 10.26 Amendment and Restatement Agreement, dated October 31, 2014, but effective as of November 19, 2014, relating to the loan agreement originally dated July 18, 2008, among Riviera New Build, LLC, as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank and Société Générale, as mandated lead arrangers and Crédit Agricole Corporate and Investment Bank as agent and SACE agent (incorporated herein by reference to Exhibit 10.72 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2015 (File No. 001-35784))+
- 10.27 Guarantee relating to the loan agreement dated July 18, 2008 in respect of the Oceania Riviera, dated October 31, 2014, but effective November 19, 2014, among NCL Corporation Ltd., as guarantor, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank and Société Générale, as mandated lead arrangers and Crédit Agricole Corporate and Investment Bank as agent (incorporated herein by reference to Exhibit 10.73 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2015 (File No. 001-35784))+
- 10.28 Amendment and Restatement Agreement, dated October 31, 2014, but effective as of November 19, 2014, relating to the loan agreement originally dated July 18, 2008, among Marina New Build, LLC, as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank and Société Générale, as mandated lead arrangers and Crédit Agricole Corporate and Investment Bank as agent and SACE agent (incorporated herein by reference to Exhibit 10.74 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2015 (File No. 001-35784))+
- 10.29 Guarantee relating to the loan agreement dated July 18, 2008 in respect of the Oceania Marina, dated October 31, 2014, but effective November 19, 2014, among NCL Corporation Ltd., as guarantor, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank and Société Générale, as mandated lead arrangers and Crédit Agricole Corporate and Investment Bank as agent (incorporated herein by reference to Exhibit 10.75 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2015 (File No. 001-35784))+
- 10.30 Amendment and Restatement Agreement, dated October 31, 2014, but effective as of November 19, 2014, relating to the loan agreement originally dated July 31, 2013, among Explorer New Build, LLC, as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank, Société Générale, HSBC Bank plc, KFW IPEX-Bank GmbH, as joint mandated lead arrangers and Crédit Agricole Corporate and Investment Bank as agent, SACE agent and security trustee (incorporated herein by reference to Exhibit 10.76 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2015 (File No. 001-35784))+
- 10.31 Guarantee relating to the loan agreement dated July 31, 2013 in respect of the Seven Seas Explorer, dated October 31, 2014, but effective November 19, 2014, among NCL Corporation Ltd., as guarantor and Crédit Agricole Corporate and Investment Bank as security trustee (incorporated herein by reference to Exhibit 10.77 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2015 (File No. 001-35784))
- 10.32 Explorer Class Newbuild Loan Agreement, dated March 30, 2016, among Explorer II New Build, LLC, as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank, Société Générale, HSBC Bank plc, KFW IPEX-Bank GmbH, as joint mandated lead arrangers and Crédit Agricole Corporate and Investment Bank as agent and security trustee (incorporated herein by reference to Exhibit 10.6 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 10, 2016 (File No. 001-35784))+

- 10.33 Guarantee relating to the Explorer Class Newbuild Loan Agreement, dated March 30, 2016, among NCL Corporation Ltd., as guarantor, and Crédit Agricole Corporate and Investment Bank as Security Trustee (incorporated herein by reference to Exhibit 10.7 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 10, 2016 (File No. 001-35784))+
- 10.34 Amendment No. 1, dated November 21, 2017, to Leonardo One Loan Agreement, dated April 12, 2017, by and among Leonardo One, Ltd., as borrower, the banks and financial institutions listed in Schedule 1, as lenders, Crédit Agricole Corporate and Investment Bank, BNP Paribas Fortis S.A./N.V., HSBC Bank plc, KfW IPEX-Bank GmbH and Cassa Depositi e Prestiti S.p.A., as joint mandated lead arrangers and Crédit Agricole Corporate and Investment Bank as agent and SACE agent (incorporated herein by reference to Exhibit 10.35 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2018 (File No. 001-35784))+
- 10.35 Guarantee relating to the Leonardo One Loan Agreement, dated April 12, 2017, by and among NCL Corporation Ltd., as guarantor and Crédit Agricole Corporate and Investment Bank as security trustee (incorporated herein by reference to Exhibit 10.4 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 10, 2017 (File No. 001-35784))+
- 10.36 Amendment No. 1, dated November 21, 2017, to Leonardo Two Loan Agreement, dated April 12, 2017, by and among Leonardo Two, Ltd., as borrower, the banks and financial institutions listed in Schedule 1, as lenders, Crédit Agricole Corporate and Investment Bank, BNP Paribas Fortis S.A./N.V., HSBC Bank plc, KfW IPEX-Bank GmbH and Cassa Depositi e Prestiti S.p.A., as joint mandated lead arrangers and Crédit Agricole Corporate and Investment Bank as agent and SACE agent (incorporated herein by reference to Exhibit 10.37 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2018 (File No. 001-35784))+
- 10.37 Guarantee relating to the Leonardo Two Loan Agreement, dated April 12, 2017, by and among NCL Corporation Ltd., as guarantor and Crédit Agricole Corporate and Investment Bank as security trustee (incorporated herein by reference to Exhibit 10.6 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 10, 2017 (File No. 001-35784))+
- 10.38 Amendment No. 1, dated November 21, 2017, to Leonardo Three Loan Agreement, dated April 12, 2017, by and among Leonardo Three, Ltd., as borrower, the banks and financial institutions listed in Schedule 1, as lenders, BNP Paribas Fortis S.A./N.V., HSBC Bank plc, KfW IPEX-Bank GmbH and Cassa Depositi e Prestiti S.p.A., as joint mandated lead arrangers and BNP Paribas S.A. as agent and SACE agent (incorporated herein by reference to Exhibit 10.39 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2018 (File No. 001-35784))+
- 10.39 Guarantee relating to the Leonardo Three Loan Agreement, dated April 12, 2017, by and among NCL Corporation Ltd., as guarantor and BNP Paribas S.A. as security trustee (incorporated herein by reference to Exhibit 10.8 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 10, 2017 (File No. 001-35784))+
- 10.40 Amendment No. 1, dated November 21, 2017, to Leonardo Four Loan Agreement, dated April 12, 2017, by and among Leonardo Four, Ltd., as borrower, the banks and financial institutions listed in Schedule 1, as lenders, BNP Paribas Fortis S.A./N.V., HSBC Bank plc, KfW IPEX-Bank GmbH and Cassa Depositi e Prestiti S.p.A., as joint mandated lead arrangers and BNP Paribas S.A. as agent and SACE agent (incorporated herein by reference to Exhibit 10.41 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2018 (File No. 001-35784))+
- 10.41 Guarantee relating to the Leonardo Four Loan Agreement, dated April 12, 2017, by and among NCL Corporation Ltd., as guarantor and BNP Paribas S.A. as security trustee (incorporated herein by reference to Exhibit 10.10 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 10, 2017 (File No. 001-35784))+

- 10.42 Leonardo Five Loan Agreement, dated as of December 19, 2018, but effective as of January 8, 2019, among Leonardo Five, Ltd., as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank, BNP Paribas Fortis S.A./N.V., HSBC Bank plc, KFW IPEX-Bank GmbH, Cassa Depositi e Prestiti S.P.A., Banco Santander, S.A. and Société Générale, as joint mandated lead arrangers, BNP Paribas as agent and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.44 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.43 Guarantee relating to the Leonardo Five Loan Agreement, dated as of December 19, 2018, but effective as of January 8, 2019, among NCL Corporation Ltd., as guarantor, and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.45 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.44 Leonardo Six Loan Agreement, dated as of December 19, 2018, but effective as of January 8, 2019, among Leonardo Six, Ltd., as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank, BNP Paribas Fortis S.A./N.V., HSBC Bank plc, KFW IPEX-Bank GmbH, Cassa Depositi e Prestiti S.P.A., Banco Santander, S.A. and Société Générale, as joint mandated lead arrangers, BNP Paribas as agent and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.46 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.45 Guarantee relating to the Leonardo Six Loan Agreement, dated as of December 19, 2018, but effective as of January 8, 2019, among NCL Corporation Ltd., as guarantor, and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.47 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.46 O Class Plus One Loan Agreement, dated as of December 19, 2018, but effective as of January 8, 2019, among O Class Plus One, LLC, as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank, BNP Paribas Fortis S.A./N.V., HSBC Bank plc, KFW IPEX-Bank GmbH, Cassa Depositi e Prestiti S.P.A., Banco Santander, S.A. and Société Générale, as joint mandated lead arrangers, BNP Paribas as agent and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.48 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.47 Guarantee relating to the O Class Plus One Loan Agreement, dated as of December 19, 2018, but effective as of January 8, 2019, among NCL Corporation Ltd., as guarantor, and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.49 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.48 O Class Plus Two Loan Agreement, dated as of December 19, 2018, but effective as of January 8, 2019, among O Class Plus Two, LLC, as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank, BNP Paribas Fortis S.A./N.V., HSBC Bank plc, KFW IPEX-Bank GmbH, Cassa Depositi e Prestiti S.P.A., Banco Santander, S.A. and Société Générale, as joint mandated lead arrangers, BNP Paribas as agent and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.50 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.49 Guarantee relating to the O Class Plus Two Loan Agreement, dated as of December 19, 2018, but effective as of January 8, 2019, among NCL Corporation Ltd., as guarantor, and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.51 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.50 \$230 million Credit Agreement, dated January 10, 2019, among NCL Corporation Ltd., as borrower, Nordea Bank ABP, New York Branch, as administrative agent and collateral agent and the other lenders party thereto as joint bookrunners, arrangers, co-documentation agents and lenders (incorporated herein

by reference to Exhibit 10.52 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+

- 10.51 Explorer III New Build Loan Agreement, dated as of December 19, 2018, but effective as of January 15, 2019, among Explorer III New Build, LLC, as borrower, the banks and financial institutions listed in Schedule 1 as lenders, Crédit Agricole Corporate and Investment Bank, BNP Paribas Fortis S.A./N.V., HSBC Bank plc, KFW IPEX-Bank GmbH, Cassa Depositi e Prestiti S.P.A., Banco Santander, S.A. and Société Générale, as joint mandated lead arrangers, BNP Paribas as agent and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.53 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.52 Guarantee relating to the Explorer III New Build Loan Agreement, dated as of December 19, 2018, but effective as of January 15, 2019, among NCL Corporation Ltd., as guarantor, and HSBC Corporate Trustee Company (UK) Limited as security trustee (incorporated herein by reference to Exhibit 10.54 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2019 (File No. 001-35784))+
- 10.53 \$260 million Credit Agreement, dated May 15, 2019, among NCL Corporation Ltd., as borrower, Bank of America, N.A., as administrative agent and collateral agent and the other lenders party thereto as joint bookrunners, arrangers, co-documentation agents and lenders (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on August 8, 2019 (File No. 001-35784))#
- 10.54 Amended and Restated Regent Trademark License Agreement, dated February 21, 2011, by and between Regent Hospitality Worldwide, LLC and Seven Seas Cruises, S. DE R.L. (incorporated herein by reference to Exhibit 10.17 to Prestige Cruises International, Inc.'s Amendment No. 1 to Form S-1 filed on March 24, 2014 (File No. 333-193479))
- 10.55 Employment Agreement by and between NCL (Bahamas) Ltd. and Andrew Stuart, entered into on September 16, 2016 (incorporated herein by reference to Exhibit 10.2 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on September 19, 2016 (File No. 001-35784))*
- 10.56 Employment Agreement by and between NCL (Bahamas) Ltd. and T. Robin Lindsay, entered into on October 18, 2015 (incorporated herein by reference to Exhibit 10.2 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 10, 2017 (File No. 001-35784))*
- 10.57 Employment Agreement by and between Prestige Cruise Services, LLC and Jason Montague, entered into on September 16, 2016 (incorporated herein by reference to Exhibit 10.3 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on September 19, 2016 (File No. 001-35784))*
- 10.58 Amended and Restated Executive Employment Agreement by and between Oceania Cruises, Inc. and Frank J. Del Rio, entered into on June 5, 2014 (incorporated herein by reference to Exhibit 10.1 to Seven Seas Cruises S. DE R.L.'s Form 8-K filed on June 10, 2014 (File No. 333-178244))*
- 10.59 Letter Regarding Frank Del Rio's Executive Employment Agreement, dated September 2, 2014 (incorporated herein by reference to Exhibit 10.89 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2015 (File No. 001-35784))*
- 10.60 Letter Regarding Amendment to Frank J. Del Rio's Executive Employment Agreement, dated August 4, 2015 (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on November 4, 2015 (File No. 001-35784))*
- 10.61 Letter Regarding Amendment to Frank J. Del Rio's Executive Employment Agreement, dated August 1, 2017 (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on November 9, 2017 (File No. 001-35784))*
- 10.62 Employment Agreement by and between NCL (Bahamas) Ltd. and Mark Kempa, entered into on September 10, 2018 (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on September 11, 2018 (File No. 001-35784))*

- 10.63 Employment Agreement by and between Prestige Cruise Services, LLC and Robert J. Binder, entered into on September 16, 2016 (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on September 19, 2016 (File No. 001-35784))*
- 10.64** Amendment to Employment Agreement by and between Prestige Cruise Services, LLC and Robert J. Binder, entered into on May 7, 2019*
- 10.65 Form of Indemnification Agreement by and between Norwegian Cruise Line Holdings Ltd. and each of its directors, executive officers and certain other officers (incorporated herein by reference to Exhibit 10.89 to amendment no. 5 to Norwegian Cruise Line Holdings Ltd.'s registration statement on Form S-1 filed on January 8, 2013 (File No. 333-175579))
- 10.66 Norwegian Cruise Line Holdings Ltd. Amended and Restated 2013 Performance Incentive Plan (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 8-K filed on May 24, 2016 (File No. 001-35784))*
- 10.67 Form of Notice of Grant of Option and Terms and Conditions of Option (incorporated herein by reference to Exhibit 10.1 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on May 8, 2013 (File No. 001-35784))*
- 10.68 Form of Director Restricted Share Award Agreement (incorporated herein by reference to Exhibit 10.2 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on July 30, 2013 (File No. 001-35784))*
- 10.69 Norwegian Cruise Line Holdings Ltd. Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.3 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on July 31, 2014 (File No. 001-35784))*
- 10.70** Directors' Compensation Policy (effective January 1, 2020)*
- 10.71 Form of Director Restricted Share Unit Award Agreement (incorporated herein by reference to Exhibit 10.62 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 29, 2016 (File No. 001-35784))*
- 10.72 Form of Norwegian Cruise Line Holdings Ltd. Time and Performance-based Restricted Share Unit Award Agreement (incorporated herein by reference to Exhibit 10.2 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on November 4, 2015 (File No. 001-35784))*
- 10.73 Form of Notice of Grant of Norwegian Cruise Line Holdings Ltd. Time and Performance-based Option and Terms and Conditions (incorporated herein by reference to Exhibit 10.3 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on November 4, 2015 (File No. 001-35784))*
- 10.74 Form of Norwegian Cruise Line Holdings Ltd. Time-based Restricted Share Unit Award Agreement (2017) (incorporated herein by reference to Exhibit 10.52 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2017 (File No. 001-35784))*
- 10.75 Form of Norwegian Cruise Line Holdings Ltd. Performance-based Restricted Share Unit Award Agreement (2017) (incorporated herein by reference to Exhibit 10.53 to Norwegian Cruise Line Holdings Ltd.'s Form 10-K filed on February 27, 2017 (File No. 001-35784))*
- 10.76 Form of Norwegian Cruise Line Holdings Ltd. Performance-based Restricted Share Unit Award Agreement (August 2017) (incorporated herein by reference to Exhibit 10.2 to Norwegian Cruise Line Holdings Ltd.'s Form 10-Q filed on November 9, 2017 (File No. 001-35784))*
- 10.77** Form of Norwegian Cruise Line Holdings Ltd. Time-based Restricted Share Unit Award Agreement (2020)*
- 10.78** Form of Norwegian Cruise Line Holdings Ltd. Performance-based Restricted Share Unit Award Agreement (2020)*
- 21.1** List of Subsidiaries of Norwegian Cruise Line Holdings Ltd.

