

Norwegian Cruise Line Holdings Ltd.  
Form 10-Q  
May 07, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended March 31, 2018**

**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 98-0691007**  
**(State or other jurisdiction of (I.R.S. Employer**  
**incorporation or organization) 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)**

**N/A**

**(Former name, former address and former fiscal year, if changed since last report)**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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 Exchange Act). Yes  No

There were 224,689,497 ordinary shares outstanding as of May 1, 2018.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Norwegian Cruise Line Holdings Ltd.****Consolidated Statements of Operations****(Unaudited)****(in thousands, except share and per share data)**

|                                       | Three Months Ended |             |
|---------------------------------------|--------------------|-------------|
|                                       | March 31,          |             |
|                                       | 2018               | 2017        |
| Revenue                               |                    |             |
| Passenger ticket                      | \$889,866          | \$786,694   |
| Onboard and other                     | 403,537            | 364,087     |
| Total revenue                         | 1,293,403          | 1,150,781   |
| Cruise operating expense              |                    |             |
| Commissions, transportation and other | 218,340            | 194,140     |
| Onboard and other                     | 70,688             | 68,411      |
| Payroll and related                   | 209,824            | 192,636     |
| Fuel                                  | 93,431             | 88,886      |
| Food                                  | 50,656             | 46,178      |
| Other                                 | 125,152            | 129,547     |
| Total cruise operating expense        | 768,091            | 719,798     |
| Other operating expense               |                    |             |
| Marketing, general and administrative | 227,015            | 192,044     |
| Depreciation and amortization         | 131,244            | 119,205     |
| Total other operating expense         | 358,259            | 311,249     |
| Operating income                      | 167,053            | 119,734     |
| Non-operating income (expense)        |                    |             |
| Interest expense, net                 | (59,698 )          | (52,960 )   |
| Other income (expense), net           | (1,666 )           | (2,815 )    |
| Total non-operating income (expense)  | (61,364 )          | (55,775 )   |
| Net income before income taxes        | 105,689            | 63,959      |
| Income tax expense                    | (2,534 )           | (2,049 )    |
| Net income                            | \$103,155          | \$61,910    |
| Weighted-average shares outstanding   |                    |             |
| Basic                                 | 227,343,577        | 227,468,526 |

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|                    |             |             |
|--------------------|-------------|-------------|
| Diluted            | 229,187,628 | 228,555,952 |
| Earnings per share |             |             |
| Basic              | \$0.45      | \$0.27      |
| Diluted            | \$0.45      | \$0.27      |

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

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**Norwegian Cruise Line Holdings Ltd.**

**Consolidated Statements of Comprehensive Income**

**(Unaudited)**

**(in thousands)**

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2018                            | 2017      |
| Net income                                     | \$ 103,155                      | \$ 61,910 |
| Other comprehensive income:                    |                                 |           |
| Shipboard Retirement Plan                      | 105                             | 105       |
| Cash flow hedges:                              |                                 |           |
| Net unrealized gain (loss)                     | 48,576                          | (7,283 )  |
| Amount realized and reclassified into earnings | (1,785 )                        | 9,705     |
| Total other comprehensive income               | 46,896                          | 2,527     |
| Total comprehensive income                     | \$ 150,051                      | \$ 64,437 |

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

Table of Contents**Norwegian Cruise Line Holdings Ltd.****Consolidated Balance Sheets****(Unaudited)****(in thousands, except share data)**

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| Assets   |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$301,748         | \$ 176,190           |
| Accounts receivable, net   | 41,159            | 43,961               |
| Inventories  | 80,427            | 82,121               |
| Prepaid expenses and other assets  | 337,441           | 216,065              |
| Total current assets   | 760,775           | 518,337              |
| Property and equipment, net  | 11,085,572        | 11,040,488           |
| Goodwill   | 1,388,931         | 1,388,931            |
| Tradenames   | 817,525           | 817,525              |
| Other long-term assets   | 432,182           | 329,588              |
| Total assets   | \$ 14,484,985     | \$ 14,094,869        |
| Liabilities and shareholders' equity   |                   |                      |
| Current liabilities:   |                   |                      |
| Current portion of long-term debt  | \$772,187         | \$ 619,373           |
| Accounts payable   | 65,573            | 53,433               |
| Accrued expenses and other liabilities   | 535,278           | 513,717              |
| Advance ticket sales   | 1,720,505         | 1,303,498            |
| Total current liabilities  | 3,093,543         | 2,490,021            |
| Long-term debt   | 5,580,290         | 5,688,392            |
| Other long-term liabilities  | 172,079           | 166,690              |
| Total liabilities  | 8,845,912         | 8,345,103            |
| Commitments and contingencies (Note 9)   |                   |                      |
| Shareholders' equity:  |                   |                      |
| Ordinary shares, \$.001 par value; 490,000,000 shares authorized; 234,709,747 shares issued and 224,675,474 shares outstanding at March 31, 2018 and 233,840,523 shares issued and 228,528,562 shares outstanding at December 31, 2017 | 235               | 233                  |
| Additional paid-in capital   | 4,020,584         | 3,998,694            |
| Accumulated other comprehensive income (loss)  | 73,862            | 26,966               |
| Retained earnings  | 2,047,152         | 1,963,128            |
| Treasury shares (10,034,273 and 5,311,961 ordinary shares at March 31, 2018 and December 31, 2017, respectively, at cost)  | (502,760 )        | (239,255 )           |
| Total shareholders' equity   | 5,639,073         | 5,749,766            |
| Total liabilities and shareholders' equity   | \$ 14,484,985     | \$ 14,094,869        |



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

Table of Contents**Norwegian Cruise Line Holdings Ltd.****Consolidated Statements of Cash Flows****(Unaudited)****(in thousands)**