- 23.1** Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm
- 24.1** Power of Attorney (included on Signatures page of this Annual Report on Form 10-K)
- 31.1** Certification of the Annual Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the President and Chief Executive Officer
- 31.2** Certification of the Annual Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Executive Vice President and Chief Financial Officer
- 32.1*** Certification of the Annual Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer and Chief Financial Officer
- 101** The following materials from Norwegian Cruise Line Holdings Ltd.'s Annual Report on Form 10-K formatted in Inline XBRL:
- (i) the Consolidated Statements of Operations of NCLH for the years ended December 31, 2019, 2018 and 2017;
 - (ii) the Consolidated Statements of Comprehensive Income of NCLH for the years ended December 31, 2019, 2018 and 2017;
 - (iii) the Consolidated Balance Sheets of NCLH as of December 31, 2019 and 2018;
 - (iv) the Consolidated Statements of Cash Flows of NCLH for the years ended December 31, 2019, 2018 and 2017;
 - (v) the Consolidated Statements of Changes in Shareholders' Equity of NCLH for the years ended December 31, 2019, 2018 and 2017;
 - (vi) the Notes to the Consolidated Financial Statements; and
 - (vii) Schedule II Valuation and Qualifying Accounts.
- 104** The cover page from Norwegian Cruise Line Holdings Ltd.'s Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL and included in the interactive data files submitted as Exhibit 101.

+ Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

Certain portions of this document that constitute confidential information have been redacted in accordance with Regulation S-K Item 601(b)(10).

* Management contract or compensatory plan.

** Filed herewith.

*** Furnished herewith.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in Miami, Florida, on February 27, 2020.

NORWEGIAN CRUISE LINE HOLDINGS LTD.

By: /s/ Frank J. Del Rio

Name: **Frank J. Del Rio**

Title: **Director, President and Chief Executive Officer**

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Frank J. Del Rio, Mark A. Kempa, Daniel S. Farkas and Faye L. Ashby, and each of them, his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this annual report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the SEC, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents or their substitute or substitutes may lawfully so or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this annual report on Form 10-K has been signed below by the following persons in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Frank J. Del Rio</u> Frank J. Del Rio	Director, President and Chief Executive Officer (Principal Executive Officer)	February 27, 2020
<u>/s/ Mark A. Kempa</u> Mark A. Kempa	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 27, 2020
<u>/s/ Faye L. Ashby</u> Faye L. Ashby	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 27, 2020
<u>/s/ Adam M. Aron</u> Adam M. Aron	Director	February 27, 2020
<u>/s/ John Chidsey</u> John Chidsey	Director	February 27, 2020
<u>/s/ Chad A. Leat</u> Chad A. Leat	Director	February 27, 2020
<u>/s/ Steve Martinez</u> Steve Martinez	Director	February 27, 2020
<u>/s/ David M. Abrams</u> David M. Abrams	Director	February 27, 2020
<u>/s/ Stella David</u> Stella David	Director	February 27, 2020
<u>/s/ Russell W. Galbut</u> Russell W. Galbut	Director	February 27, 2020
<u>/s/ Pamela Thomas-Graham</u> Pamela Thomas-Graham	Director	February 27, 2020
<u>/s/ Mary E. Landry</u> Mary E. Landry	Director	February 27, 2020

Norwegian Cruise Line Holdings Ltd.
Schedule II Valuation and Qualifying Accounts (in thousands)

<u>Description</u>	<u>Balance</u> <u>12/31/16</u>	<u>Additions</u>		<u>Deductions (a)</u>	<u>Balance</u> <u>12/31/17</u>
		<u>Charged to</u> <u>costs and</u> <u>expenses</u>	<u>Charged to</u> <u>other accounts</u>		
Valuation allowance on deferred tax assets	\$ 64,573	\$ —	\$ —	\$ (22,419)	\$ 42,154

<u>Description</u>	<u>Balance</u> <u>12/31/17</u>	<u>Charged to</u> <u>costs and</u> <u>expenses</u>	<u>Charged to</u> <u>other accounts</u>	<u>Deductions (a)</u>	<u>Balance</u> <u>12/31/18</u>

<u>Description</u>	<u>Balance</u> <u>12/31/18</u>	<u>Charged to</u> <u>costs and</u> <u>expenses</u>	<u>Charged to</u> <u>other accounts</u>	<u>Deductions (a)</u>	<u>Balance</u> <u>12/31/19</u>

(a) Amount relates to (i) utilization of deferred tax assets, (ii) revaluation of deferred tax assets from their functional currency to U.S. dollars and (iii) reversal of valuation allowances.

Index to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Norwegian Cruise Line Holdings Ltd.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Norwegian Cruise Line Holdings Ltd. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes and financial statement schedule listed in the index appearing under Item 15(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 5 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Ship Accounting - Improvement Costs

As described in Notes 2 and 7 to the consolidated financial statements, the Company capitalized approximately \$458.9 million of costs associated with ship improvements during 2019. As disclosed by management, ship improvement costs which add value to the ship are capitalized and depreciated over the shorter of the improvements' estimated useful lives or the remaining useful life of the ship. The useful lives of ship improvements are estimated based on the economic lives of the new components. In addition, to determine the useful lives of the ship or ship components, management considers the impact of the historical useful lives of similar assets, manufacturer recommended lives and anticipated changes in technological conditions.

The principal considerations for our determination that performing procedures relating to ship accounting - improvement costs is a critical audit matter are there was significant judgment by management in determining whether costs associated with ship improvements add value to the Company's ships and in estimating the useful lives assigned. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to whether capitalization and useful lives assigned were appropriate.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to capitalization of ship improvements, including controls over the estimation of whether improvements add value to the ship and the useful lives assigned. These procedures also included, among others, testing the accuracy, existence/occurrence and valuation of capitalized ship improvement costs and evaluating whether costs capitalized add value to the ship. Evaluating the reasonableness of the useful lives assigned involved considering historical data and past experience with similar ship improvements. Professionals with specialized skill and knowledge were used to assist in the evaluation of the reasonableness of the assigned useful lives.

Goodwill Impairment Assessment - Oceania Cruises Reporting Unit

As described in Note 2 to the consolidated financial statements, the Company's goodwill balance for the Oceania Cruises reporting unit was \$523.0 million as of December 31, 2019. Management reviews goodwill for impairment on an annual basis or earlier if there is an event or change in circumstances that would indicate that the carrying value of these assets may not be fully recoverable. For the 2019 annual goodwill impairment evaluation, management conducted a quantitative assessment comparing the fair value of the Oceania Cruises reporting unit to its carrying value, including goodwill. This assessment consists of a combined approach using discounted future cash flows and market multiples to determine the fair value of the reporting units. The market approach considers revenue and EBITDA multiples from an appropriate peer group. The discounted cash flow valuation reflects management's principal assumptions related to (i) forecasted future operating results and growth rates, (ii) forecasted capital expenditures for fleet growth and ship improvements, and (iii) a weighted average cost of capital of market participants, adjusted for an optimal capital structure. Management believes that the combined approach is the most representative method to assess fair value as it utilizes expectations of long-term growth as well as current market conditions.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the Oceania Cruises reporting unit is a critical audit matter are there was significant judgment by management when developing the fair value of the reporting unit. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and in evaluating audit evidence relating to management's future cash flow projections and selected market multiples and the significant assumptions, including revenue and EBITDA multiples from an appropriate peer group, forecasted future operating results and growth rates, forecasted capital expenditures for fleet growth and ship improvements, and the weighted average cost of capital of market participants. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment for Oceania Cruises, including controls over the valuation of the Company's reporting unit. These procedures also included, among others, testing management's process for developing the fair value estimate of the Oceania Cruises reporting unit; evaluating the appropriateness of the discounted future cash flow and market multiples approaches; testing the completeness, accuracy and relevance of underlying data used in the approaches; and evaluating the reasonableness of the significant assumptions used by management, including revenue and EBITDA multiples from an appropriate peer group, forecasted future operating results and growth rates, capital expenditures for fleet growth and ship improvements, and the weighted average cost of capital of market participants. Evaluating management's assumptions related to revenue and EBITDA multiples from an appropriate peer group, forecasted future operating results and growth rates, capital expenditures for fleet growth and ship improvements, and the weighted average cost of capital of market participants involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit, (ii) the consistency with external market and industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's discounted future cash flow and market multiples approaches and certain significant assumptions, including the weighted average cost of capital of market participants.

/s/ PricewaterhouseCoopers LLP

Miami, Florida
February 27, 2020

We have served as the Company's auditor since at least 1988. We have not been able to determine the specific year we began serving as auditor of the Company.

Norwegian Cruise Line Holdings Ltd.
Consolidated Statements of Operations
(in thousands, except share and per share data)

	Year Ended December 31,		
	2019	2018	2017
Revenue			
Passenger ticket	\$ 4,517,393	\$ 4,259,815	\$ 3,750,030
Onboard and other	1,944,983	1,795,311	1,646,145
Total revenue	<u>6,462,376</u>	<u>6,055,126</u>	<u>5,396,175</u>
Cruise operating expense			
Commissions, transportation and other	1,120,886	998,948	894,406
Onboard and other	394,673	348,656	319,293
Payroll and related	924,157	881,606	803,632
Fuel	409,602	392,685	361,032
Food	222,602	216,031	198,357
Other	591,341	539,150	486,924
Total cruise operating expense	<u>3,663,261</u>	<u>3,377,076</u>	<u>3,063,644</u>
Other operating expense			
Marketing, general and administrative	974,850	897,929	773,755
Depreciation and amortization	646,188	561,060	509,957
Total other operating expense	<u>1,621,038</u>	<u>1,458,989</u>	<u>1,283,712</u>
Operating income	<u>1,178,077</u>	<u>1,219,061</u>	<u>1,048,819</u>
Non-operating income (expense)			
Interest expense, net	(272,867)	(270,404)	(267,804)
Other income (expense), net	6,155	20,653	(10,401)
Total non-operating income (expense)	<u>(266,712)</u>	<u>(249,751)</u>	<u>(278,205)</u>
Net income before income taxes	911,365	969,310	770,614
Income tax benefit (expense)	18,863	(14,467)	(10,742)
Net income	<u>\$ 930,228</u>	<u>\$ 954,843</u>	<u>\$ 759,872</u>
Weighted-average shares outstanding			
Basic	<u>214,929,977</u>	<u>223,001,739</u>	<u>228,040,825</u>
Diluted	<u>216,475,076</u>	<u>224,419,205</u>	<u>229,418,326</u>
Earnings per share			
Basic	<u>\$ 4.33</u>	<u>\$ 4.28</u>	<u>\$ 3.33</u>
Diluted	<u>\$ 4.30</u>	<u>\$ 4.25</u>	<u>\$ 3.31</u>

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

Norwegian Cruise Line Holdings Ltd.
Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 930,228	\$ 954,843	\$ 759,872
Other comprehensive income (loss):			
Shipboard Retirement Plan	(1,930)	2,697	(40)
Cash flow hedges:			
Net unrealized gain (loss)	(123,015)	(161,214)	304,684
Amount realized and reclassified into earnings	(8,898)	(30,096)	36,795
Total other comprehensive income (loss)	(133,843)	(188,613)	341,439
Total comprehensive income	<u>\$ 796,385</u>	<u>\$ 766,230</u>	<u>\$ 1,101,311</u>

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

Norwegian Cruise Line Holdings Ltd.
Consolidated Balance Sheets
(in thousands, except share data)

	December 31,	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 252,876	\$ 163,851
Accounts receivable, net	75,109	55,249
Inventories	95,427	90,202
Prepaid expenses and other assets	306,733	241,011
Total current assets	730,145	550,313
Property and equipment, net	13,135,337	12,119,253
Goodwill	1,388,931	1,388,931
Tradenames	817,525	817,525
Other long-term assets	612,661	329,948
Total assets	\$ 16,684,599	\$ 15,205,970
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 746,358	\$ 681,218
Accounts payable	100,777	159,564
Accrued expenses and other liabilities	782,275	716,499
Advance ticket sales	1,954,980	1,593,219
Total current liabilities	3,584,390	3,150,500
Long-term debt	6,055,335	5,810,873
Other long-term liabilities	529,295	281,596
Total liabilities	10,169,020	9,242,969
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Ordinary shares, \$0.001 par value; 490,000,000 shares authorized; 237,533,270 shares issued and 213,082,411 shares outstanding at December 31, 2019 and 235,484,613 shares issued and 217,650,644 shares outstanding at December 31, 2018	237	235
Additional paid-in capital	4,235,690	4,129,639
Accumulated other comprehensive income (loss)	(295,490)	(161,647)
Retained earnings	3,829,068	2,898,840
Treasury shares (24,450,859 and 17,833,969 ordinary shares at December 31, 2019 and December 31, 2018, respectively, at cost)	(1,253,926)	(904,066)
Total shareholders' equity	6,515,579	5,963,001
Total liabilities and shareholders' equity	\$ 16,684,599	\$ 15,205,970

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

Norwegian Cruise Line Holdings Ltd.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net income	\$ 930,228	\$ 954,843	\$ 759,872
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	647,102	566,972	521,484
Deferred income taxes, net	(26,134)	1,508	9,153
Loss on extinguishment of debt	13,397	6,346	22,211
Provision for bad debts and inventory obsolescence	3,884	5,570	2,431
Gain on involuntary conversion of assets	(4,152)	—	—
Share-based compensation expense	95,055	115,983	87,039
Net foreign currency adjustments	(1,934)	(5,537)	—
Changes in operating assets and liabilities:			
Accounts receivable, net	(14,104)	(15,886)	15,050
Inventories	(6,155)	(9,052)	(17,129)
Prepaid expenses and other assets	(74,295)	(29,519)	(22,714)
Accounts payable	(58,635)	106,387	14,047
Accrued expenses and other liabilities	(29,028)	114,953	55,791
Advance ticket sales	347,376	262,603	154,012
Net cash provided by operating activities	<u>1,822,605</u>	<u>2,075,171</u>	<u>1,601,247</u>
Cash flows from investing activities			
Additions to property and equipment, net	(1,637,170)	(1,566,796)	(1,372,214)
Cash received on settlement of derivatives	289	64,796	2,346
Cash paid on settlement of derivatives	(47,085)	(1,719)	(35,694)
Other	3,774	1,011	664
Net cash used in investing activities	<u>(1,680,192)</u>	<u>(1,502,708)</u>	<u>(1,404,898)</u>
Cash flows from financing activities			
Repayments of long-term debt	(3,806,732)	(1,716,244)	(1,916,885)
Proceeds from long-term debt	4,122,297	1,904,865	1,816,390
Proceeds from employee related plans	31,937	28,819	30,032
Net share settlement of restricted share units	(20,939)	(13,855)	(6,342)
Purchases of treasury shares	(349,860)	(664,811)	—
Early redemption premium	(6,829)	(5,154)	(15,506)
Deferred financing fees	(23,262)	(118,422)	(56,195)
Net cash used in financing activities	<u>(53,388)</u>	<u>(584,802)</u>	<u>(148,506)</u>
Net increase (decrease) in cash and cash equivalents	89,025	(12,339)	47,843
Cash and cash equivalents at beginning of period	163,851	176,190	128,347
Cash and cash equivalents at end of period	<u>\$ 252,876</u>	<u>\$ 163,851</u>	<u>\$ 176,190</u>

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

Norwegian Cruise Line Holdings Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(in thousands)

	Ordinary Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance, December 31, 2016	\$ 232	\$ 3,890,119	\$ (314,473)	\$ 1,201,103	\$ (239,255)	\$ 4,537,726
Share-based compensation	—	87,039	—	—	—	87,039
Issuance of shares under employee related plans	1	30,031	—	—	—	30,032
Net share settlement of restricted share units	—	(6,342)	—	—	—	(6,342)
Cumulative change in accounting policy	—	(2,153)	—	2,153	—	—
Other comprehensive income, net	—	—	341,439	—	—	341,439
Net income	—	—	—	759,872	—	759,872
Balance, December 31, 2017	233	3,998,694	26,966	1,963,128	(239,255)	5,749,766
Share-based compensation	—	115,983	—	—	—	115,983
Issuance of shares under employee related plans	2	28,817	—	—	—	28,819
Treasury shares	—	—	—	—	(664,811)	(664,811)
Net share settlement of restricted share units	—	(13,855)	—	—	—	(13,855)
Cumulative change in accounting policy	—	—	(12)	(19,131)	—	(19,143)
Other comprehensive income, net	—	—	(188,601)	—	—	(188,601)
Net income	—	—	—	954,843	—	954,843
Balance, December 31, 2018	235	4,129,639	(161,647)	2,898,840	(904,066)	5,963,001
Share-based compensation	—	95,055	—	—	—	95,055
Issuance of shares under employee related plans	2	31,935	—	—	—	31,937
Treasury shares	—	—	—	—	(349,860)	(349,860)
Net share settlement of restricted share units	—	(20,939)	—	—	—	(20,939)
Other comprehensive loss, net	—	—	(133,843)	—	—	(133,843)
Net income	—	—	—	930,228	—	930,228
Balance, December 31, 2019	\$ 237	\$ 4,235,690	\$ (295,490)	\$ 3,829,068	\$ (1,253,926)	\$ 6,515,579

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

Norwegian Cruise Line Holdings Ltd.
Notes to the Consolidated Financial Statements

1. Description of Business and Organization

We are a leading global cruise company which operates the Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises brands. As of December 31, 2019, we had 27 ships with approximately 58,400 Berths and had orders for 10 additional ships to be delivered through 2027, subject to certain conditions.

Seven Seas Splendor was delivered in January 2020. We refer you to Note 18 – “Subsequent Events” for additional information. We have one additional Explorer Class Ship on order for delivery in the fall of 2023. We have two Allura Class Ships on order for delivery in the winter of 2022 and spring of 2025. Project Leonardo will introduce an additional six ships with expected delivery dates through 2027. The addition of these 10 ships to our fleet will increase our total Berths to approximately 82,000.

Norwegian commenced operations from Miami in 1966. In February 2011, NCLH, a Bermuda limited company, was formed with the issuance to the Sponsors of, in aggregate, 10,000 ordinary shares, with a par value of \$0.001 per share. In January 2013, NCLH completed its IPO and the ordinary shares of NCLC, all of which were owned by the Sponsors, were exchanged for the ordinary shares of NCLH, and NCLH became the owner of 100% of the ordinary shares and parent company of NCLC (the “Corporate Reorganization”). At the same time, NCLH contributed \$460.0 million to NCLC and the historical financial statements of NCLC became those of NCLH. The Corporate Reorganization was affected solely for the purpose of reorganizing our corporate structure. As a result of the Secondary Equity Offerings, as of December 2018, the Sponsors no longer owned the ordinary shares they held in NCLH.

In November 2014, we completed the Acquisition of Prestige. We believe that the combination of Norwegian and Prestige creates a cruise operating company with a rich product portfolio and strong market presence.

2. Summary of Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and contain all normal recurring adjustments necessary for a fair presentation of the results for the periods presented. Estimates are required for the preparation of consolidated financial statements in accordance with generally accepted accounting principles and actual results could differ from these estimates. All significant intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost and include cash and investments with original maturities of three months or less at acquisition and also include amounts due from credit card processors.

Accounts Receivable, Net

Accounts receivable are shown net of an allowance for doubtful accounts of \$10.6 million and \$9.6 million as of December 31, 2019 and 2018, respectively.

Inventories

Inventories mainly consist of provisions, supplies and fuel and are carried at the lower of cost or net realizable value using the first-in, first-out method of accounting.

Advertising Costs

Advertising costs are expensed as incurred except for those that result in tangible assets, including brochures, which are treated as prepaid expenses and charged to expense as consumed. Advertising costs of \$5.9 million and \$0.8 million as of December 31, 2019 and 2018, respectively, are included in prepaid expenses and other assets. Expenses related to advertising costs totaled \$400.6 million, \$327.3 million and \$289.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the basic weighted-average number of shares outstanding during each period. Diluted earnings per share is computed by dividing net income by diluted weighted-average shares outstanding.

A reconciliation between basic and diluted earnings per share was as follows (in thousands, except share and per share data):

	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 930,228	\$ 954,843	\$ 759,872
Basic weighted-average shares outstanding	214,929,977	223,001,739	228,040,825
Dilutive effect of share awards	1,545,099	1,417,466	1,377,501
Diluted weighted-average shares outstanding	216,475,076	224,419,205	229,418,326
Basic earnings per share	\$ 4.33	\$ 4.28	\$ 3.33
Diluted earnings per share	\$ 4.30	\$ 4.25	\$ 3.31

For the years ended December 31, 2019, 2018 and 2017, a total of 4.0 million, 4.7 million and 5.6 million shares, respectively, have been excluded from diluted weighted-average shares outstanding because the effect of including them would have been anti-dilutive.

Property and Equipment, Net

Property and equipment are recorded at cost. Ship improvement costs that we believe add value to our ships are capitalized to the ship and depreciated over the shorter of the improvements' estimated useful lives or the remaining useful life of the ship while costs of repairs and maintenance, including Dry-dock costs, are charged to expense as incurred. During ship construction, certain interest is capitalized as a cost of the ship. Gains or losses on the sale of property and equipment are recorded as a component of operating income (expense) in our consolidated statements of operations. The useful lives of ship improvements are estimated based on the economic lives of the new components. In addition, to determine the useful lives of the ship or ship components, we consider the impact of the historical useful lives of similar assets, manufacturer recommended lives and anticipated changes in technological conditions.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, after a 15% reduction for the estimated residual values of ships as follows:

	Useful Life
Ships	30 years
Computer hardware and software	3-10 years
Other property and equipment	3-40 years
Leasehold improvements	Shorter of lease term or asset life
Ship improvements	Shorter of asset life or life of the ship

Long-lived assets are reviewed for impairment, based on estimated future undiscounted cash flows, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets are grouped and

evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. We consider historical performance and future estimated results in our evaluation of potential impairment and then compare the carrying amount of the asset to the estimated future cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, we measure the amount of the impairment by comparing the carrying amount of the asset to its fair value. We estimate fair value based on the best information available utilizing estimates, judgments and projections as necessary. Our estimate of fair value is generally measured by discounting expected future cash flows at discount rates commensurate with the associated risk.

Goodwill and Tradenames

Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill and other indefinite-lived assets, principally tradenames, are reviewed for impairment on an annual basis or earlier if there is an event or change in circumstances that would indicate that the carrying value of these assets may not be fully recoverable. We use the Step 0 Test which allows us to first assess qualitative factors to determine whether it is more likely than not (i.e., more than 50%) that the fair value of a reporting unit is less than its carrying value. For tradenames we also provide a qualitative assessment to determine if there is any indication of impairment.

In order to make this evaluation, we consider the following circumstances as well as others:

- Changes in general macroeconomic conditions such as a deterioration in general economic conditions; limitations on accessing capital; fluctuations in foreign exchange rates; or other developments in equity and credit markets;
- Changes in industry and market conditions such as a deterioration in the environment in which an entity operates; an increased competitive environment; a decline in market-dependent multiples or metrics (in both absolute terms and relative to peers); a change in the market for an entity's products or services; or a regulatory or political development;
- Changes in cost factors that have a negative effect on earnings and cash flows;
- Decline in overall financial performance (for both actual and expected performance);
- Entity and reporting unit specific events such as changes in management, key personnel, strategy, or customers; litigation; or a change in the composition or carrying amount of net assets; and
- Decline in share price (in both absolute terms and relative to peers).

We also may conduct a quantitative assessment comparing the fair value of each reporting unit to its carrying value, including goodwill. This is called the Step I Test which consists of a combined approach using discounted future cash flows and market multiples to determine the fair value of the reporting units. The market approach considers revenue and EBITDA multiples from an appropriate peer group. Our discounted cash flow valuation reflects our principal assumptions of 1) forecasted future operating results and growth rates, 2) forecasted capital expenditures for fleet growth and ship improvements and 3) a weighted average cost of capital of market participants, adjusted for an optimal capital structure.

We believe that the combined approach is the most representative method to assess fair value as it utilizes expectations of long-term growth as well as current market conditions. For the tradenames, we may also use a quantitative assessment, which utilizes the relief from royalty method and includes the same forecasts and discount rates from the discounted cash flow valuation in the goodwill assessment along with a tradename royalty rate assumption.

We have concluded that our business has three reporting units. Each brand, Oceania Cruises, Regent Seven Seas and Norwegian, constitutes a business for which discrete financial information is available and management regularly reviews the operating results and, therefore, each brand is considered an operating segment.

As of December 31, 2019, there was \$523.0 million, \$462.1 million and \$403.8 million of goodwill for the Oceania Cruises, Regent Seven Seas and Norwegian reporting units, respectively. For our 2019 annual goodwill and tradename impairment evaluation, we elected to perform quantitative tests for the Oceania Cruises, Regent Seven Seas and Norwegian reporting units. Based on the results of the tests, we determined there was no impairment of goodwill or tradenames because the fair values exceeded the carrying values.

Revenue and Expense Recognition

Deposits on advance ticket sales are deferred when received and are subsequently recognized as revenue ratably during the voyage sailing days as services are rendered over time on the ship. Cancellation fees are recognized in passenger ticket revenue in the month of the cancellation. Goods and services associated with onboard revenue are generally provided at a point in time and revenue is recognized when the performance obligation is satisfied. A receivable is recognized for onboard goods and services rendered when the voyage is not completed before the end of the period. All associated direct costs of a voyage are recognized as incurred in cruise operating expenses.

Disaggregation of Revenue

Revenue and cash flows are affected by economic factors in various geographical regions.

Revenues by destination consisted of the following (in thousands):

	Year Ended December 31,		
	2019	2018	2017
North America	\$ 3,807,576	\$ 3,543,282	\$ 3,285,903
Europe	1,666,751	1,462,698	1,347,381
Asia-Pacific	500,842	721,404	394,631
Other	487,207	327,742	368,260
Total revenue	<u>\$ 6,462,376</u>	<u>\$ 6,055,126</u>	<u>\$ 5,396,175</u>

Segment Reporting

We have concluded that our business has a single reportable segment. Each brand, Norwegian, Oceania Cruises and Regent, constitutes a business for which discrete financial information is available and management regularly reviews the brand level operating results and, therefore, each brand is considered an operating segment. Our operating segments have similar economic and qualitative characteristics, including similar long-term margins and similar products and services; therefore, we aggregate all of the operating segments into one reportable segment.

Although we sell cruises on an international basis, our passenger ticket revenue is primarily attributed to U.S.-sourced guests who make reservations in the U.S. Revenue attributable to U.S.-sourced guests was 81%, 77% and 77% for the years ended December 31, 2019, 2018 and 2017, respectively. No other individual country's revenues exceeded 10% in any of our last three years.

Substantially all of our long-lived assets are located outside of the U.S. and consist primarily of our ships. We had 19 ships with Bahamas registry with a carrying value of \$10.2 billion as of December 31, 2019 and 18 ships with Bahamas registry with a carrying value of \$9.1 billion as of December 31, 2018. We had seven ships with Marshall Island registry with a carrying value of \$1.9 billion as of December 31, 2019 and 2018. We also had one ship with U.S. registry with a carrying value of \$0.3 billion as of December 31, 2019 and 2018.

Debt Issuance Costs

Debt issuance costs related to a recognized debt liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For line of credit arrangements and for those debt facilities not fully drawn we defer and present debt issuance costs as an asset. These deferred issuance costs are amortized over the life of the loan. The amortization of deferred financing fees is included in depreciation and amortization expense in the consolidated statements of cash flows; however, for purposes of the consolidated statements of operations it is included in interest expense, net.

Foreign Currency

The majority of our transactions are settled in U.S. dollars. Gains or losses resulting from transactions denominated in other currencies are recognized in other income (expense), net at each balance sheet date. We recognized a loss of \$7.0 million, a gain of \$19.8 million and a loss of \$14.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Derivative Instruments and Hedging Activity

We enter into derivative contracts to reduce our exposure to fluctuations in foreign currency exchange rates, interest rates and fuel prices. The criteria used to determine whether a transaction qualifies for hedge accounting treatment includes the correlation between fluctuations in the fair value of the hedged item and the fair value of the related derivative instrument and its effectiveness as a hedge. As the derivative is marked to fair value, we elected an accounting policy to net the fair value of our derivatives when a master netting arrangement exists with our counterparties.

A derivative instrument that hedges a forecasted transaction or the variability of cash flows related to a recognized asset or liability may be designated as a cash flow hedge. Changes in fair value of derivative instruments that are designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) until the underlying hedged transactions are recognized in earnings. To the extent that an instrument is not effective as a hedge, gains and losses are recognized in other income (expense), net in our consolidated statements of operations. Realized gains and losses related to our effective fuel hedges are recognized in fuel expense. For presentation in our consolidated statements of cash flows, we have elected to classify the cash flows from our cash flow hedges in the same category as the cash flows from the items being hedged.

Concentrations of Credit Risk

We monitor concentrations of credit risk associated with financial and other institutions with which we conduct significant business. Credit risk, including but not limited to counterparty non-performance under derivative instruments, our Revolving Loan Facility and new ship progress payment guarantees, is not considered significant, as we primarily conduct business with large, well-established financial institutions and insurance companies that we have well-established relationships with and that have credit risks acceptable to us or the credit risk is spread out among a large number of creditors. We do not anticipate non-performance by any of our significant counterparties.

Insurance

We use a combination of insurance and self-insurance for a number of risks including claims related to crew and guests, hull and machinery, war risk, workers' compensation, property damage, employee healthcare and general liability. Liabilities associated with certain of these risks, including crew and passenger claims, are estimated actuarially based upon known facts, historical trends and a reasonable estimate of future expenses. While we believe these accruals are adequate, the ultimate losses incurred may differ from those recorded.

Income Taxes

Deferred tax assets and liabilities are calculated in accordance with the liability method. Deferred taxes are recorded using the currently enacted tax rates that apply in the periods that the differences are expected to reverse. Deferred taxes are not discounted.

We provide a valuation allowance on deferred tax assets when it is more likely than not that such assets will not be realized. With respect to acquired deferred tax assets, changes within the measurement period that result from new information about facts and circumstances that existed at the acquisition date shall be recognized through a corresponding adjustment to goodwill. Subsequent to the measurement period, all other changes shall be reported as a reduction or increase to income tax expense in our consolidated statements of operations.

Share-Based Compensation

We recognize expense for our share-based compensation awards using a fair-value-based method. Share-based compensation expense is recognized over the requisite service period for awards that are based on a service period and not contingent upon any future performance. We refer you to Note 11—“Employee Benefits and Share-Based Compensation.”

Recently Issued Accounting Guidance

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-04, *Intangibles—Goodwill and Other (Topic 350) — Simplifying the Test for Goodwill Impairment*, which simplifies the test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. The guidance is effective for annual or any interim goodwill impairment tests in years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has not early adopted this guidance. The Company will evaluate, upon adoption of this guidance, the impact of this guidance on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which will require an entity to present the net amount expected to be collected for certain financial assets, including trade receivables. Under this update, on initial recognition and at each reporting period, an entity will be required to recognize an allowance that reflects the entity’s current estimate of credit losses expected to be incurred over the life of the financial instrument. The update will be applied prospectively with a cumulative-effect adjustment to retained earnings. This update will be effective for the Company for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. The adoption of this standard will not have a material impact on the Company’s consolidated financial statements.

3. Revenue and Expense from Contracts with Customers

Nature of Goods and Services

We offer our guests a multitude of cruise fare options when booking a cruise. Our cruise ticket prices generally include cruise fare and a wide variety of onboard activities and amenities, meals, entertainment and port fees and taxes. In some instances, cruise ticket prices include round-trip airfare to and from the port of embarkation, complimentary beverages, unlimited shore excursions, free internet, pre-cruise hotel packages, and on some of the exotic itineraries, pre- or post-land packages. Prices vary depending on the particular cruise itinerary, stateroom category selected and the time of year that the voyage takes place. Passenger ticket revenue also includes full ship charters as well as port fees and taxes.