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2018                            | 2017       |
| Cash flows from operating activities  |                                 |            |
| Net income  | \$ 103,155                      | \$ 61,910  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |            |
| Depreciation and amortization expense   | 134,546                         | 121,593    |
| (Gain) loss on derivatives  | (10 )                           | 406        |
| Deferred income taxes, net  | 809                             | 1,186      |
| Provision for bad debts and inventory   | 1,266                           | 323        |
| Share-based compensation expense  | 28,102                          | 18,203     |
| Changes in operating assets and liabilities:                                      |                                 |            |
| Accounts receivable, net  | 1,618                           | 14,943     |
| Inventories   | 1,363                           | (5,184 )   |
| Prepaid expenses and other assets   | (45,709 )                       | (9,473 )   |
| Accounts payable  | 13,163                          | 27,423     |
| Accrued expenses and other liabilities  | (3,180 )                        | (19,321 )  |
| Advance ticket sales  | 375,638                         | 222,935    |
| Net cash provided by operating activities   | 610,761                         | 434,944    |
| Cash flows from investing activities  |                                 |            |
| Additions to property and equipment, net  | (143,874)                       | (117,777)  |
| Promissory note receipts  | 249                             | —          |
| Net cash used in investing activities   | (143,625)                       | (117,777)  |
| Cash flows from financing activities  |                                 |            |
| Repayments of long-term debt  | (252,826)                       | (465,237)  |
| Proceeds from long-term debt  | 290,878                         | 236,000    |
| Proceeds from employee related plans  | 5,961                           | 9,466      |
| Net share settlement of restricted share units                                    | (12,171 )                       | (4,550 )   |
| Purchases of treasury shares  | (263,505)                       | —          |
| Deferred financing fees   | (109,915)                       | (1,404 )   |
| Net cash used in financing activities   | (341,578)                       | (225,725)  |
| Net increase in cash and cash equivalents   | 125,558                         | 91,442     |
| Cash and cash equivalents at beginning of period                                  | 176,190                         | 128,347    |
| Cash and cash equivalents at end of period  | \$ 301,748                      | \$ 219,789 |

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



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

|   | Ordinary<br>Shares | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Treasury<br>Shares | Total<br>Shareholders'<br>Equity |
|---|--------------------|----------------------------------|--|----------------------|--------------------|----------------------------------|
| Balance, December 31, 2016                            | \$ 232             | \$3,890,119                      | \$ (314,473 )  | \$1,201,103          | \$(239,255)        | \$ 4,537,726                     |
| Share-based compensation                              | —                  | 18,203                           | —  | —                    | —                  | 18,203                           |
| Issuance of shares under employee related plans       | —                  | 9,466                            | —  | —                    | —                  | 9,466                            |
| Change in accounting policy (share-based forfeitures) | —                  | (2,153 )                         | —  | 2,153                | —                  | —                                |
| Net share settlement of restricted share units        | —                  | (4,550 )                         | —  | —                    | —                  | (4,550 )                         |
| Other comprehensive income, net                       | —                  | —                                | 2,527  | —                    | —                  | 2,527                            |
| Net income  | —                  | —                                | —  | 61,910               | —                  | 61,910                           |
| Balance, March 31, 2017                               | 232                | 3,911,085                        | (311,946 )   | 1,265,166            | (239,255)          | 4,625,282                        |
| Balance, December 31, 2017                            | 233                | 3,998,694                        | 26,966   | 1,963,128            | (239,255)          | 5,749,766                        |
| Share-based compensation                              | —                  | 28,102                           | —  | —                    | —                  | 28,102                           |
| Issuance of shares under employee related plans       | 2                  | 5,959                            | —  | —                    | —                  | 5,961                            |
| Treasury shares                                       | —                  | —                                | —  | —                    | (263,505)          | (263,505 )                       |
| Net share settlement of restricted share units        | —                  | (12,171 )                        | —  | —                    | —                  | (12,171 )                        |
| Cumulative change in accounting policy                | —                  | —                                | (12 )  | (19,131 )            | —                  | (19,143 )                        |
| Other comprehensive income, net                       | —                  | —                                | 46,908   | —                    | —                  | 46,908                           |
| Net income  | —                  | —                                | —  | 103,155              | —                  | 103,155                          |
| Balance, March 31, 2018                               | \$ 235             | \$4,020,584                      | \$ 73,862  | \$2,047,152          | \$(502,760)        | \$ 5,639,073                     |

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

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**Norwegian Cruise Line Holdings Ltd.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

Unless otherwise indicated or the context otherwise requires, references in this report to (i) the “Company,” “we,” “our” and “us” refer to NCLH (as defined below) and its subsidiaries (including Prestige (as defined below), except for periods prior to the consummation of the Acquisition of Prestige (as defined below)), (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 Prestige Cruise Holdings S. de R.L. (formerly Prestige Cruise Holdings, Inc.), Prestige’s direct wholly-owned subsidiary, which in turn is the parent of 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 and the “Apollo Holders” refers to one or more of NCL Athene LLC, AIF VI NCL (AIV), L.P., AIF VI NCL (AIV II), L.P., AIF VI NCL (AIV III), L.P., AIF VI NCL (AIV IV), L.P., Apollo Overseas Partners (Delaware) VI, L.P., Apollo Overseas Partners (Delaware 892) VI, L.P., Apollo Overseas Partners VI, L.P., Apollo Overseas Partners (Germany) VI, L.P., AAA Guarantor — Co-Invest VII, L.P., AIF VI Euro Holdings, L.P., AIF VII Euro Holdings, L.P., Apollo Alternative Assets, L.P., Apollo Management VI, L.P. and Apollo Management VII, L.P. and (vii) “Genting HK” refers to Genting Hong Kong Limited and/or its affiliates (formerly Star Cruises Limited and/or its affiliates) (Genting HK owns NCLH’s ordinary shares indirectly through Star NCLC Holdings Ltd., its Bermuda wholly-owned subsidiary (“Star NCLC”). 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.

**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 March 31, 2018, we had 25 ships with approximately 50,400 Berths, excluding Norwegian Bliss, which was delivered on April 19, 2018 (we refer you to Note 12— “Subsequent Events”). We plan to introduce six additional ships through 2025 and we have an option to introduce two additional ships for delivery in 2026 and 2027, subject to certain conditions. Norwegian Encore is on order for delivery in the fall of 2019. We also have an Explorer Class Ship, Seven Seas Splendor, on order for delivery in the winter of 2020. Project Leonardo will introduce an additional four ships with expected delivery dates through 2025. These additions to our fleet (exclusive of the option for two additional ships) will increase our total Berths to approximately 72,300.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying consolidated financial statements are unaudited and, in our opinion, contain all normal recurring adjustments necessary for a fair statement of the results for the periods presented.

Our operations are seasonal and results for interim periods are not necessarily indicative of the results for the entire fiscal year. Historically, demand for cruises has been strongest during the Northern Hemisphere's summer months. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017, which are included in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**Earnings Per Share**

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

|   | Three Months Ended |             |
|---|--------------------|-------------|
|   | March 31,          |             |
|   | 2018               | 2017        |
| Net income                                  | \$ 103,155         | \$ 61,910   |
| Basic weighted-average shares outstanding   | 227,343,577        | 227,468,526 |
| Dilutive effect of share awards             | 1,844,051          | 1,087,426   |
| Diluted weighted-average shares outstanding | 229,187,628        | 228,555,952 |
| Basic earnings per share                    | \$0.45             | \$0.27      |
| Diluted earnings per share                  | \$0.45             | \$0.27      |

For the three months ended March 31, 2018 and 2017, a total of 3.4 million and 7.5 million shares, respectively, have been excluded from diluted weighted-average shares outstanding because the effect of including them would have been anti-dilutive.

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**Revenue and Expense Recognition**

On January 1, 2018, we adopted Accounting Standards Update (“ASU”) No. 2014-09 (“Topic 606”) - Revenue from Contracts with Customers. Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition. Using the modified retrospective method, we applied the new requirements to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

*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, as well as meals and entertainment. 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 and other similar items. Food and beverage, casino operations 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 fixed percentage of the gross sales derived from these concessions. 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 normally due between 75 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. 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.

#### *Financial statement presentation*

As of January 1, 2018, in connection with the adoption of Topic 606, we reclassified \$51.6 million of deferred costs associated with obtaining customer contracts to prepaid expenses and other assets from advance ticket sales.

#### *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 has historically approximated 75-80%. No other individual country's revenues exceed 10% in any given period.



Table of Contents*Disaggregation of Revenue*

Revenue and cash flows are affected by economic factors in various geographical regions. Revenues by destination were as follows (in thousands):

|               | <b>Three Months Ended</b> |                    |
|---------------|---------------------------|--------------------|
|               | <b>March 31,</b>          |                    |
|               | <b>2018</b>               | <b>2017</b>        |
| North America | \$875,179                 | \$850,671          |
| Europe        | 31,070                    | 26,162             |
| Asia-Pacific  | 267,718                   | 133,430            |
| Other         | 119,436                   | 140,518            |
|               | <b>\$1,293,403</b>        | <b>\$1,150,781</b> |

*Contract Balances*

Receivables from customers are included within accounts receivables, net. As of March 31, 2018 and January 1, 2018, our receivables from customers were \$12.2 million and \$13.8 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 March 31, 2018 and January 1, 2018, our contract liabilities were \$1.2 billion and \$1.0 billion, respectively. Of the amounts included within contract liabilities, approximately 50% were refundable in accordance with our cancellation policies. For the three months ended March 31, 2018, \$0.8 billion of revenue recognized was included in the contract liability balance at the beginning of the period.

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 peak demand periods. The addition of new ships also increases the contract liability balances prior to a new ship's delivery, as staterooms are usually made available for

reservation prior to the inaugural cruise. Norwegian Bliss, with approximately 4,000 berths, adding 8% capacity to our fleet, was delivered on April 19, 2018 (we refer you to Note 12— “Subsequent Events”).

#### *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 and port taxes and fees that fulfill future performance obligations are also considered recoverable and are recorded as assets. As of March 31, 2018, \$115.0 million of costs incurred to obtain customers and \$25.0 million of costs to fulfill contracts with customers are recognized as assets 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 commission, transportation and other expense.

Table of Contents*Impacts on Financial Statements*

The adoption of Topic 606 does not change the timing, classification or amount of revenue recognized from customers in our consolidated financial statements nor does it change the timing, classification or amount of incremental costs to obtain and fulfill those contracts with customers. Therefore, the adoption had no impact on our consolidated statement of operations or consolidated statement of comprehensive income.

The following table summarizes the impacts of Topic 606 adoption on our consolidated balance sheet which has been adjusted for deferred contract costs that would have been included, net, in Advance ticket sales as of March 31, 2018 (in thousands):

|  | As reported   | Adjustments  | Balances without<br>adoption of Topic<br>606 |
|--|---------------|--------------|--|
| Prepaid expenses and other assets          | \$ 337,441    | \$ (68,230 ) | \$ 269,211                                   |
| Total assets                               | 14,484,985    | (68,230 )    | 14,416,755                                   |
| Advance ticket sales                       | 1,720,505     | (68,230 )    | 1,652,275                                    |
| Total liabilities and shareholders' equity | \$ 14,484,985 | \$ (68,230 ) | \$ 14,416,755                                |

The following table summarizes the impacts of our adoption of Topic 606 on our consolidated statement of cash flows for the three months ended March 31, 2018 (in thousands):

|  | As reported  | Adjustments | Balances without<br>adoption of Topic<br>606 |
|--|--------------|-------------|--|
| Changes in operating assets and liabilities: |              |             |  |
| Prepaid expenses and other assets            | \$ (45,709 ) | \$ 16,631   | \$ (29,078 )                                 |
| Advance ticket sales                         | 375,638      | (16,631 )   | 359,007                                      |
| Net cash provided by operating activities    | \$ 610,761   | \$ —        | \$ 610,761                                   |

**Foreign Currency**

The majority of our transactions are settled in U.S. dollars. We translate assets and liabilities of our foreign subsidiaries at exchange rates in effect at the balance sheet date. Gains or losses resulting from transactions denominated in other currencies are recognized in our consolidated statements of operations within other income

(expense), net and such losses were approximately \$1.8 million and \$2.8 million for the three months ended March 31, 2018 and 2017, respectively.

### **Depreciation and Amortization Expense**

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 they are included in interest expense, net.

### **Recently Issued and Adopted Accounting Guidance**

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%. The SEC staff issued Staff Accounting Bulletin No. 118, which addresses how a company recognizes 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 required by 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. As of March 31, 2018, we have not completed the accounting for the tax effects of enactment of the Act; however, as described below, we have made a reasonable estimate of the effects on existing deferred tax balances. These amounts are provisional and subject to change. The most significant impact of the Act for the Company was a \$7.4 million reduction of the value of net deferred tax liabilities (which represent future tax expenses) that was recorded in 2017 as a discrete tax benefit as a result of lowering the U.S. corporate income tax rate from 35% to 21%. The tax benefit represents a provisional amount and the Company’s current best estimates. Any adjustments recorded to the provisional amount through the end of 2018 will be included in income from operations as an adjustment to tax expense. The provisional amounts incorporate assumptions made based upon the Company’s current interpretation of the Act and may change as the Company receives additional clarification and implementation guidance. Other aspects of the Act are either not applicable or not expected to have a material impact on the Company’s financial statements.