During the voyage, we generate onboard and other revenue for additional products and services which are not included in the cruise fare, including casino operations, certain food and beverage, gift shop purchases, spa services, photo services, Wi-Fi services and other similar items. Food and beverage, casino operations, photo services and shore excursions are generally managed directly by us while retail shops, spa services, art auctions and internet services may

be managed through contracts with third-party concessionaires. These contracts generally entitle us to a percentage of the gross sales derived from these concessions, which is recognized on a net basis. While some onboard goods and services may be prepaid prior to the voyage, we utilize point-of-sale systems for discrete purchases made onboard. Certain of our product offerings are bundled and we allocate the value of the bundled goods and services between passenger ticket revenue and onboard and other revenue based upon the relative standalone selling prices of those goods and services.

Timing of Satisfaction of Performance Obligations and Significant Payment Terms

The payment terms and cancellation policies vary by brand, stateroom category, length of voyage, and country of purchase. A deposit for a future booking is required at or soon after the time of booking. Final payment is generally due between 120 days and 180 days before the voyage. Deposits on advance ticket sales are deferred when received and include amounts that are refundable. Deferred amounts are subsequently recognized as revenue ratably during the voyage sailing days as services are rendered over time on the ship. Deposits are generally cancellable and refundable prior to sailing, but may be subject to penalties, depending on the timing of cancellation. The inception of substantive cancellation penalties generally coincides with the dates that final payment is due, and penalties generally increase as the voyage sail date approaches. Cancellation fees are recognized in passenger ticket revenue in the month of the cancellation.

Goods and services associated with onboard revenue are generally provided at a point in time and revenue is recognized when the performance obligation is satisfied. Onboard goods and services rendered may be paid at disembarkation. A receivable is recognized for onboard goods and services rendered when the voyage is not completed before the end of the period.

Cruises that are reserved under full ship charter agreements are subject to the payment terms of the specific agreement and may be either cancelable or non-cancelable. Deposits received on charter voyages are deferred when received and included in advance ticket sales. Deferred amounts are subsequently recognized as revenue ratably over the voyage sailing dates.

Contract Balances

Receivables from customers are included within accounts receivables, net. As of December 31, 2019 and December 31, 2018, our receivables from customers were \$15.3 million and \$17.3 million, respectively.

Contract liabilities represent the Company's obligation to transfer goods and services to a customer. A customer deposit held for a future cruise is generally considered a contract liability only when final payment is both due and paid by the customer and is usually recognized in earnings within 180 days of becoming a contract. Other deposits held and included within advance ticket sales or other long-term liabilities are not considered contract liabilities as they are largely cancelable and refundable. Our contract liabilities are included within advance ticket sales. As of December 31, 2019 and December 31, 2018, our contract liabilities were \$1.4 billion and \$1.2 billion, respectively. Of the amounts included within contract liabilities, approximately 55% were refundable in accordance with our cancellation policies. Approximately \$1.2 billion of the December 31, 2018 contract liability balance has been recognized in revenue for the year ended December 31, 2019.

Our revenue is seasonal and based on the demand for cruises. Historically, the seasonality of the North American cruise industry generally results in the greatest demand for cruises during the Northern Hemisphere's summer months. This predictable seasonality in demand has resulted in fluctuations by quarter in our revenue and results of operations. The seasonality of our results is increased due to ships being taken out of service for regularly scheduled Dry-docks, which we typically schedule during non-peak demand periods. This seasonality will result in higher contract liability balances as a result of an increased number of reservations preceding these peak demand periods. The addition of new ships also increases the contract liability balances prior to a new ship's delivery, as staterooms are made available for reservation prior to the inaugural cruise. Norwegian Encore, with approximately 4,000 Berths, was delivered on October 30, 2019 and added 7% capacity to our fleet.

Practical Expedients and Exemptions

We do not disclose information about remaining performance obligations that have original expected durations of one year or less. We recognize revenue in an amount that corresponds directly with the value to the customer of our performance completed to date. Variable consideration, which will be determined based on a future rate and passenger count, is excluded from the disclosure and these amounts are not material. These variable non-disclosed contractual amounts relate to our non-cancelable charter agreements and a leasing arrangement with a certain port, both of which are long-term in nature. Amounts that are fixed in nature due to the application of minimum guarantees are also not material and are not disclosed.

Contract Costs

Management expects that incremental commissions and credit card fees paid as a result of obtaining ticket contracts are recoverable; therefore, we recognize these amounts as assets when they are paid prior to the voyage. Costs of air tickets, port taxes and other fees that fulfill future performance obligations are also considered recoverable and are recorded as assets. Costs incurred to obtain customers were \$143.5 million and \$116.3 million as of December 31, 2019 and 2018, respectively. Costs to fulfill contracts with customers were \$49.7 million and \$32.5 million as of December 31, 2019 and 2018, respectively. Both costs to obtain and fulfill contracts with customers are recognized within prepaid expenses and other assets. Incremental commissions, credit card fees, air ticket costs, and port taxes and fees are recognized ratably over the voyage sailing dates, concurrent with associated revenue, and are primarily in commissions, transportation and other expense.

4. Goodwill and Intangible Assets

Goodwill and tradenames are not subject to amortization. As of December 31, 2019 and 2018, the carrying values were \$1.4 billion for goodwill and \$0.8 billion for tradenames.

The gross carrying amounts of intangible assets included within other long-term assets, the related accumulated amortization, the net carrying amounts and the weighted-average amortization periods of the Company's intangible assets are listed in the following tables (in thousands, except amortization period):

	December 31, 2019			Weighted-Average Amortization Period (Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$ 120,000	\$ (110,169)	\$ 9,831	6.0
License	750	(331)	419	10.0
Total intangible assets subject to amortization	<u>\$ 120,750</u>	<u>\$ (110,500)</u>	<u>\$ 10,250</u>	

	December 31, 2018			Weighted-Average Amortization Period (Years)
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$ 120,000	\$ (91,756)	\$ 28,244	6.0
Licenses	3,368	(2,874)	494	5.6
Total intangible assets subject to amortization	<u>\$ 123,368</u>	<u>\$ (94,630)</u>	<u>\$ 28,738</u>	

The aggregate amortization expense is as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Amortization expense	\$ 18,488	\$ 26,163	\$ 31,232

The following table sets forth the Company's estimated aggregate amortization expense for each of the five years below (in thousands):

Year ended December 31,	Amortization Expense
2020	\$ 9,906
2021	75
2022	75
2023	75
2024	75

5. Leases

On January 1, 2019, we adopted ASU No. 2016-02, Leases ("Topic 842"). Topic 842 supersedes the lease accounting requirements in Accounting Standards Codification ("ASC") 840—Leases. In August 2018, the FASB issued ASU 2018-11, Targeted Improvements to Topic 842, which included an option to apply the new leases standard at the adoption date using a modified retrospective approach, which the Company elected.

Nature of Leases

We have finance leases for certain ship equipment and a corporate office. We have operating leases for port facilities, corporate offices, warehouses, and certain equipment. Many of our leases include both lease and non-lease components. We have adopted the practical expedient which allows us to combine lease and non-lease components by class of asset. We have applied this expedient for office leases, port facilities, and certain equipment.

Significant Assumptions and Judgments in Applying Topic 842 and Practical Expedients Elected

Our leases contain both fixed and variable payments. Fixed payments and variable lease payments that depend on a rate or index are included in the calculation of the right-of-use asset. Other variable payments are excluded from the calculation unless there is an unavoidable fixed minimum cost related to those payments such as a minimum annual guarantee. Our lease assets are amortized on a straight-line basis except for our rights to use port facilities. The expenses related to port facilities are amortized based on passenger counts as this basis represents the pattern in which the economic benefit is derived from the right to use the underlying asset.

For non-consecutive lease terms, which relate to our rights to use certain port facilities, the term of the lease is based on the number of days on which we have the right to use a specified asset. We have adopted the practical expedient to exclude leases with terms of less than one year from being included on the balance sheet. Lease expense for agreements that are short-term are disclosed below and include both fixed and variable payments.

Certain leases include one or more options to extend or terminate and are primarily in five-year increments. Lease extensions and terminations, including auto-renewing lease terms, were only included in the calculation of the right-of-use asset to the extent that the right to renew or terminate was at the option of the lessor only or where there was a more than insignificant penalty for termination.

As our leases do not have a readily determinable implicit rate, we used our weighted average cost of debt to determine the net present value of the lease payments at the adoption date. Our weighted average cost of debt is similar to the

incremental borrowing rate we would have obtained if we had borrowed collateralized debt over the lease term to purchase the asset, and the rate was adjusted for longer term leases.

We have also adopted the practical expedient which allows us, by class of asset, to not separate lease and non-lease components when we are the lessor in the underlying transaction, the transactions would otherwise be accounted for under ASC 606–Revenue Recognition and the non-lease components are the predominant components of the agreements. We have applied this practical expedient to transactions with cruise passengers and concession service providers related to the use of our ships. We refer you to Note 3 – “Revenue and Expense from Contracts with Customers.”

Impacts on Financial Statements

As a result of the adoption of Topic 842 on January 1, 2019, we recorded operating lease right-of-use assets of \$235.0 million and operating lease liabilities of \$243.8 million. Another \$8.8 million was reclassified to the operating right-of-use assets from other asset and liability accounts relating to the existing leases. The adoption of Topic 842 did not result in the identification of new finance leases. The adoption does not significantly change the timing, classification or amount of expense recognized in our consolidated financial statements nor does it change the timing, classification or amount of cash payments included within the consolidated statement of cash flows.

The components of lease expense and revenue were as follows (in thousands):

	Year Ended
	December 31, 2019
Operating lease expense	\$ 31,596
Variable lease expense	14,284
Short-term lease expense	50,832
Finance lease cost:	
Amortization of right-of-use assets	1,765
Interest on lease liabilities	1,239
Operating lease revenue	446
Sublease income	1,615

Lease balances were as follows (in thousands):

	Balance Sheet location	December 31, 2019
Operating leases		
Right-of-use assets	Other long-term assets	\$ 236,604
Current operating lease liabilities	Accrued expenses and other liabilities	39,126
Non-current operating lease liabilities	Other long-term liabilities	207,243
Finance leases		
Right-of-use assets	Property and equipment, net	13,873
Current finance lease liabilities	Current portion of long-term debt	6,419
Non-current finance lease liabilities	Long-term debt	8,812

Supplemental cash flow information related to leases was as follows (in thousands):

	Year Ended December 31, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$	75,539
Operating cash outflows from finance leases		1,051
Financing cash outflows from finance leases		2,826
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases		24,834
Finance leases		705

As of December 31, 2019, maturities of lease liabilities, weighted-average remaining lease terms and discount rates for our leases were as follows (in thousands, except lease terms and discount rates):

	Operating leases	Finance leases
2020	\$ 47,796	\$ 6,141
2021	32,144	4,912
2022	31,844	3,957
2023	31,740	730
2024	31,753	677
Thereafter	112,718	629
Total	287,995	17,046
Less: Present value discount	(41,626)	(1,815)
Present value of lease liabilities	<u>\$ 246,369</u>	<u>\$ 15,231</u>
Weighted average remaining lease term (years)	8.30	3.65
Weighted average discount rate	3.76 %	7.47 %

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, future minimum lease payments for operating leases having initial or remaining noncancelable lease terms in excess of one year were as follows under the previous lease accounting standard (ASC 840) (in thousands):

Year	December 31, 2018	
2019	\$	16,651
2020		16,105
2021		15,315
2022		14,391
2023		13,462
Thereafter		52,626
Total minimum annual rentals	\$	<u>128,550</u>

Leases That Have Not Yet Commenced

We have multiple agreements that have been executed where the lease term has not commenced as of December 31, 2019. These are primarily related to our rights to use certain port facilities currently under construction. Although we may have provided design input, construction management services, or advances related to these assets, we have determined that we do not control these assets during the period of construction. These port facilities are expected to open for use during 2020 and include undiscounted minimum annual guarantees of approximately \$1.1 billion of passenger fees.

6. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) was as follows (in thousands):

	Year Ended December 31, 2019		
	Accumulated Other Comprehensive Income (Loss)	Change Related to Cash Flow Hedges	Change Related to Shipboard Retirement Plan
Accumulated other comprehensive income (loss) at beginning of period	\$ (161,647)	\$ (157,449)	\$ (4,198)
Current period other comprehensive loss before reclassifications	(125,323)	(123,015)	(2,308)
Amounts reclassified into earnings	(8,520)	(8,898)(1)	378 (2)
Accumulated other comprehensive income (loss) at end of period	<u>\$ (295,490)</u>	<u>\$ (289,362)(3)</u>	<u>\$ (6,128)</u>

	Year Ended December 31, 2018		
	Accumulated Other Comprehensive Income (Loss)	Change Related to Cash Flow Hedges	Change Related to Shipboard Retirement Plan
Accumulated other comprehensive income (loss) at beginning of period	\$ 26,966	\$ 33,861	\$ (6,895)
Current period other comprehensive income (loss) before reclassifications	(158,943)	(161,214)	2,271
Amounts reclassified into earnings	(29,670)	(30,096)(1)	426 (2)
Accumulated other comprehensive income (loss) at end of period	<u>\$ (161,647)</u>	<u>\$ (157,449)</u>	<u>\$ (4,198)</u>

	Year Ended December 31, 2017		
	Accumulated Other Comprehensive Income (Loss)	Change Related to Cash Flow Hedges	Change Related to Shipboard Retirement Plan
Accumulated other comprehensive income (loss) at beginning of period	\$ (314,473)	\$ (307,618)	\$ (6,855)
Current period other comprehensive income (loss) before reclassifications	304,226	304,684	(458)
Amounts reclassified into earnings	37,213	36,795 (1)	418 (4)
Accumulated other comprehensive income (loss) at end of period	<u>\$ 26,966</u>	<u>\$ 33,861</u>	<u>\$ (6,895)</u>

- (1) We refer you to Note 10— “Fair Value Measurements and Derivatives” in these notes to consolidated financial statements for the affected line items in the consolidated statements of operations.
- (2) Amortization of prior-service cost and actuarial loss reclassified to other income (expense), net.
- (3) Includes \$16.5 million of loss expected to be reclassified into earnings in the next 12 months.
- (4) Amortization of prior-service cost and actuarial loss reclassified to payroll and related expense.

7. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

	December 31,	
	2019	2018
Ships	\$ 14,154,578	\$ 13,032,555
Ships improvements	1,865,272	1,407,989
Ships under construction	387,749	491,632
Land and land improvements	38,375	34,936
Other	672,975	558,052
	17,118,949	15,525,164
Less: accumulated depreciation	(3,983,612)	(3,405,911)
Property and equipment, net	\$ 13,135,337	\$ 12,119,253

The increase in ships was primarily due to the addition of Norwegian Encore. The Company capitalized approximately \$458.9 million of costs associated with ship improvements. Depreciation expense for the years ended December 31, 2019, 2018 and 2017 was \$627.7 million, \$534.9 million and \$478.7 million, respectively. Repairs and maintenance expenses including Dry-dock expenses were \$199.7 million, \$199.5 million and \$157.2 million for the years ended December 31, 2019, 2018 and 2017, respectively, and were recorded within other cruise operating expense.

Ships under construction include progress payments to the shipyard, planning and design fees and other associated costs. Capitalized interest costs which were primarily associated with the construction or revitalization of ships amounted to \$32.9 million, \$30.4 million and \$29.0 million for the years ended December 31, 2019, 2018 and 2017, respectively.