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In January 2017, the Financial Accounting Standards Board issued ASU No. 2017-04 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. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect to early adopt this guidance. We will evaluate the impact of this guidance to our consolidated financial statements upon adoption of the guidance.

On January 1, 2018, we adopted ASU No. 2016-16 which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. This adoption resulted in a cumulative-effect adjustment of \$19.1 million to retained earnings. This amount captures the write-off of previously unamortized deferred income tax expense from past intra-entity transfers involving assets other than inventory, not previously recognized under U.S. GAAP. The adoption does not have an impact on continuing operations, net income or any other financial statement line items for the current period.

On January 1, 2018, we adopted ASU No. 2017-12 which simplifies the accounting for derivatives. For derivative instruments that are designated and qualify as a cash flow hedge, the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item. Upon adoption, the guidance required a cumulative effect adjustment, relating to the elimination of the separate measurement of ineffectiveness for cash flow hedges, to accumulated other comprehensive income (loss) with a corresponding adjustment to the opening balance of retained earnings, which was not material to our financial statements (we refer you to Note 7. "Fair Value Measurements and Derivatives").

**3. Intangible Assets**

The carrying amounts of intangible assets subject to amortization are included within other long-term assets. The gross carrying amounts of intangible 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):

|                        | March 31, 2018        |                          |                     | Weighted-                           |
|------------------------|-----------------------|--------------------------|---------------------|-------------------------------------|
|                        | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Average Amortization Period (Years) |
| Customer relationships | \$ 120,000            | \$ (73,088               | ) \$ 46,912         | 6.0                                 |

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|   |            |            |   |           |     |
|---|------------|------------|---|-----------|-----|
| Licenses  | 3,368      | (1,883     | ) | 1,485     | 5.6 |
| Total intangible assets subject to amortization | \$ 123,368 | \$ (74,971 | ) | \$ 48,397 |     |

|   | December 31, 2017     |                          |                     | Weighted-Average Amortization Period (Years) |
|---|-----------------------|--------------------------|---------------------|--|
|   | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |  |
| Customer relationships                          | \$ 120,000            | \$ (66,866               | ) \$ 53,134         | 6.0  |
| Licenses  | 3,368                 | (1,601                   | ) 1,767             | 5.6  |
| Non-compete agreements                          | 660                   | (660                     | ) —                 | 1.0  |
| Total intangible assets subject to amortization | \$ 124,028            | \$ (69,127               | ) \$ 54,901         |  |

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

|                      | Three Months Ended |          |
|----------------------|--------------------|----------|
|                      | March 31,          |          |
|                      | 2018               | 2017     |
| Amortization expense | \$ 6,504           | \$ 7,915 |

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 |
|-------------------------|----------------------|
| 2019                    | \$ 18,489            |
| 2020                    | 9,906                |
| 2021                    | 75                   |
| 2022                    | 75                   |
| 2023                    | 75                   |

Table of Contents**4. Accumulated Other Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss) for the three months ended March 31, 2018 was as follows (in thousands):

|  | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Change<br>Related to<br>Cash Flow<br>Hedges | Change<br>Related to<br>Shipboard<br>Retirement<br>Plan |
|--|--|---|---|
| Accumulated other comprehensive income (loss) at beginning of period | \$ 26,966  | \$ 33,861                                   | \$ (6,895 )   |
| Current period other comprehensive income before reclassifications   | 48,576   | 48,576                                      | —   |
| Amounts reclassified into earnings                                   | (1,680 )   | (1,785 )                                    | (1) 105 (2)   |
| Accumulated other comprehensive income (loss) at end of period       | \$ 73,862  | \$ 80,652 (3)                               | \$ (6,790 )   |

(1) We refer you to Note 7— “Fair Value Measurements and Derivatives” 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).

(3) Includes \$9.5 million of gain expected to be reclassified into earnings in the next 12 months.

Accumulated other comprehensive income (loss) for the three months ended March 31, 2017 was as follows (in thousands):

|  | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Change<br>Related to<br>Cash Flow<br>Hedges | Change<br>Related to<br>Shipboard<br>Retirement<br>Plan |
|--|--|---|---|
| Accumulated other comprehensive income (loss) at beginning of period | \$ (314,473 )  | \$ (307,618 )                               | \$ (6,855 )   |
| Current period other comprehensive income before reclassifications   | (7,283 )   | (7,283 )                                    | —   |
| Amounts reclassified into earnings                                   | 9,810  | 9,705 (1)                                   | 105 (2)   |
| Accumulated other comprehensive income (loss) at end of period       | \$ (311,946 )  | \$ (305,196 )                               | \$ (6,750 )   |

(1) We refer you to Note 7— “Fair Value Measurements and Derivatives” for the affected line items in the consolidated statements of operations.

(2) Amortization of prior-service cost and actuarial loss reclassified to payroll and related expense.

## 5. Property and Equipment, net

Property and equipment, net increased \$45.1 million for the three months ended March 31, 2018 primarily due to ships under construction and ship improvement projects. Norwegian Bliss was delivered on April 19, 2018 (we refer you to Note 12— “Subsequent Events”).

## 6. Related Party Disclosures

In March 2018, as part of a public equity offering of our ordinary shares owned by the Apollo Holders and Genting HK, we repurchased 4,722,312 of our ordinary shares sold in the offering for approximately \$263.5 million pursuant to our then existing share repurchase program. As of March 31, 2018, the ownership percentages of NCLH’s ordinary shares were as follows:

| Shareholder    | Number of Shares | Percentage Ownership |   |
|----------------|------------------|----------------------|---|
| Apollo Holders | 15,728,782       | 7.0                  | % |
| Genting HK     | 3,148,307        | 1.4                  | % |

## 7. 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).



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**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. 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 that we have 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.

As of March 31, 2018, we had fuel swaps maturing through December 31, 2020 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.

As of March 31, 2018, 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 €1.9 billion, or \$2.3 billion based on the euro/U.S. dollar exchange rate as of March 31, 2018.

As of March 31, 2018, we had interest rate swap agreements to hedge our exposure to interest rate movements and to manage our interest expense. The notional amount of outstanding debt associated with the interest rate swap agreements was \$218.6 million as of March 31, 2018.