8. Long-Term Debt

Long-term debt consisted of the following:

	Interest Rate		Maturities	Balance	
	December 31,			December 31,	
	2019	2018	Through	2019	2018
	(in thousands)				
\$875.0 million senior secured revolving credit facility	—	3.96 %	2024	\$ —	\$ 130,000
\$75.0 million revolving credit line	2.75 %	—	2020	75,000	—
Term Loan A	3.06 %	4.01 %	2024	1,565,512	1,256,167
\$375.0 million Term Loan B (1)	—	4.26 %	2021	—	368,982
\$700.0 million 4.750% senior unsecured notes	—	4.75 %	2021	—	561,021
\$565.0 million 3.625% senior unsecured notes	3.63 %	—	2024	558,781	—
€662.9 million Norwegian Epic term loan (2)	—	4.58 %	2022	—	259,394
\$260 million Norwegian Jewel term loan	2.54 %	—	2022	221,860	—
\$230 million Pride of America term loan	2.81 %	—	2021	229,621	—
€529.8 million Breakaway one loan (2)	2.84 %	4.09 %	2025	305,969	360,680
€529.8 million Breakaway two loan (2)	4.10 %	4.50 %	2026	370,531	426,503
€590.5 million Breakaway three loan (2)	2.98 %	2.98 %	2027	478,665	537,223
€729.9 million Breakaway four loan (2)	2.98 %	2.98 %	2029	630,088	694,536
€710.8 million Seahawk 1 term loan (2)	3.92 %	3.92 %	2030	692,150	756,061
€748.7 million Seahawk 2 term loan (2)	3.92 %	3.92 %	2031	856,188	187,612
Leonardo newbuild one loan	2.68 %	2.68 %	2034	48,009	48,009
Leonardo newbuild two loan	2.77 %	2.77 %	2035	48,009	48,009
Leonardo newbuild three loan	1.22 %	1.22 %	2036	42,700	43,667
Leonardo newbuild four loan	1.31 %	1.31 %	2037	42,700	43,667
Sirena loan	—	2.75 %	2019	—	13,856
Explorer newbuild loan	3.43 %	3.43 %	2028	242,449	268,970
Marina newbuild loan (3)	2.75 %	3.07 %	2023	156,319	201,007
Riviera newbuild loan (4)	2.48 %	3.32 %	2024	202,233	247,203
Finance lease and license obligations	Various	Various	2028	34,909	39,524
Total debt				6,801,693	6,492,091
Less: current portion of long-term debt				(746,358)	(681,218)
Total long-term debt				\$ 6,055,335	\$ 5,810,873

(1) Includes original issue discount of \$0.7 million as of December 31, 2018.

(2) Currently U.S. dollar-denominated.

(3) Includes premium of \$0.1 million as of December 31, 2019 and 2018.

(4) Includes premium of \$0.1 million and \$0.2 million as of December 31, 2019 and 2018, respectively.

On December 16, 2019, NCLC issued \$565.0 million aggregate principle amount of 3.625% senior unsecured notes due December 2024 (the “Notes”) in a private offering (the “Offering”) at par. NCLC used the net proceeds from the Offering, after deducting the initial purchasers’ discount and estimated fees and expenses, together with cash on hand, to redeem \$565.0 million principal amount of outstanding 4.75% Senior Notes due 2021 at a price equal to 100% of the principal amount being redeemed and paid the premium of \$6.7 million. The redemption also resulted in a write-off of \$2.7 million of deferred fees.

NCLC will pay interest on the Notes at 3.625% per annum, semiannually on June 15 and December 15 of each year, commencing on June 15, 2020, to holders of record at the close of business on the immediately preceding June 1 and December 1, respectively. NCLC may redeem the Notes, in whole or part, at any time prior to December 15, 2021, at a price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest to, but not including, the redemption date and a “make-whole premium.” NCLC may redeem the Notes, in whole or in part, on or

after December 15, 2021, at the redemption prices set forth in the indenture governing the Notes. At any time (which may be more than once) on or prior to December 15, 2021, NCLC may choose to redeem up to 40% of the aggregate principal amount of the Notes at a redemption price equal to 103.625% of the face amount thereof with an amount equal to the net proceeds of one or more equity offerings, so long as at least 60% of the aggregate principal amount of the Notes issued remains outstanding following such redemption. The indenture governing the Notes contains covenants that limit NCLC's ability to, among other things: (i) create liens on certain assets to secure debt; (ii) enter into sale leaseback transactions; and (iii) consolidate, merge, sell or otherwise dispose of all or substantially all of its assets. The indenture governing the Notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium (if any), interest and other monetary obligations on all of the then-outstanding Notes to become due and payable immediately.

On October 30, 2019, we took delivery of Norwegian Encore. We had export financing in place for 80% of the contract price. The associated \$882.9 million term loan bears interest at a fixed rate of 3.92% with a maturity date of October 30, 2031. Principal and interest payments are payable semiannually.

In October 2019, we entered into a \$75 million revolving credit line agreement that matures in October 2020 and bears interest at LIBOR plus a margin of 0.95%.

NCLC entered into a \$260 million credit agreement, dated as of May 15, 2019, with Bank of America, N.A., as administrative agent and collateral agent, and certain other lenders. The proceeds of this term loan were used to prepay the then outstanding principal and accrued interest of the Norwegian Epic term loan. The \$260 million term loan is secured by Norwegian Jewel Limited, bears interest at LIBOR plus a margin of 0.80%, and matures on May 15, 2022. The transaction resulted in a loss on extinguishment of debt of \$1.1 million.

NCLC entered into a \$230 million credit agreement, dated as of January 10, 2019, with Nordea Bank ABP, New York Branch, as administrative agent and collateral agent, and certain other lenders. The proceeds of this term loan will be used for general corporate purposes, including to finance the pre-delivery installments due to the builder under the Company's shipbuilding contracts. The \$230 million term loan is secured by Pride of America Ship Holding, LLC and bears interest at LIBOR plus a margin of 1.00%. The term loan matures on January 10, 2021; however, NCLC may elect to extend the maturity date to January 10, 2022 provided certain conditions are met. Should NCLC elect to extend the maturity date, the interest rate will be LIBOR plus a margin of 1.10% for the third year.

NCLC entered into a Fourth Amended and Restated Credit Agreement, dated as of January 2, 2019, with a subsidiary of NCLC, as co-borrower and JPMorgan Chase Bank, N.A., as administrative agent, and certain other lenders. This revised facility, among other things, (a) reduced the pricing of our existing \$875 million Revolving Loan Facility, (b) reduced the pricing and increased the approximately \$1.3 billion principal amount outstanding under the term loan A facility to \$1.6 billion, and (c) extended the maturity dates for our Revolving Loan Facility and our term loan A facility to 2024, subject to certain conditions. We used the proceeds from the increase in our term loan A facility to prepay all of the then outstanding amounts under our term loan B facility. The transaction resulted in a loss on extinguishment of debt of \$2.9 million.

The applicable margin under the new term loan A facility and new Revolving Loan Facility is determined by reference to a total leverage ratio, with an applicable margin of between 1.75% and 1.00% with respect to Eurocurrency loans and between 0.75% and 0.00% with respect to base rate loans. The margin as of December 31, 2019 for borrowings under the new term loan A facility and new Revolving Loan Facility was 1.25% with respect to Eurocurrency borrowings. In addition to paying interest on outstanding principal under the borrowings, we are obligated to pay a quarterly commitment fee at a rate determined by reference to a total net leverage ratio, with a maximum commitment fee of 0.30%.

Interest expense, net for the year ended December 31, 2019 was \$272.9 million which included \$27.5 million of amortization of deferred financing fees and a \$16.7 million loss on extinguishment and modification of debt. Interest expense, net for the year ended December 31, 2018 was \$270.4 million which included \$31.4 million of amortization of deferred financing fees and a \$6.3 million loss on extinguishment of debt. Interest expense, net for the year ended

December 31, 2017 was \$267.8 million which included \$32.5 million of amortization of deferred financing fees and a \$23.9 million loss on extinguishment and modification of debt.

Certain of our debt agreements contain covenants that, among other things, require us to maintain a minimum level of liquidity, as well as limit our net funded debt-to-capital ratio, and maintain certain other ratios and restrict our ability to pay dividends. Substantially all of our ships and other property and equipment are pledged as collateral for certain of our debt. We believe we were in compliance with our covenants as of December 31, 2019.

The following are scheduled principal repayments on long-term debt including finance lease obligations as of December 31, 2019 for each of the next five years (in thousands):

Year	Amount
2020	\$ 746,358
2021	899,206
2022	667,456
2023	574,492
2024	2,260,295
Thereafter	1,778,870
Total	\$ 6,926,677

We had an accrued interest liability of \$33.3 million and \$37.2 million as of December 31, 2019 and 2018, respectively.

9. Related Party Disclosures

Transactions with Genting HK and Apollo

In December 2018, as part of a public equity offering of NCLH's ordinary shares owned by Apollo and Genting HK, NCLH repurchased 1,683,168 of its ordinary shares sold in the offering for approximately \$85.0 million pursuant to its Repurchase Program.

In March 2018, as part of a public equity offering of NCLH's ordinary shares owned by Apollo and Genting HK, NCLH repurchased 4,722,312 of its ordinary shares sold in the offering for approximately \$263.5 million pursuant to its then existing share repurchase program.

10. Fair Value Measurements and Derivatives

Fair value is defined as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Fair Value Hierarchy

The following hierarchy for inputs used in measuring fair value should maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available:

Level 1 — Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement dates.

Level 2 — Significant other observable inputs that are used by market participants in pricing the asset or liability based on market data obtained from independent sources.

Level 3 — Significant unobservable inputs we believe market participants would use in pricing the asset or liability based on the best information available.

Derivatives

We are exposed to market risk attributable to changes in interest rates, foreign currency exchange rates and fuel prices. We attempt to minimize these risks through a combination of our normal operating and financing activities and through the use of derivatives. We assess whether derivatives used in hedging transactions are “highly effective” in offsetting changes in the cash flow of our hedged forecasted transactions. We use regression analysis for this hedge relationship and high effectiveness is achieved when a statistically valid relationship reflects a high degree of offset and correlation between the fair values of the derivative and the hedged forecasted transaction. Cash flows from the derivatives are classified in the same category as the cash flows from the underlying hedged transaction. If it is determined that the hedged forecasted transaction is no longer probable of occurring, then the amount recognized in accumulated other comprehensive income (loss) is released to earnings. There are no amounts excluded from the assessment of hedge effectiveness and there are no credit-risk-related contingent features in our derivative agreements. We monitor concentrations of credit risk associated with financial and other institutions with which we conduct significant business. Credit risk, including but not limited to counterparty non-performance under derivatives, is not considered significant, as we primarily conduct business with large, well-established financial institutions with which we have established relationships, and which have credit risks acceptable to us, or the credit risk is spread out among many creditors. We do not anticipate non-performance by any of our significant counterparties.

As of December 31, 2019, we had fuel swaps, which are used to mitigate the financial impact of volatility of fuel prices pertaining to approximately 1.1 million metric tons of our projected fuel purchases, maturing through December 31, 2022.

As of December 31, 2019, we had foreign currency forward contracts, matured foreign currency options and matured foreign currency collars which are used to mitigate the financial impact of volatility in foreign currency exchange rates related to our ship construction contracts denominated in euros. The notional amount of our foreign currency forward contracts was €1.8 billion, or \$2.0 billion based on the euro/U.S. dollar exchange rate as of December 31, 2019.

As of December 31, 2019, we had interest rate swaps and collars, which are used to hedge our exposure to interest rate movements and manage our interest expense. The notional amount of our outstanding debt associated with the interest rate swaps and collars was \$1.7 billion as of December 31, 2019.

The derivatives measured at fair value and the respective location in the consolidated balance sheets includes the following (in thousands):

	Balance Sheet Location	Assets		Liabilities	
		December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Derivative Contracts Designated as Hedging Instruments					
Fuel contracts					
	Prepaid expenses and other assets	\$ —	\$ 2,583	\$ —	\$ 1
	Other long-term assets	277	197	—	29
	Accrued expenses and other liabilities	2,300	1,173	18,257	19,547
	Other long-term liabilities	683	933	17,763	51,184
Foreign currency contracts					
	Prepaid expenses and other assets	—	5,285	—	1,497
	Other long-term assets	—	3,514	—	—
	Accrued expenses and other liabilities	—	112	33,475	5,145
	Other long-term liabilities	169	2,874	118,500	40,476
Interest rate contracts					
	Prepaid expenses and other assets	—	519	—	—
	Other long-term assets	—	27	—	—
	Accrued expenses and other liabilities	—	—	2,178	—
	Other long-term liabilities	—	—	1,861	—
Total derivatives designated as hedging instruments		\$ 3,429	\$ 17,217	\$ 192,034	\$ 117,879

The fair values of swap and forward contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. The Company determines the value of options

and collars utilizing an option pricing model based on inputs that are either readily available in public markets or can be derived from information available in publicly quoted markets. The option pricing model used by the Company is an industry standard model for valuing options and is used by the broker/dealer community. The inputs to this option pricing model are the option strike price, underlying price, risk-free rate of interest, time to expiration, and volatility. The fair value of option contracts considers both the intrinsic value and any remaining time value associated with those derivatives that have not yet settled. The Company also considers counterparty credit risk and its own credit risk in its determination of all estimated fair values.

Our derivatives and financial instruments were categorized as Level 2 in the fair value hierarchy, and we had no derivatives or financial instruments categorized as Level 1 or Level 3. Our derivative contracts include rights of offset with our counterparties. We have elected to net certain assets and liabilities within counterparties when the rights of offset exist. We are not required to post cash collateral related to our derivative instruments.

The gross and net amounts recognized within assets and liabilities include the following (in thousands):

	Gross Amounts	Gross Amounts Offset	Total Net Amounts	Gross Amounts Not Offset	Net Amounts
December 31, 2019					
Assets	\$ 277	\$ —	\$ 277	\$ —	\$ 277
Liabilities	192,034	(3,152)	188,882	(149,863)	39,019
December 31, 2018					
Assets	\$ 12,125	\$ (1,527)	\$ 10,598	\$ (6,872)	\$ 3,726
Liabilities	116,352	(5,092)	111,260	(35,718)	75,542

The effects of cash flow hedge accounting on accumulated other comprehensive income (loss) include the following (in thousands):

Derivatives	Amount of Gain (Loss) Recognized in Other Comprehensive Income			Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income		
	Year Ended December 31,				Year Ended December 31,		
	2019	2018	2017		2019	2018	2017
Fuel contracts	\$ 46,154	\$ (52,949)	\$ 50,263	Fuel	\$ 14,093	\$ 34,410	\$ (29,721)
Foreign currency contracts	(163,197)	(108,911)	254,070	Depreciation and amortization	(3,062)	(3,463)	(4,077)
Interest rate contracts	(5,972)	646	351	Interest expense, net	(2,133)	(851)	(2,997)
Total gain (loss) recognized in other comprehensive income	<u>\$ (123,015)</u>	<u>\$ (161,214)</u>	<u>\$ 304,684</u>		<u>\$ 8,898</u>	<u>\$ 30,096</u>	<u>\$ (36,795)</u>

The effects of cash flow hedge accounting on the consolidated statements of operations include the following (in thousands):

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Fuel	Depreciation and Amortization	Interest Expense, net	Fuel	Depreciation and Amortization	Interest Expense, net
Total amounts of income and expense line items presented in the consolidated statements of operations in which the effects of cash flow hedges are recorded	\$ 409,602	\$ 646,188	\$ 272,867	\$ 392,685	\$ 561,060	\$ 270,404
Amount of gain (loss) reclassified from accumulated other comprehensive income (loss) into income						
Fuel contracts	14,093	—	—	34,410	—	—
Foreign currency contracts	—	(3,062)	—	—	(3,463)	—
Interest rate contracts	—	—	(2,133)	—	—	(851)

The effects of cash flow hedge accounting on the consolidated statements of operations include the following (in thousands):

	Year Ended December 31, 2017		
	Fuel	Depreciation and Amortization	Interest Expense, net
Total amounts of income and expense line items presented in the consolidated statements of operations in which the effects of cash flow hedges are recorded	\$ 361,032	\$ 509,957	\$ 267,804
Amount of gain (loss) reclassified from accumulated other comprehensive income (loss) into income			
Fuel contracts	(29,721)	—	—
Foreign currency contracts	—	(4,077)	—
Interest rate contracts	—	—	(2,997)

Other

The carrying amounts reported in the consolidated balance sheets of all other financial assets and liabilities approximate fair value.