The following table sets forth our derivatives measured at fair value and discloses the balance sheet location (in thousands):

|  | <b>Balance Sheet location</b>          | <b>Asset<br/>March<br/>31,<br/>2018</b> | <b>December 31,<br/>2017</b> | <b>Liability<br/>March<br/>31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|--|---|------------------------------|---|------------------------------|
| Fuel contracts designated as hedging instruments             |  |   |                              |   |                              |
|  | Prepaid expenses and other assets      | \$17,637                                | \$ 19,220                    | \$3,089                                     | \$ 2,406                     |
|  | Other long-term assets                 | 14,540                                  | 19,854                       | 4,152                                       | 3,469                        |
|  | Accrued expenses and other liabilities | 60                                      | —                            | 3,107                                       | 3,348                        |
|  | Other long-term liabilities            | 130                                     | 576                          | 2,913                                       | 2,148                        |
| Foreign currency contracts designated as hedging instruments |  |   |                              |   |                              |
|  | Prepaid expenses and other assets      | 78,438                                  | 52,300                       | 71  | 730                          |
|  | Other long-term assets                 | 112,777                                 | 85,081                       | —   | —                            |
| Interest contracts designated as hedging instruments         |  |   |                              |   |                              |
|  | Accrued expenses and other liabilities | —                                       | —                            | 332   | 1,020                        |
| Total derivatives designated as hedging instruments          |  | \$223,582                               | \$ 177,031                   | \$13,664                                    | \$ 13,121                    |

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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 following table discloses the gross and net amounts recognized within assets and liabilities (in thousands):

| March 31, 2018 | Gross Amounts | Gross Amounts Offset | Total Net Amounts | Gross Amounts Not Offset | Net Amounts |
|----------------|---------------|----------------------|-------------------|--------------------------|-------------|
| Assets         | \$ 223,392    | \$ (7,312 )          | \$ 216,080        | \$ (117,233 )            | \$ 98,847   |
| Liabilities    | 6,352         | (190 )               | 6,162             | (332 )                   | 5,830       |

  

| December 31, 2017 | Gross Amounts | Gross Amounts Offset | Total Net Amounts | Gross Amounts Not Offset | Net Amounts |
|-------------------|---------------|----------------------|-------------------|--------------------------|-------------|
| Assets            | \$ 176,455    | \$ (6,605 )          | \$ 169,850        | \$ (127,924 )            | \$ 41,926   |
| Liabilities       | 6,516         | (576 )               | 5,940             | (1,020 )                 | 4,920       |

The effects of cash flow hedge accounting on accumulated other comprehensive income (loss) were as follows (in thousands):

| Derivatives | Amount of gain or (loss) recognized in other comprehensive income | Location of gain or (loss) reclassified from accumulated other comprehensive income | Amount of gain or (loss) reclassified from accumulated other comprehensive income (loss) into income |
|-------------|---|---|--|
|             |   |   |  |

**comprehensive  
income (loss) into  
income**

|  | <b>Three<br/>Months<br/>Ended<br/>March<br/>31,<br/>2018</b> | <b>Three<br/>Months<br/>Ended<br/>March 31,<br/>2017</b> |  | <b>Three<br/>Months<br/>Ended<br/>March 31,<br/>2018</b> | <b>Three<br/>Months<br/>Ended<br/>March 31,<br/>2017</b> |
|--|--|--|--|--|--|
| Fuel contracts   | \$ (6,012 )  | \$ (26,203 )   | Fuel                                     | \$ 3,525   | \$ (8,003 )  |
| Foreign currency contracts                                       | 54,493   | 18,636   | Depreciation and<br>amortization expense | (1,159 )   | (857 )   |
| Interest rate contracts  | 95   | 284  | Interest expense, net                    | (581 )   | (845 )   |
| Total gain (loss) recognized<br>in other comprehensive<br>income | \$ 48,576  | \$ (7,283 )  |  | \$ 1,785   | \$ (9,705 )  |

The effects of cash flow hedge accounting on the consolidated financial statements of operations were as follows (in thousands):

|  | <b>For the three months<br/>ended March 31, 2018</b> |  |                                      | <b>For the three months<br/>ended March 31, 2017</b> |  |                                      |
|--|--|--|--------------------------------------|--|--|--------------------------------------|
|  | <b>Fuel</b>  | <b>and<br/>Depreciation<br/>and<br/>amortization</b> | <b>Interest<br/>expense,<br/>net</b> | <b>Fuel</b>  | <b>and<br/>Depreciation<br/>and<br/>amortization</b> | <b>Interest<br/>expense,<br/>net</b> |
| Total amounts of income and expense<br>line items presented in the consolidated<br>statements of operations in which the<br>effects of cash flow hedges are recorded | \$93,431   | \$ 131,244   | \$ 59,698                            | \$88,886   | \$ 119,205   | \$ 52,960                            |

The effects of cash flow hedges:

Fuel contracts:

|  |       |   |   |          |   |   |
|--|-------|---|---|----------|---|---|
| Amount of gain or (loss) reclassified<br>from accumulated other comprehensive<br>income (loss) into income | 3,525 | — | — | (8,003 ) | — | — |
|--|-------|---|---|----------|---|---|

Foreign currency contracts:

|  |   |          |   |   |        |   |
|--|---|----------|---|---|--------|---|
| Amount of gain or (loss) reclassified<br>from accumulated other comprehensive<br>income (loss) into income | — | (1,159 ) | — | — | (857 ) | — |
|--|---|----------|---|---|--------|---|

Interest rate contracts:

|  |   |   |        |   |   |        |
|--|---|---|--------|---|---|--------|
|  | — | — | (581 ) | — | — | (845 ) |
|--|---|---|--------|---|---|--------|

Amount of gain or (loss) reclassified  
from accumulated other comprehensive  
income (loss) into income

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Table of Contents**Long-Term Debt**

As of March 31, 2018 and December 31, 2017, the fair value of our long-term debt, including the current portion, was \$6,457.9 million and \$6,448.6 million, respectively, which was \$5.8 million lower and \$23.5 million higher, 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. 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 resulting in Level 2 inputs in the fair value hierarchy. Market risk associated with our long-term variable rate debt is the potential increase in interest expense from an increase in interest rates. The calculation of the fair value of our long-term debt is considered a Level 2 input.

**Other**

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

**8. Employee Benefits and Compensation Plans****Share Option Awards**

The following is a summary of option activity under NCLH's Amended and Restated 2013 Performance Incentive Plan for the three months ended March 31, 2018:

|                                   | 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, 2018 | 6,580,898                     | 373,969                  | 208,333             | \$49.18                         | \$ 31.39                 | \$ 59.43            | 6.99                                      | \$ 50,021                                |
| Granted                           | —                             | 208,335                  | —                   | —                               | 59.43                    | —                   | —   | —  |
| Exercised                         | (117,805 )                    | —                        | —                   | 39.27                           | —                        | —                   | —   | —  |

|                                  |           |           |         |          |          |          |      |           |
|----------------------------------|-----------|-----------|---------|----------|----------|----------|------|-----------|
| Forfeited and cancelled          | (60,083 ) | (52,084 ) | —       | 52.08    | 59.43    | —        | —    | —         |
| Outstanding as of March 31, 2018 | 6,403,010 | 530,220   | 208,333 | \$ 49.34 | \$ 39.65 | \$ 59.43 | 6.77 | \$ 47,171 |

### Restricted Ordinary Share Awards

The following is a summary of restricted NCLH ordinary share activity for the three months ended March 31, 2018:

|  | Number of<br>Time-Based<br>Awards | Weighted-<br>Average Grant<br>Date Fair<br>Value |
|--|-----------------------------------|--|
| Non-vested as of January 1, 2018                     | 858                               | \$ 58.33   |
| Granted  | —                                 | —  |
| Vested   | (429 )                            | 58.25  |
| Forfeited or expired                                 | —                                 | —  |
| Non-vested and expected to vest as of March 31, 2018 | 429                               | \$ 58.41   |

Table of Contents**Restricted Share Unit Awards**

On March 1, 2018, NCLH granted 1.6 million time-based restricted share unit awards to our employees which vest equally over three years. Additionally, on February 27, 2018 and March 1, 2018, NCLH granted 0.3 million and 0.5 million performance-based restricted share units, respectively, to certain members of our management team which vest upon the achievement of certain pre-established performance targets.

The following is a summary of restricted share unit activity for the three months ended March 31, 2018:

|   | Number of<br>Time-Based<br>Awards | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value | Number of<br>Performance-<br>Based<br>Awards | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value | Number<br>of<br>Market-<br>Based<br>Awards | Weighted-<br>Average<br>Grant<br>Date<br>Fair Value |
|---|-----------------------------------|---|--|---|--|---|
| Non-vested as of January 1, 2018                        | 2,555,477                         | \$ 50.86  | —  | \$ —  | 50,000                                     | \$ 59.43  |
| Granted   | 1,606,156                         | 56.74   | 843,998                                      | 56.58   | —  | —   |
| Vested  | (938,637 )                        | 56.68   | —  | —   | —  | —   |
| Forfeited or expired                                    | (39,872 )                         | 52.72   | (12,500 )                                    | 59.43   | —  | —   |
| Non-vested and expected to vest as<br>of March 31, 2018 | 3,183,124                         | \$ 53.90  | 831,498                                      | \$ 55.94  | 50,000                                     | \$ 59.43  |

The share-based compensation expense for the three months ended March 31, 2018 was \$28.1 million of which \$24.7 million was recorded in marketing, general and administrative expense and \$3.4 million was recorded in payroll and related expense. The share-based compensation expense for the three months ended March 31, 2017 was \$18.2 million of which \$17.4 million was recorded in marketing, general and administrative expense and \$0.8 million was recorded in payroll and related expense.

**9. Commitments and Contingencies****Ship Construction Contracts**

Project Leonardo will introduce an additional four ships with expected delivery dates through 2025 and we have an option to introduce two additional ships for delivery in 2026 and 2027, subject to certain conditions. Each of the four Project Leonardo ships is approximately 140,000 Gross Tons with approximately 3,300 Berths. We have an Explorer Class Ship, Seven Seas Splendor, on order for delivery in the winter of 2020. This ship is approximately 55,000 Gross



Tons and 750 Berths. Norwegian Bliss was delivered on April 19, 2018 (we refer you to Note 12— “Subsequent Events”). We have one additional Breakaway Plus Class Ship, Norwegian Encore, on order for delivery in the fall of 2019. Each of Norwegian Bliss and Norwegian Encore is approximately 168,000 Gross Tons with approximately 4,000 Berths. The combined contract price of these seven ships (exclusive of the option for two additional ships) was approximately €5.6 billion, or \$6.9 billion based on the euro/U.S. dollar exchange rate as of March 31, 2018. 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 2025, subject to certain conditions. For ships expected to be delivered after 2023, the contract prices are subject to adjustment under certain circumstances.

In connection with the contracts to build these ships, we do not anticipate any contractual breach or cancellation to occur. However, if any were to occur, it could result in, among other things, the forfeiture of prior deposits or payments made by us, subject to certain refund guarantees, and potential claims and impairment losses which may materially impact our business, financial condition and results of operations.

## **Litigation**

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.

## **10. Other Income (Expense), Net**

For the three months ended March 31, 2018, other income (expense), net was a \$1.7 million expense, primarily due to foreign currency exchange losses. For the three months ended March 31, 2017, the \$2.8 million expense was due to foreign currency exchange and fuel swap derivative losses.

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**11. Supplemental Cash Flow Information**

For the three months ended March 31, 2018 and 2017, we had non-cash investing activities in connection with property and equipment of \$25.7 million and \$23.0 million, respectively.

**12. Subsequent Events**

On April 19, 2018, we took delivery of Norwegian Bliss. To finance the payment due upon delivery, we had export financing in place for 80% of the contract price. The associated \$850.0 million term loan bears interest at 3.92% with a maturity date of April 19, 2030. Principal and interest payments shall be paid semiannually.

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.

On April 4, 2018, we redeemed \$135.0 million principal amount of the \$700.0 million aggregate principal amount of outstanding 4.750% Senior Notes due 2021 (the “Notes”) at a price equal to 100% of the principal amount of the Notes being redeemed and paid the premium of \$5.2 million and accrued interest of \$1.9 million. The redemption also resulted in a write off of \$1.2 million of certain fees. Following the partial redemption, \$565.0 million aggregate principal amount of Notes remained outstanding. The redemption of the Notes resulted in a reclassification of \$135.0 million to short-term debt in the consolidated balance sheet as of March 31, 2018.