Long-Term Debt

As of December 31, 2019 and 2018, the fair value of our long-term debt, including the current portion, was \$6,957.8 million and \$6,601.9 million, respectively, which was \$31.3 million higher and \$8.4 million lower, respectively, than the carrying values. The difference between the fair value and carrying value of our long-term debt is due to our fixed and variable rate debt obligations carrying interest rates that are above or below market rates at the measurement dates. Market risk associated with our long-term variable rate debt is the potential increase in interest expense from an increase in interest rates. The fair value of our long-term debt was calculated based on estimated rates for the same or similar instruments with similar terms and remaining maturities, which represent Level 2 inputs in the fair value hierarchy.

Non-Recurring Measurements of Non-Financial Assets

Goodwill and other indefinite-lived assets, principally tradenames, are reviewed for impairment on an annual basis or earlier if there is an event or change in circumstances that would indicate that the carrying value of these assets may not be fully recoverable.

We believe our estimates and judgments with respect to our long-lived assets, principally ships, and goodwill and other indefinite-lived intangible assets are reasonable. Nonetheless, if there was a material change in assumptions used in the determination of such fair values or if there is a material change in the conditions or circumstances that influence such assets, we could be required to record an impairment charge. We estimate fair value based on the best information

available utilizing estimates, judgments and projections as necessary. As of December 31, 2019, our annual review supports the carrying value of these assets.

11. Employee Benefits and Share-Based Compensation

Amended and Restated 2013 Performance Incentive Plan

In January 2013, NCLH adopted the 2013 Performance Incentive Plan, which provided for the issuance of up to 15,035,106 of NCLH’s ordinary shares pursuant to awards granted under the plan, with no more than 5,000,000 shares being granted to one individual in any calendar year. In May 2016, the plan was amended and restated (“Restated 2013 Plan”) pursuant to approval from the Board of Directors and NCLH’s shareholders. Among other things, under the Restated 2013 Plan, the number of NCLH’s ordinary shares that may be delivered pursuant to all awards granted under the plan was increased by an additional 12,430,000 shares to a new maximum aggregate limit of 27,465,106 shares. Additionally, the expiration date of the Restated 2013 Plan was extended to March 30, 2026. Share options under the plan are granted with an exercise price equal to the closing market price of NCLH shares at the date of grant. The vesting period for time-based options is typically set at three, four or five years with a contractual life ranging from seven to 10 years. The vesting period for time-based and performance-based restricted share units is generally three years. Forfeited awards will be available for subsequent awards under the Restated 2013 Plan.

Share Option Awards

There were no time-based share option awards granted for the years ended December 31, 2019, 2018 and 2017 or performance-based share option awards granted for the year ended December 31, 2019. The performance-based options awarded to our President and Chief Executive Officer in August 2015 were subject to performance conditions such that the number of awards that ultimately vested depended on the adjusted earnings per share (“Adjusted EPS”) and adjusted return on invested capital (“Adjusted ROIC”) achieved by the Company during the performance period compared to targets established at the award date. Although the terms of the performance-based awards provide the compensation committee with the discretion to make certain adjustments to the performance calculation, it was determined that a mutual understanding of the key terms and conditions of the awards had been ascertained. In 2018, the grant date was therefore established for performance-based awards granted in prior years. The fair value of each performance-based option award is estimated on the date of grant using the Black-Scholes option-pricing model. The estimated fair value of the share options is amortized over the requisite service period using the straight-line method. The assumptions used within the option-pricing model for the performance-based awards are as follows:

	<u>2018</u>	<u>2017</u>
Dividend yield	—%	—%
Expected share price volatility	31.50% - 32.20%	25.97%
Risk-free interest rate	2.48% - 2.58%	1.81%
Expected term	3.72 - 4.22 years	4.20 years

Expected volatility was determined based on the historical share prices in our industry. The risk-free rate was based on U.S. Treasury zero coupon issues with a remaining term equal to the expected option term at grant date. The expected term was calculated under the simplified method.

The following table sets forth a summary of option activity under NCLH’s Restated 2013 Plan for the period presented:

	Number of Share Option Awards			Weighted-Average Exercise Price			Weighted-Average Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
	Time-Based Awards	Performance-Based Awards	Market-Based Awards	Time-Based Awards	Performance-Based Awards	Market-Based Awards		
Outstanding as of January 1, 2019	5,686,793	410,499	208,333	\$ 50.65	\$ 45.67	\$ 59.43	6.22	\$ 13,946
Exercised	(636,073)	(138,759)	—	40.30	19.00	—		
Forfeited and cancelled	(132,166)	(156,251)	—	56.13	59.43	—		
Outstanding as of December 31, 2019	4,918,554	115,489	208,333	\$ 51.84	\$ 59.11	\$ 59.43	5.42	\$ 33,413
Vested and expected to vest as of December 31, 2019	4,918,554	115,489	—	\$ 51.84	\$ 59.11	\$ —	5.41	\$ 33,413
Exercisable as of December 31, 2019	4,917,721	115,489	—	\$ 51.84	\$ 59.11	\$ —	5.41	\$ 33,411

The weighted-average grant-date fair value of performance-based options granted (or where a grant date had not been previously established, the fair value recognized) during the years ended December 31, 2018 and 2017 was \$15.20 and \$8.55, respectively. The total intrinsic value of share options exercised during 2019, 2018 and 2017 was \$13.3 million, \$16.7 million and \$18.9 million, respectively, and total cash received by the Company from exercises was \$28.3 million, \$25.8 million and \$27.4 million, respectively. As of December 31, 2019, there was no unrecognized compensation cost, related to options granted under our share-based incentive plans.

Restricted Ordinary Share Awards

The following is a summary of NCLH’s restricted ordinary share activity for the period presented:

	Number of Time-Based Awards	Weighted-Average Grant Date Fair Value
Non-vested as of January 1, 2019	429	\$ 58.41
Vested	(429)	58.41
Non-vested as of December 31, 2019	—	\$ —

Restricted Share Unit (“RSU”) Awards

On March 1, 2019, NCLH granted to certain employees 1.9 million time-based RSU awards which vest equally over three years. Also on March 1, 2019, NCLH granted to certain members of our management team 0.5 million performance-based RSU awards, which vest upon the achievement of certain pre-established performance targets and which amount assumes the maximum level of achievement.

The fair value of the time-based and performance-based RSUs is equal to the closing market price of NCLH shares at the date of grant. The performance-based RSUs awarded to certain members of our management team are subject to performance conditions such that the number of shares that ultimately vest depends on the Adjusted EPS and Adjusted ROIC achieved by the Company during the performance period compared to targets established at the award date. Although the terms of the performance-based RSU awards provide the compensation committee with the discretion to make certain adjustments to the performance calculation, it was determined that a mutual understanding of the key terms and conditions of the awards has been ascertained. In 2018, the grant date was therefore established for performance-based RSU awards granted in prior years. The Company remeasures the probability and the cumulative share-based compensation expense of the awards each reporting period until vesting or forfeiture occurs.

The following table sets forth a summary of RSU activity for the period presented:

	Number of Time-Based Awards	Weighted- Average Grant Date Fair Value	Number of Performance- Based Awards	Weighted- Average Grant Date Fair Value	Number of Market- Based Awards	Weighted- Average Grant Date Fair Value
Non-vested as of January 1, 2019	2,973,032	\$ 53.98	825,614	\$ 56.58	50,000	\$ 59.43
Granted	1,929,495	55.00	462,282 (1)	55.27	—	—
Vested	(1,430,291)	53.02	(121,000)	56.27	—	—
Forfeited or expired	(226,611)	55.04	(37,500)	56.27	—	—
Non-vested as of December 31, 2019	<u>3,245,625</u>	<u>\$ 54.94</u>	<u>1,129,396</u>	<u>\$ 56.09</u>	<u>50,000</u>	<u>\$ 59.43</u>
Non-vested and expected to vest as of December 31, 2019	<u>3,245,625</u>	<u>\$ 54.94</u>	<u>483,976</u>	<u>\$ 56.61</u>	<u>—</u>	<u>\$ —</u>

(1) Number of performance-based restricted share units included assumes maximum achievement of performance targets.

As of December 31, 2019, there was total unrecognized compensation costs related to non-vested time-based, non-vested performance-based and market-based RSUs of \$106.5 million, \$9.2 million and \$0, respectively. The costs are expected to be recognized over a weighted-average period of 1.8 years, 1.1 years and 0 years, respectively, for the time-based, performance-based and market-based RSUs. Taxes paid pursuant to net share settlements in 2019, 2018 and 2017 were \$20.9 million, \$13.9 million and \$6.3 million, respectively.

Employee Stock Purchase Plan (“ESPP”)

In April 2014, NCLH’s shareholders approved the ESPP. The purpose of the ESPP is to provide eligible employees with an opportunity to purchase NCLH’s ordinary shares at a favorable price and upon favorable terms in consideration of the participating employees’ continued services. A maximum of 2,000,000 of NCLH’s ordinary shares may be purchased under the ESPP. To be eligible to participate in an offering period, on the grant date of that period, an individual must be customarily employed by the Company or a participating subsidiary for more than twenty hours per week and for more than five months per calendar year. Participation in the ESPP is also subject to certain limitations. The ESPP is considered to be compensatory based on: a) the 15% purchase price discount and b) the look-back purchase price feature. Since the plan is compensatory, compensation expense must be recorded in the consolidated statements of operations on a straight-line basis over the six-month withholding period. As of December 31, 2019 and 2018, we had a liability for payroll withholdings received of \$2.1 million and \$1.9 million, respectively.

The compensation expense recognized for share-based compensation for the periods presented include the following (in thousands):

Classification of expense	Year Ended December 31,		
	2019	2018	2017
Payroll and related (1)	\$ 17,597	\$ 15,629	\$ 9,455
Marketing, general and administrative (2)	77,458	100,354	77,584
Total share-based compensation expense	<u>\$ 95,055</u>	<u>\$ 115,983</u>	<u>\$ 87,039</u>

- (1) Amounts relate to equity granted to certain of our shipboard officers.
(2) Amounts relate to equity granted to certain of our corporate employees.

Employee Benefit Plans

We offer annual incentive bonuses pursuant to our Restated 2013 Plan for our executive officers and other key employees. Bonuses under the plan become earned and payable based on the Company’s performance during the applicable performance period and the individual’s continued employment. Company performance criteria include the attainment of certain financial targets and other strategic objectives.

Certain employees are employed pursuant to agreements that provide for severance payments. Severance is generally only payable upon an involuntary termination of the employment by us without cause or a termination by the employee

for good reason. Severance generally includes a series of cash payments based on the employee's base salary (and in some cases, bonus), and our payment of the employee's continued medical benefits for the applicable severance period.

We maintain a 401(k) Plan for our shoreside employees, including our executive officers. Participants may contribute up to 100% of eligible compensation each pay period, subject to certain limitations. We make matching contributions equal to 100% of the first 3% and 50% of amounts greater than 3% to and including 10% of each participant's contributions subject to certain limitations. In addition, we may make discretionary supplemental contributions to the 401(k) Plan, which shall be allocated pro rata to each eligible participant based on the compensation of the participant relative to the total compensation of all participants. Our matching contributions are vested according to a five-year schedule. The 401(k) Plan is subject to the provisions of ERISA and is intended to be qualified under section 401(a) of the U.S. Internal Revenue Code (the "Code").

Our matching contributions are reduced by amounts forfeited by those employees who leave the 401(k) Plan prior to vesting fully in the matching contributions. Forfeited contributions of \$0.2 million, \$0.3 million and \$0.3 million were utilized in the years ended December 31, 2019, 2018 and 2017, respectively.

We recorded total expenses related to the above 401(k) Plan of \$9.1 million, \$9.3 million and \$7.3 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Effective January 2009, we implemented the Shipboard Retirement Plan which computes benefits based on years of service, subject to eligibility requirements. The Shipboard Retirement Plan is unfunded with no plan assets. The current portion of the projected benefit obligation of \$0.9 million and \$1.0 million was included in accrued expenses and other liabilities as of December 31, 2019 and 2018, respectively, and \$27.8 million and \$23.3 million was included in other long-term liabilities in our consolidated balance sheets as of December 31, 2019 and 2018, respectively.

The amounts related to the Shipboard Retirement Plan were as follows (in thousands):

	As of or for the Year Ended December 31,		
	2019	2018	2017
Pension expense:			
Service cost	\$ 2,135	\$ 2,167	\$ 1,987
Interest cost	1,001	857	887
Amortization of prior service cost	378	378	378
Amortization of actuarial loss	—	51	40
Total pension expense	<u>\$ 3,514</u>	<u>\$ 3,453</u>	<u>\$ 3,292</u>
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	\$ 24,318	\$ 24,587	\$ 22,605
Service cost	2,135	2,167	1,987
Interest cost	1,001	857	887
Actuarial gain (loss)	2,308	(2,271)	458
Direct benefit payments	(1,067)	(1,022)	(1,350)
Projected benefit obligation at end of year	<u>\$ 28,695</u>	<u>\$ 24,318</u>	<u>\$ 24,587</u>
Amounts recognized in the consolidated balance sheets:			
Projected benefit obligation	<u>\$ 28,695</u>	<u>\$ 24,318</u>	<u>\$ 24,587</u>
For the Year Ended December 31,			
	2019	2018	2017
Amounts recognized in accumulated other comprehensive income (loss):			
Prior service cost	\$ (3,781)	\$ (4,159)	\$ (4,537)
Accumulated actuarial loss	(3,413)	(1,105)	(3,426)
Accumulated other comprehensive income (loss)	<u>\$ (7,194)</u>	<u>\$ (5,264)</u>	<u>\$ (7,963)</u>

The discount rates used in the net periodic benefit cost calculation for the years ended December 31, 2019, 2018 and 2017 were 4.2%, 3.6% and 4.0%, respectively, and the actuarial loss is amortized over 18.91 years. The discount rate is

used to measure and recognize obligations, including adjustments to other comprehensive income (loss), and to determine expense during the periods. It is determined by using bond indices which reflect yields on a broad maturity and industry universe of high-quality corporate bonds.

The pension benefits expected to be paid in each of the next five years and in aggregate for the five years thereafter are as follows (in thousands):

Year	Amount
2020	\$ 922
2021	949
2022	1,045
2023	1,208
2024	1,340
Next five years	10,585

12. Income Taxes

We are incorporated in Bermuda. Under current Bermuda law, we are not subject to tax on income and capital gains. We have received from the Minister of Finance under The Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts legislation imposing tax computed on profits, income, any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance, then the imposition of any such tax shall not be applicable to us or to any of our operations or shares, debentures or other obligations, until March 31, 2035.

The components of net income before income taxes consist of the following (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Bermuda	\$ —	\$ —	\$ —
Foreign - Other	911,365	969,310	770,614
Net income before income taxes	<u>\$ 911,365</u>	<u>\$ 969,310</u>	<u>\$ 770,614</u>

The components of the provision for income taxes consisted of the following benefit (expense) (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Current:			
Bermuda	\$ —	\$ —	\$ —
United States	(975)	(7,409)	1,828
Foreign - Other	(6,294)	(5,371)	(4,617)
Total current:	<u>(7,269)</u>	<u>(12,780)</u>	<u>(2,789)</u>
Deferred:			
Bermuda	—	—	—
United States	25,785	(1,912)	(8,439)
Foreign - Other	347	225	486
Total deferred:	<u>26,132</u>	<u>(1,687)</u>	<u>(7,953)</u>
Income tax benefit (expense)	<u>\$ 18,863</u>	<u>\$ (14,467)</u>	<u>\$ (10,742)</u>

Our reconciliation of income tax expense computed by applying our Bermuda statutory rate and reported income tax benefit (expense) was as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Tax at Bermuda statutory rate	\$ —	\$ —	\$ —
Foreign income taxes at different rates	(18,630)	(17,540)	(28,188)
Tax contingencies	(206)	(5)	11,184
Return to provision adjustments	2,014	2,961	(1,397)
Benefit (expense) from change in tax rate	(14)	117	7,659
Valuation allowance	35,699	—	—
Income tax benefit (expense)	<u>\$ 18,863</u>	<u>\$ (14,467)</u>	<u>\$ (10,742)</u>

Deferred tax assets and liabilities were as follows (in thousands):

	As of December 31,	
	2019	2018
Deferred tax assets:		
Loss carryforwards	\$ 54,342	\$ 63,201
Other	3,573	2,535
Valuation allowance	(5,847)	(41,924)
Total net deferred assets	<u>52,068</u>	<u>23,812</u>
Deferred tax liabilities:		
Property and equipment	(39,571)	(37,448)
Total deferred tax liabilities	<u>(39,571)</u>	<u>(37,448)</u>
Net deferred tax asset (liability)	<u>\$ 12,497</u>	<u>\$ (13,636)</u>

We have U.S. net operating loss carryforwards of \$238.8 million and \$278.3 million for the years ended December 31, 2019 and 2018, respectively, which begin to expire in 2031, a portion of which relate to Prestige discussed further below. We have state net operating loss carryforwards of \$3.4 million and \$4.8 million for the years ended December 31, 2019 and 2018, respectively, which expire between 2025 through 2035.