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**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

**Cautionary Statement Concerning Forward-Looking Statements**

Certain statements in this 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 report, including, without limitation, those regarding our business strategy, financial position, results of operations, plans, prospects and objectives of management for future operations (including development plans and objectives relating to our activities), 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,” “intend” and “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;

our expansion into and investments in new markets;

the risks and increased costs associated with operating internationally;

breaches in data security or other disturbances to our information technology and other networks;

changes in fuel prices and/or other cruise operating costs;

- fluctuations in foreign currency exchange rates;
- overcapacity in key markets or globally;
- the unavailability of attractive port destinations;

our indebtedness and restrictions in the agreements governing our indebtedness that limit our flexibility in operating our business;

the significant portion of our assets pledged as collateral under our existing debt agreements and the ability of our creditors to accelerate the repayment of our indebtedness;

- 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;
- delays in our shipbuilding program and ship repairs, maintenance and refurbishments;
- our reliance on third parties to provide hotel management services to certain ships and certain other services;
- future increases in the price of, or major changes or reduction in, commercial airline services;
- amendments to our collective bargaining agreements for crew members and other employee relation issues;

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- our inability to obtain adequate insurance coverage;
- future changes relating to how external distribution channels sell and market our cruises;
- pending or threatened litigation, investigations and enforcement actions;
- our ability to keep pace with developments in technology;
- seasonal variations in passenger fare rates and occupancy levels at different times of the year;
- 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.

**Terminology**

This 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 “Results of Operations” below.

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

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- *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 expense adjusted for supplemental adjustments.
- *Adjusted Net Income*. Net income adjusted for supplemental adjustments.
- *Berths*. Double occupancy capacity per cabin (single occupancy per studio cabin) even though many cabins can accommodate three or more passengers.
- *Breakaway Plus Class Ships*. Norwegian Escape, Norwegian Joy, Norwegian Bliss and a fourth ship on order, Norwegian Encore.
- *Business Enhancement Capital Expenditures*. Capital expenditures other than those related to new ship construction and ROI Capital Expenditures.
- *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 in order to eliminate the effects of the 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.

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- *Explorer Class Ships.* Regent's Seven Seas Explorer and a second ship on order, Seven Seas Splendor.
  
- *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 = 100 cubic feet or 2.831 cubic meters.
  
- *Gross Yield.* Total revenue per Capacity Day.
  
- *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 in excess of 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 maturing on June 6, 2021.
- *ROI Capital Expenditures*. Comprised of project-based capital expenditures which have a quantified return on investment.
- *SEC*. U.S. Securities and Exchange Commission.
- *Secondary Equity Offering(s)*. Secondary public offering(s) of NCLH's ordinary shares in 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.

### **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 "Terminology" for the definitions of these 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.

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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.

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.

## **Financial Presentation**

Revenue from our cruise and cruise-related activities are categorized by us as "passenger ticket revenue" and "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, 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 agent commissions, air and land transportation expenses, related credit

card fees, certain port expenses 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 that are incurred in connection with onboard and other revenue. These include costs incurred in connection with 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.

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**Critical Accounting Policies**

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies” included in our Annual Report on Form 10-K for the year ended December 31, 2017 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2017.

**Quarterly Overview**

**Three months ended March 31, 2018 (“2018”) compared to three months ended March 31, 2017 (“2017”)**

• Total revenue increased 12.4% to \$1.3 billion compared to \$1.2 billion.

• Net Revenue increased 13.1% to \$1.0 billion compared to \$0.9 billion.

• Net income and diluted EPS was \$103.2 million and \$0.45, respectively, compared to \$61.9 million and \$0.27, respectively.

• Operating income was \$167.1 million compared to \$119.7 million.

Adjusted Net Income and Adjusted EPS were \$137.8 million and \$0.60, respectively, in 2018, which included \$34.7 million of adjustments primarily consisting of expenses related to non-cash compensation, amortization of intangible assets and certain other adjustments. Adjusted Net Income and Adjusted EPS were \$91.2 million and \$0.40, respectively, in 2017, which included \$29.2 million of adjustments primarily consisting of expenses related to non-cash compensation, amortization of intangible assets and certain other adjustments.

• Adjusted EBITDA improved 25.3% to \$326.4 million compared to \$260.6 million.

We refer you to our “Results of Operations” below for a calculation of Net Revenue, Adjusted Net Income, Adjusted EPS and Adjusted EBITDA.

**Results of Operations**

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

|                                       | Three Months Ended |    |       |    |
|---------------------------------------|--------------------|----|-------|----|
|                                       | March 31,          |    |       |    |
|                                       | 2018               |    | 2017  |    |
| Revenue                               |                    |    |       |    |
| Passenger ticket                      | 68.8               | %  | 68.4  | %  |
| Onboard and other                     | 31.2               | %  | 31.6  | %  |
| Total revenue                         | 100.0              | %  | 100.0 | %  |
| Cruise operating expense              |                    |    |       |    |
| Commissions, transportation and other | 16.9               | %  | 16.9  | %  |
| Onboard and other                     | 5.5                | %  | 5.9   | %  |
| Payroll and related                   | 16.2               | %  | 16.7  | %  |
| Fuel                                  | 7.2                | %  | 7.7   | %  |
| Food                                  | 3.9                | %  | 4.0   | %  |
| Other                                 | 9.7                | %  | 11.3  | %  |
| Total cruise operating expense        | 59.4               | %  | 62.5  | %  |
| Other operating expense               |                    |    |       |    |
| Marketing, general and administrative | 17.6               | %  | 16.7  | %  |
| Depreciation and amortization         | 10.1               | %  | 10.4  | %  |
| Total other operating expense         | 27.7               | %  | 27.1  | %  |
| Operating income                      | 12.9               | %  | 10.4  | %  |
| Non-operating income (expense)        |                    |    |       |    |
| Interest expense, net                 | (4.6)              | )% | (4.6) | )% |
| Other income (expense), net           | (0.1)              | )% | (0.2) | )% |
| Total non-operating income (expense)  | (4.7)              | )% | (4.8) | )% |
| Net income before income taxes        | 8.2                | %  | 5.6   | %  |
| Income tax expense                    | (0.2)              | )% | (0.2) | )% |
| Net income                            | 8.0                | %  | 5.4   | %  |

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The following table sets forth selected statistical information:

|                       | Three Months Ended |           |
|-----------------------|--------------------|-----------|
|                       | March 31,<br>2018  | 2017      |
| Passengers carried    | 617,440            | 528,354   |
| Passenger Cruise Days | 4,724,604          | 4,230,518 |
| Capacity Days         | 4,466,471          | 4,030,616 |
| Occupancy Percentage  | 105.8 %            | 105.0 %   |