Included above are deferred tax assets associated with our operations in Norway for which we have provided a full valuation allowance. We have Norway net operating loss carryforwards of \$13.3 million and \$13.9 million for the years ended December 31, 2019 and 2018, respectively, which can be carried forward indefinitely.

Included above are deferred tax assets associated with our branch operations in the U.K. for which we have provided a full valuation allowance. We have U.K. net operating loss carryforwards of \$5.5 million and \$7.5 million for the years ended December 31, 2019 and 2018, respectively, which can be carried forward indefinitely.

Included above are deferred tax assets associated with Prestige. We have U.S. net operating loss carryforwards of \$145.0 million and \$177.5 million for the years ended December 31, 2019 and 2018, respectively, which begin to expire in 2031. Utilization of the Prestige net operating loss carryforwards may be subject to a substantial annual limitation due to ownership change limitations that have occurred previously and/or that could occur in the future, as provided by Section 382 of the Internal Revenue Code of 1986 (“Section 382”). Ownership changes may limit the amount of net operating loss carryforwards that can be utilized to offset future taxable income and tax, respectively. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain shareholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. If we have experienced an ownership change, utilization of Prestige’s net operating loss carryforwards would be subject to an annual limitation under Section 382. Any limitation may result in expiration of a portion of the net operating loss carryforwards before utilization. Subsequent ownership changes could further impact the limitation in future years. We implemented certain tax restructuring strategies that created our ability to utilize the net operating loss carryforwards of Prestige, for which we had previously provided a full valuation allowance. In March 2019, we completed a Section 382 study that determined the amount of the Prestige net operations loss carryforwards that can be utilized against future

taxable income resulting in a tax benefit of \$35.7 million in connection with the reversal of substantially all of the Prestige valuation allowance.

In December 2017, the Tax Cuts and Jobs Act (the “Act”) was enacted. Among other provisions, the Act reduces the U.S. federal corporate tax rate from 35% to 21%. Also in December 2017, the SEC staff issued SAB No. 118, which addresses the recognition of provisional amounts when a company does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the Act. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. The Company completed the accounting for the tax effects of enactment of the Act. There is no material change to the \$7.4 million reduction of the value of net deferred tax liabilities (which represents future tax expenses) recorded in 2017 as a discrete tax benefit resulting from the federal corporate income tax rate reduction. Other aspects of the Act were either not applicable or did not have a material impact on the Company’s consolidated financial statements.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits (in thousands):

	As of December 31,	
	2019	2018
Unrecognized tax benefits, beginning of the year	\$ 532	\$ 532
Gross increases in tax positions from prior periods	200	—
Unrecognized tax benefits, end of year	<u>\$ 732</u>	<u>\$ 532</u>

If the \$0.7 million of unrecognized tax benefits at December 31, 2019 were recognized, our effective tax rate would be minimally affected. We believe that there will not be a significant increase or decrease to the tax positions within 12 months of the reporting date. We recognize interest and penalties related to unrecognized tax benefits in income tax benefit (expense).

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and foreign jurisdictions. We are generally no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by authorities for years prior to 2016, except for years in which NOLs generated prior to 2016 are utilized.

Due to our international structure as well as the existence of international tax treaties that exempt taxation on certain activities, the repatriation of earnings from our subsidiaries would have no tax impact.

We derive our income from the international operation of ships. We are engaged in a trade or business in the U.S. and receive income from sources within the U.S. Under Section 883, certain foreign corporations are exempt from U. S. federal income or branch profits tax on U.S.-source income derived from or incidental to the international operation of ships. Applicable U.S. treasury regulations provide that a foreign corporation will qualify for the benefits of Section 883 if, in relevant part: (i) the foreign country in which the corporation is organized grants an equivalent exemption for income from the international operation of ships to corporations organized in the U.S., and (ii) the foreign corporation has one or more classes of stock that are “primarily and regularly traded on an established securities market” in the U.S. or another qualifying country. We believe that we qualify for the benefits of Section 883 because we are incorporated in qualifying countries and our ordinary shares are primarily and regularly traded on an established securities market in the U.S.

13. Commitments and Contingencies

Ship Construction Contracts

For the Norwegian Brand, Project Leonardo will introduce an additional six ships, each approximately 140,000 Gross Tons with approximately 3,300 Berths, with expected delivery dates from 2022 through 2027, subject to certain conditions. The effectiveness of the contracts to construct two of the ships, expected to be delivered in 2026 and 2027, is contingent upon certain Italian government approvals. For the Regent brand, we have an Explorer Class Ship, Seven Seas Splendor, with approximately 55,000 Gross Tons and 750 Berths, which was delivered in January 2020. We refer

you to Note 18 – “Subsequent Events” for additional information. We have one additional order for an Explorer Class Ship to be delivered in 2023. For the Oceania Cruises brand, we have orders for two Allura Class Ships to be delivered in 2022 and 2025, one of which is contingent upon certain Italian government approvals. Each of the Allura Class Ships will be approximately 67,000 Gross Tons and 1,200 Berths.

The combined contract prices of the 10 ships on order for delivery, including Seven Seas Splendor, which was delivered in January 2020, was approximately €7.4 billion, or \$8.3 billion based on the euro/U.S. dollar exchange rate as of December 31, 2019.

We have obtained export credit financing for the ships on order which is expected to fund approximately 80% of each contract price, subject to certain conditions. We do not anticipate any contractual breaches or cancellation to occur. However, if any such events were to occur, it could result in, among other things, the forfeiture of prior deposits or payments made by us and potential claims and impairment losses which may materially impact our business, financial condition and results of operations.

As of December 31, 2019, minimum annual payments for non-cancelable ship construction contracts with initial or remaining terms in excess of one year were as follows (in thousands):

Year	Amount
2020	\$ 556,784
2021	279,254
2022	1,595,262
2023	1,439,097
2024	888,790
Thereafter	829,303
Total minimum annual payments	\$ 5,588,490

Port Facility Commitments

As of December 31, 2019, future commitments to pay for usage of certain port facilities were as follows (in thousands):

Year	Amount
2020	\$ 79,418
2021	67,671
2022	68,049
2023	70,100
2024	75,112
Thereafter	1,726,575
Total port facility future commitments	\$ 2,086,925

Other Commitments

The FMC requires evidence of financial responsibility for those offering transportation on passenger ships operating out of U.S. ports to indemnify passengers in the event of non-performance of the transportation. Accordingly, each of our three brands are required to maintain a \$32.0 million third-party performance guarantee in respect of liabilities for non-performance of transportation and other obligations to passengers. The guarantee requirements are subject to additional consumer price index-based adjustments. Also, our brands have a legal requirement to maintain security guarantees based on cruise business originated from the U.K., and we are required to establish financial responsibility by certain jurisdictions to meet liability in the event of non-performance of our obligations to passengers from those jurisdictions. As of December 31, 2019, approximately British Pound Sterling 41.5 million was in place as security guarantees as well as a consumer protection policy covering up to €110.0 million.

From time to time, various other regulatory and legislative changes have been or may in the future be proposed that may have an effect on our operations in the U.S. and the cruise industry in general.

Litigation

Helms-Burton Act

On August 27, 2019, two lawsuits were filed against Norwegian Cruise Line Holdings Ltd. in the United States District Court for the Southern District of Florida under Title III of the Cuban Liberty and Solidarity (Libertad) Act of 1996, also known as the Helms-Burton Act. The complaint filed by Havana Docks Corporation alleges it holds an interest in the Havana Cruise Port Terminal and the complaint filed by Javier Garcia-Bengochea alleges that he holds an interest in the Port of Santiago, Cuba, both of which were expropriated by the Cuban Government. The complaints further allege that the Company “trafficked” in those properties by embarking and disembarking passengers at these facilities. The plaintiffs seek all available statutory remedies, including the value of the expropriated property, plus interest, treble damages, attorneys’ fees and costs. On January 7, 2020, the United States District Court for the Southern District of Florida dismissed the claim by Havana Docks Corporation. We believe that the plaintiff plans to appeal the order. Although we believe we have meritorious defenses to the claims and intend to vigorously defend these matters, as of December 31, 2019, we are unable to reasonably estimate any potential contingent loss from these matters due to a lack of legal precedence.

Other

In the normal course of our business, various claims and lawsuits have been filed or are pending against us. Most of these claims and lawsuits are covered by insurance and, accordingly, the maximum amount of our liability is typically limited to our deductible amount.

Nonetheless, the ultimate outcome of these claims and lawsuits that are not covered by insurance cannot be determined at this time. We have evaluated our overall exposure with respect to all of our threatened and pending litigation and, to the extent required, we have accrued amounts for all estimable probable losses associated with our deemed exposure. We are currently unable to estimate any other potential contingent losses beyond those accrued, as discovery is not complete nor is adequate information available to estimate such range of loss or potential recovery. However, based on our current knowledge, we do not believe that the aggregate amount or range of reasonably possible losses with respect to these matters will be material to our consolidated results of operations, financial condition or cash flows. We intend to vigorously defend our legal position on all claims and, to the extent necessary, seek recovery.

14. Other Income (Expense), Net

Other income (expense), net was income of \$6.2 million, income of \$20.7 million, and expense of \$10.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. In 2019, the income was primarily due to gains from insurance proceeds and a litigation settlement partially offset by losses on foreign currency exchange. In 2018, the income was primarily due to foreign currency exchange gains. In 2017, the expense was primarily related to foreign currency exchange losses.

15. Concentration Risk

We contract with a single vendor to provide many of our hotel and restaurant services including both food and labor costs. We incurred expenses of \$153.6 million, \$153.7 million and \$152.3 million for the years ended December 31, 2019, 2018 and 2017, respectively, which are recorded in payroll and related in our consolidated statements of operations.

16. Supplemental Cash Flow Information

For the year ended December 31, 2019, we had non-cash investing activities related to property and equipment of \$8.2 million. For the year ended December 31, 2019, we paid income taxes of \$13.4 million and interest and related fees, net of capitalized interest, of \$291.2 million.

For the year ended December 31, 2018, we had non-cash investing activities related to property and equipment of \$39.7 million and net foreign currency adjustments of \$5.5 million related to euro-denominated debt related to the financing of two of our Project Leonardo ships. For the year ended December 31, 2018, we paid income taxes of \$10.0 million and interest and related fees, net of capitalized interest, of \$350.4 million.

For the year ended December 31, 2017, we had non-cash investing activities in connection with property and equipment of \$20.0 million and non-cash investing activities related to capital leases of \$13.3 million. For the year ended December 31, 2017, we paid income taxes of \$11.7 million and interest and related fees, net of capitalized interest, of \$284.9 million.

17. Quarterly Selected Financial Data (Unaudited) (in thousands, except per share data)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2019	2018	2019	2018	2019	2018	2019	2018
Total revenue	\$ 1,403,630	\$ 1,293,403	\$ 1,664,277	\$ 1,522,174	\$ 1,913,851	\$ 1,858,356	\$ 1,480,618	\$ 1,381,193
Operating income	\$ 158,296	\$ 167,053	\$ 308,681	\$ 292,152	\$ 511,724	\$ 550,276	\$ 199,376	\$ 209,580
Net income	\$ 118,157	\$ 103,155	\$ 240,190	\$ 226,676	\$ 450,584	\$ 470,378	\$ 121,297	\$ 154,634
Earnings per share:								
Basic	\$ 0.54	\$ 0.45	\$ 1.11	\$ 1.02	\$ 2.10	\$ 2.12	\$ 0.57	\$ 0.70
Diluted	\$ 0.54	\$ 0.45	\$ 1.11	\$ 1.01	\$ 2.09	\$ 2.11	\$ 0.56	\$ 0.70

The seasonality of the North American cruise industry generally results in the greatest demand for cruises during the Northern Hemisphere's summer months. This predictable seasonality in demand has resulted in fluctuations in our revenue and results of operations. The seasonality of our results is increased due to ships being taken out of service for regularly scheduled Dry-docks, which we typically scheduled during non-peak demand periods.

18. Subsequent Events

In January 2020, we took delivery of Seven Seas Splendor. We had export financing in place for 80% of the contract price. The associated \$426.0 million term loan bears interest at a fixed rate of 3.01% with a maturity date of January 30, 2032. Principal and interest payments are payable semiannually.

In late January 2020, the COVID-19 coronavirus outbreak began impacting the Company's financial performance and operations. The Company has begun to experience costs and lost revenue related to itinerary modifications, travel restrictions and advisories, the unavailability of ports and/or destinations, cancellations and redeployments. The COVID-19 coronavirus is also impacting consumer sentiment regarding cruise travel generally. Due to the unknown duration and extent of the outbreak, the full effect on our financial performance cannot be quantified at this time.

ANNEX

NORWEGIAN CRUISE LINE HOLDINGS LTD. NON-GAAP RECONCILING INFORMATION (Unaudited)

Adjusted Net Income and Adjusted EPS were calculated as follows (in thousands, except share and per share data):

	Year Ended December 31, 2019
Net income	\$ 930,228
Non-GAAP Adjustments:	
Non-cash deferred compensation (1)	3,514
Non-cash share-based compensation (2)	95,055
Secondary Equity Offering expenses	-
Severance payments and other fees (3)	6,514
Extinguishment of debt (4)	16,676
Amortization of intangible assets (5)	18,414
Redeployment of Norwegian Joy (6)	30,629
Other	-
Adjusted Net Income	\$ 1,101,030
Diluted weighted-average shares outstanding - Net income and Adjusted Net Income	216,475,076
Diluted earnings per share	\$ 4.30
Adjusted EPS	\$ 5.09

(1) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses are included in payroll and related expense and other income (expense), net.

(2) Non-cash share-based compensation expenses related to equity awards are included in marketing, general and administrative expense and payroll and related expense.

(3) Severance payments related to restructuring costs are included in marketing, general and administrative expense.

(4) Losses on extinguishments and modifications of debt are included in interest expense, net.

(5) Amortization of intangible assets related to the Acquisition of Prestige are included in depreciation and amortization expense.

(6) Expenses related to the redeployment of Norwegian Joy from Asia to the U.S. and the closing of the Shanghai office, which are included in other cruise operating expense, marketing, general and administrative expense and depreciation and amortization expense.

NORWEGIAN CRUISE LINE HOLDINGS LTD.
NON-GAAP RECONCILING INFORMATION
(Unaudited)

EBITDA and Adjusted EBITDA were calculated as follows (in thousands):

	Year Ended December 31,
	2019
Net income	\$ 930,228
Interest expense, net	272,867
Income tax (benefit) expense	(18,863)
Depreciation and amortization expense	646,188
EBITDA	1,830,420
Other (income) expense, net (1)	(6,155)
Non-GAAP Adjustments:	
Non-cash deferred compensation (2)	2,135
Non-cash share-based compensation (3)	95,055
Secondary Equity Offering expenses	-
Severance payments and other fees (4)	6,514
Redeployment of Norwegian Joy (5)	7,051
Other	-
Adjusted EBITDA	\$ 1,935,020

(1) Primarily consists of gains and losses, net for forward currency exchanges and proceeds from insurance and litigation settlements.

(2) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses are included in payroll and related expense.

(3) Non-cash share-based compensation expenses related to equity awards are included in marketing, general and administrative expense and payroll and related expense.

(4) Severance payments related to restructuring costs are included in marketing, general and administrative expense.

(5) Expenses related to the redeployment of Norwegian Joy from Asia to the U.S. and the closing of the Shanghai office, which are included in other cruise operating expense, and marketing, general and administrative expense.

NORWEGIAN CRUISE LINE HOLDINGS LTD.
NON-GAAP RECONCILING INFORMATION
(Unaudited)

Net Leverage was calculated as follows (in thousands):

	Year Ended December 31, 2019
Long-term debt, net of current portion	\$ 6,055,335
Current portion of long-term	746,358
Total debt	6,801,693
Less: Cash and cash equivalents	252,876
Net Debt	6,548,817
 Adjusted EBITDA (1)	 1,935,020
 Net Leverage	 3.4x

(1) See the reconciliation of Net income to Adjusted EBITDA presented within.

NORWEGIAN CRUISE LINE HOLDINGS LTD.
NON-GAAP RECONCILING INFORMATION
(Unaudited)

Net Yield is calculated as follows (in thousands, except Capacity Days and Yield data):

	Year Ended December 31,							
	2012	2013	2014⁽¹⁾	2015	2016	2017	2018	2019
Passenger ticket revenue	\$1,582,801	\$1,784,439	\$2,176,153	\$3,129,075	\$3,388,954	\$3,750,030	\$4,259,815	\$4,517,393
Onboard and other revenue	693,445	785,855	949,728	1,215,973	1,485,386	1,646,145	1,795,311	1,944,983
Total revenue	2,276,246	2,570,294	3,125,881	4,345,048	4,874,340	5,396,175	6,055,126	6,462,376
Less:								
Commissions, transportation and other expense	410,531	455,816	503,722	765,298	813,559	894,406	998,948	1,120,886
Onboard and other expense	173,916	195,526	224,000	272,802	298,886	319,293	348,656	394,673
Net Revenue	\$1,691,799	\$1,918,952	\$2,398,159	\$3,306,948	\$3,761,895	\$4,182,476	\$4,707,522	\$4,946,817
 Capacity Days	 9,602,730	 10,446,216	 12,512,459	 14,700,990	 16,376,063	 17,363,422	 18,841,678	 19,233,459
Net Yield	\$ 176.18	\$ 183.70	\$ 191.66	\$ 224.95	\$ 229.72	\$ 240.88	\$ 249.85	\$ 257.20

(1) The consolidated financial statements as of and for the year ended December 31, 2014 include the financial results of Prestige commencing on November 19, 2014, the date the Acquisition of Prestige was consummated.

NORWEGIAN CRUISE LINE HOLDINGS LTD.
NON-GAAP RECONCILING INFORMATION
(Unaudited)

Net Ticket Yield was calculated as follows (in thousands, except Capacity Days and Yield data)

	Year Ended December 31, 2019
Passenger ticket revenue	<u>\$ 4,517,393</u>
Less:	
Commissions, transportation and other expense	1,120,886
Net Ticket Revenue	<u>3,396,507</u>
Capacity Days	19,233,459
Net Ticket Yield	\$ 176.59

Net Onboard Yield was calculated as follows (in thousands, except Capacity Days and Yield data)

	Year Ended December 31, 2019
Onboard and other revenue	<u>\$ 1,944,983</u>
Less:	
Onboard and other expense	394,673
Net Onboard Revenue	<u>1,550,310</u>
Capacity Days	19,233,459
Net Onboard Yield	\$ 80.60

NCLH

NORWEGIAN CRUISE LINE
HOLDINGS LTD.

GET EXCLUSIVE PERKS.



NORWEGIAN CRUISE LINE HOLDINGS LTD. IS THRILLED TO OFFER
OUR SHAREHOLDERS THE FOLLOWING BENEFITS:

- \$250** Onboard Credit per Stateroom on Sailings of 15 Days or More.
- \$100** Onboard Credit per Stateroom on Sailings of 7 to 14 Days.
- \$50** Onboard Credit per Stateroom on Sailings of 6 Days or Less.

This exclusive benefit is reserved solely for shareholders owning a minimum of 100 shares of Norwegian Cruise Line Holdings Ltd. at time of sailing. Offer valid for any vacation on Norwegian Cruise Line®, Oceania Cruises® or Regent Seven Seas Cruises®, excluding charter sailings. Additional terms and conditions may apply.* To redeem this special offer, simply complete the attached Shareholder Benefit Request Form and mail or email (with accompanying documentation) request at least 15 days prior to sailing to:

NCL **NORWEGIAN**
CRUISE LINE®

Mailing Address:

Norwegian Cruise Line
Shareholder Benefit Department
7665 Corporate Center Drive
Miami, FL 33126

Email:

ShareholderBenefit@ncl.com

To learn more about
Norwegian Cruise Line
visit www.ncl.com

OCEANIA
CRUISES®
Your World. Your Way.®

Mailing Address:

Oceania Cruises
Shareholder Benefit Department
7665 Corporate Center Drive
Miami, FL 33126

Email:

ShareholderBenefit@
oceaniacruises.com

To learn more about
Oceania Cruises
visit www.oceaniacruises.com

Regent
SEVEN SEAS CRUISES®

Mailing Address:

Regent Seven Seas Cruises
Shareholder Benefit Department
1401 NW 136th Avenue, Suite 101
Sunrise, FL 33323

Email:

ShareholderBenefit@RSSC.com

To learn more about
Regent Seven Seas Cruises
visit www.rssc.com

*Credit is applied on a per stateroom/suite basis. There can only be one credit per shareholder reservation on any one sailing. If you are requesting shareholder onboard credit for two or more separate staterooms/suites and shares are held jointly, a minimum of 100 shares per stateroom/suite booked must be held. Singles paying 200% are entitled to full onboard credit value. Any unused credit shall be forfeited and is not redeemable for cash. Benefit is non-transferable, excludes Reduced Rate programs (e.g. employee rates, interline, friends /family rates, vendor rates, cruises taken via cruise credit certificate, or free cruises earned through Oceania Cruises loyalty benefits), and travel agent rates, and charters. All shareholder benefit requests must be received at least fifteen days prior to sailing date. The Shareholder must own the Norwegian Cruise Line Holdings Ltd. stock at time of sailing. Offer is valid only for new reservations made on or after January 7, 2019. It may not be used toward onboard service charges or pre-purchased activities. Government taxes and fees are additional. Norwegian Cruise Line, Oceania Cruises, and/or Regent Seven Seas Cruises reserve the right to change or withdraw the offer at any time without notice, and are not responsible for typographical errors or omissions. Other terms and conditions may apply. Offer and combinability with other promotional offers is subject to change at any time per Norwegian Cruise Line, Oceania Cruises, and/or Regent Seven Seas Cruises discretion. Other terms, restrictions, and conditions may apply. Not applicable to Chartered Dates and incentive Group Types.

SHAREHOLDER BENEFIT REQUEST FORM

NAME: _____ DATE _____
(Owner of the 100 shares will receive the onboard credit)

SHIP: _____

SAILING DATE: _____ RESERVATION #: _____

HOME ADDRESS: _____

CITY: _____ STATE: _____ ZIP: _____

PHONE #: _____ E-MAIL: _____

Enclosed is the following proof of ownership documentation required to receive shareholder benefit offer:

A photocopy of your shareholder proxy card

or

A current brokerage statement (brokerage account number must be blacked out before submitting) showing proof of ownership of at least 100 shares of Norwegian Cruise Line Holdings Ltd.

I, _____, hereby certify that the above information is accurate.
(Print name)

Signature: _____

Please submit Shareholder Benefit Request Form along with proof of ownership by mail or email to:



Mailing Address:

Norwegian Cruise Line
Shareholder Benefit Department
7665 Corporate Center Drive
Miami, FL 33126

Email:

ShareholderBenefit@ncl.com

To learn more about
Norwegian Cruise Line
visit www.ncl.com



Mailing Address:

Oceania Cruises
Shareholder Benefit Department
7665 Corporate Center Drive
Miami, FL 33126

Email:

ShareholderBenefit@
oceaniacruises.com

To learn more about
Oceania Cruises
visit www.oceaniacruises.com



Mailing Address:

Regent Seven Seas Cruises
Shareholder Benefit Department
1401 NW 136th Avenue, Suite 101
Sunrise, FL 33323

Email:

ShareholderBenefit@RSSC.com

To learn more about
Regent Seven Seas Cruises
visit www.rssc.com



NORWEGIAN CRUISE LINE
HOLDINGS LTD.

SHAREHOLDER BENEFIT FREQUENTLY ASKED QUESTIONS

1. What is the shareholder benefit?

\$250 Onboard Credit per Stateroom on Sailings of 15 Days or More.

\$100 Onboard Credit per Stateroom on Sailings of 7 to 14 Days.

\$50 Onboard Credit per Stateroom on Sailings of 6 Days or Less.

Offer valid for any cruise vacation on Norwegian Cruise Line®, Oceania Cruises® or Regent Seven Seas Cruises®, excluding charter sailings. Additional terms and conditions apply.

2. Who is eligible for this benefit?

This exclusive benefit is reserved solely for shareholders owning a minimum of 100 shares of Norwegian Cruise Line Holdings Ltd. (NCLH) at the time of sailing.

3. How do I redeem this benefit?

To redeem this exclusive offer, simply complete the Shareholder Benefit Request Form which is available on the Investor Relations website at www.nclhldinvestor.com and mail or email with accompanying documentation. You will be asked to provide your name, address, email address, telephone number, ship and sailing date along with a photocopy of your shareholder proxy card or photocopy of a current brokerage statement (brokerage account number must be blacked out before submitting) showing proof of ownership of at least 100 shares of Norwegian Cruise Line Holdings Ltd. (NCLH). All shareholder benefit requests must be received at least fifteen days prior to sailing date.

Please submit the Shareholder Benefit Request Form along with proof of ownership by mail or email to:



Mailing Address:

Norwegian Cruise Line
Shareholder Benefit Department
7665 Corporate Center Drive
Miami, FL 33126

Email:

ShareholderBenefit@ncl.com

To learn more about
Norwegian Cruise Line
visit www.ncl.com



Mailing Address:

Oceania Cruises
Shareholder Benefit Department
7665 Corporate Center Drive
Miami, FL 33126

Email:

ShareholderBenefit@
oceaniacruises.com

To learn more about
Oceania Cruises
visit www.oceaniacruises.com



Mailing Address:

Regent Seven Seas Cruises
Shareholder Benefit Department
1401 NW 136th Avenue, Suite 101
Sunrise, FL 33323

Email:

ShareholderBenefit@RSSC.com

To learn more about
Regent Seven Seas Cruises
visit www.rssc.com

4. How often can I use this benefit?

You may request this exclusive benefit every time you cruise on Norwegian Cruise Line, Oceania Cruises, or Regent Seven Seas Cruises vacation, excluding any charter sailings. Additional terms and conditions may apply.

SHAREHOLDER BENEFIT FREQUENTLY ASKED QUESTIONS (continued)

5. Can my family or friends sailing with me redeem the benefit too?

This exclusive benefit is only available for the stateroom in which the shareholder (with a minimum of 100 shares) is sailing. Onboard credit is applied on a per stateroom basis, double occupancy. Only one shareholder credit per stateroom/suite on any one sailing. If you are requesting shareholder onboard credit for two or more separate staterooms/suites and shares are held jointly, a minimum of 100 shares per stateroom/suite booked must be held. Singles paying 200% are entitled to full onboard credit value.

6. Is this benefit transferrable?

No. This benefit is non-transferable. Only the stateroom that the shareholder is occupying will be eligible for the onboard credit.

7. Are there any restrictions?

The Shareholder must own Norwegian Cruise Line Holdings Ltd. (NCLH) stock at the time of sailing. Benefit is not combinable with any other offer. Shareholders have the option to choose between the shareholder benefit or the other offer. Benefit is non-transferable and not available to employees, agents of Norwegian Cruise Line Holdings Ltd. or its subsidiaries and affiliates, travel agents and tour operators. Onboard credit is calculated in U.S. dollars and is not redeemable for cash. Certificate value credited to onboard account at the time of sailing and may not be used toward onboard service charges or pre-purchased activities. Any unused credit shall be forfeited. Credit is applied on a per stateroom basis; double occupancy. Single guests paying 200% of applicable fare shall receive full value of certificate. Only one shareholder credit per stateroom. Only one credit per shareholder on any one sailing. If you are requesting shareholder onboard credit for two or more separate staterooms and shares are held jointly, a minimum of 100 shares per stateroom booked must be held. Other terms and conditions apply.

SHAREHOLDER INFORMATION

CORPORATE OFFICE

Norwegian Cruise Line Holdings Ltd.
7665 Corporate Center Drive
Miami, Florida 33126
USA
(305) 436-4000
www.nclhltd.com

INDEPENDENT PRINCIPAL AUDITOR

PricewaterhouseCoopers LLP
333 SE 2nd Avenue
Suite 3000
Miami, Florida 33131

TRANSFER AGENT & REGISTRAR

American Stock Transfer &
Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
www.astfinancial.com

INVESTOR INQUIRIES

To access or obtain financial reports,
please visit our Investor Relations website
at www.nclhltdinvestor.com, write to our
Investor Relations Department at our
corporate office or at
investorrelations@nclcorp.com
or call (305) 468-2339

STOCK EXCHANGE INFORMATION

New York Stock Exchange
Symbol: NCLH

ANNUAL MEETING

The annual meeting of shareholders will take
place on Thursday, June 18, 2020, at
9:00 a.m. Eastern Time at PULLMAN HOTEL,
5800 Blue Lagoon Drive, Miami, Florida 33126

EXECUTIVE TEAM

NORWEGIAN CRUISE LINE HOLDINGS LTD.

FRANK J. DEL RIO

President and Chief Executive Officer

MARK A. KEMPA

Executive Vice President and
Chief Financial Officer

ROBIN LINDSAY

Executive Vice President,
Vessel Operations

DANIEL S. FARKAS

Executive Vice President,
General Counsel and Assistant Secretary

FAYE L. ASHBY

Senior Vice President and
Chief Accounting Officer

NORWEGIAN CRUISE LINE

HARRY SOMMER

President and Chief Executive Officer

OCEANIA CRUISES

ROBERT J. BINDER

President and Chief Executive Officer
Vice Chairman, Oceania Cruises and
Regent Seven Seas Cruises

REGENT SEVEN SEAS CRUISES

JASON MONTAGUE

President and Chief Executive Officer

BOARD OF DIRECTORS

NORWEGIAN CRUISE LINE HOLDINGS LTD.



RUSSELL W. GALBUT

Chairman of
the Board
Managing Principal,
Crescent Heights



STELLA DAVID

Former Chief
Executive Officer,
William Grant & Sons
Limited



FRANK J. DEL RIO

President and Chief
Executive Officer,
Norwegian Cruise
Line Holdings Ltd.



MARY E. LANDRY

Rear Admiral,
U.S. Coast Guard,
Retired



DAVID M. ABRAMS

Chief Investment
Officer,
Harris Blitzer Sports
and Entertainment



CHAD A. LEAT

Former Vice Chairman
of Global Banking,
Citigroup Inc.



ADAM M. ARON

Chief Executive
Officer and
President,
AMC
Entertainment
Holdings, Inc.



STEVE MARTINEZ

Senior Partner,
Private Equity
and Head of Asia
Pacific,
Apollo Global
Management, LLC



JOHN W. CHIDSEY

Chief Executive
Officer,
Subway
Restaurants



PAMELA THOMAS- GRAHAM

Former Chief
Marketing and Talent
Officer,
Credit Suisse Group
AG



NORWEGIAN CRUISE LINE
HOLDINGS LTD.