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

|   | Three Months Ended |                              |           |
|---|--------------------|------------------------------|-----------|
|   | March 31,<br>2018  | 2018<br>Constant<br>Currency | 2017      |
| Passenger ticket revenue                      | \$889,866          | \$876,793                    | \$786,694 |
| Onboard and other revenue                     | 403,537            | 403,537                      | 364,087   |
| Total revenue                                 | 1,293,403          | 1,280,330                    | 1,150,781 |
| Less:   |                    |                              |           |
| Commissions, transportation and other expense | 218,340            | 215,291                      | 194,140   |
| Onboard and other expense                     | 70,688             | 70,688                       | 68,411    |
| Net Revenue                                   | 1,004,375          | 994,351                      | 888,230   |
| Capacity Days                                 | 4,466,471          | 4,466,471                    | 4,030,616 |
| Gross Yield                                   | \$289.58           | \$286.65                     | \$285.51  |
| Net Yield                                     | \$224.87           | \$222.63                     | \$220.37  |

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):

| Three Months Ended |      |
|--------------------|------|
| March 31,          |      |
| 2018               | 2017 |

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|  |           | 2018      |           |
|--|-----------|-----------|-----------|
|  |           | Constant  | Currency  |
| Total cruise operating expense                           | \$768,091 | \$763,593 | \$719,798 |
| Marketing, general and administrative expense            | 227,015   | 224,692   | 192,044   |
| Gross Cruise Cost  | 995,106   | 988,285   | 911,842   |
| Less:  |           |           |           |
| Commissions, transportation and other expense            | 218,340   | 215,291   | 194,140   |
| Onboard and other expense                                | 70,688    | 70,688    | 68,411    |
| Net Cruise Cost  | 706,078   | 702,306   | 649,291   |
| Less: Fuel expense                                       | 93,431    | 93,431    | 88,886    |
| Net Cruise Cost Excluding Fuel                           | 612,647   | 608,875   | 560,405   |
| Less Non-GAAP Adjustments:                               |           |           |           |
| Non-cash deferred compensation (1)                       | 542       | 542       | 823       |
| Non-cash share-based compensation (2)                    | 28,102    | 28,102    | 18,203    |
| Secondary Equity Offering expenses (3)                   | 482       | 482       | —         |
| Severance payments and other fees (4)                    | —         | —         | 2,399     |
| Acquisition of Prestige expenses (5)                     | —         | —         | 250       |
| Other (6)  | (992 )    | (992 )    | —         |
| Adjusted Net Cruise Cost Excluding Fuel                  | \$584,513 | \$580,741 | \$538,730 |
| Capacity Days  | 4,466,471 | 4,466,471 | 4,030,616 |
| Gross Cruise Cost per Capacity Day                       | \$222.79  | \$221.27  | \$226.23  |
| Net Cruise Cost per Capacity Day                         | \$158.08  | \$157.24  | \$161.09  |
| Net Cruise Cost Excluding Fuel per Capacity Day          | \$137.17  | \$136.32  | \$139.04  |
| Adjusted Net Cruise Cost Excluding Fuel per Capacity Day | \$130.87  | \$130.02  | \$133.66  |



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- (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 expenses related to equity awards, which are included in marketing, general and administrative expense and payroll and related expense.
- (3) Expenses related to a Secondary Equity Offering, which are included in marketing, general and administrative expense.
- (4) Severance payments and other fees related to restructuring costs and other severance arrangements, which are included in marketing, general and administrative expense.
- (5) Expenses related to the Acquisition of Prestige, which are included in marketing, general and administrative expense.
- (6) Primarily related to reimbursements of certain legal costs, which are 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):

|  | Three Months Ended<br>March 31, |             |
|--|---------------------------------|-------------|
|  | 2018                            | 2017        |
| Net income   | \$ 103,155                      | \$ 61,910   |
| Non-GAAP Adjustments:  |                                 |             |
| Non-cash deferred compensation (1)   | 863                             | 823         |
| Non-cash share-based compensation (2)  | 28,102                          | 18,203      |
| Secondary Equity Offering expenses (3)   | 482                             | —           |
| Severance payments and other fees (4)  | —                               | 2,399       |
| Acquisition of Prestige expenses (5)   | —                               | 250         |
| Amortization of intangible assets (6)  | 6,222                           | 7,568       |
| Other (7)  | (992                            | ) —         |
| Adjusted Net Income  | \$ 137,832                      | \$ 91,153   |
| Diluted weighted-average shares outstanding – Net income and Adjusted Net Income | 229,187,628                     | 228,555,952 |
| Diluted earnings per share   | \$ 0.45                         | \$ 0.27     |
| Adjusted EPS   | \$ 0.60                         | \$ 0.40     |

- (1) Non-cash deferred compensation expenses related to the crew pension plan and other crew expenses, which are included in payroll and related expense and other income (expense).
- (2) Non-cash share-based compensation expenses related to equity awards, which are included in marketing, general and administrative expense and payroll and related expense.

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- (3) Expenses related to a Secondary Equity Offering, which are included in marketing, general and administrative expense.
- (4) Severance payments and other fees related to restructuring costs and other severance arrangements, which are included in marketing, general and administrative expense.
- (5) Expenses related to the Acquisition of Prestige, which are included in marketing, general and administrative expense.
- (6) Amortization of intangible assets related to the Acquisition of Prestige, which are included in depreciation and amortization expense.
- (7) Primarily related to reimbursements of certain legal costs, which are included in marketing, general and administrative expense.

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

|  | Three Months Ended |            |
|--|--------------------|------------|
|  | March 31,          |            |
|  | 2018               | 2017       |
| Net income                             | \$ 103,155         | \$ 61,910  |
| Interest expense, net                  | 59,698             | 52,960     |
| Income tax expense                     | 2,534              | 2,049      |
| Depreciation and amortization expense  | 131,244            | 119,205    |
| EBITDA                                 | 296,631            | 236,124    |
| Other (income) expense, net (1)        | 1,666              | 2,815      |
| Non-GAAP Adjustments:                  |                    |            |
| Non-cash deferred compensation (2)     | 542                | 823        |
| Non-cash share-based compensation (3)  | 28,102             | 18,203     |
| Secondary Equity Offering expenses (4) | 482                | —          |
| Severance payments and other fees (5)  | —                  | 2,399      |
| Acquisition of Prestige expenses (6)   | —                  | 250        |
| Other (7)                              | (992 )             | —          |
| Adjusted EBITDA                        | \$ 326,431         | \$ 260,614 |

(1) Primarily consists of gains and losses, net for derivative contracts and foreign currency exchanges.

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

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

(4) Expenses related to a Secondary Equity Offering, which are included in marketing, general and administrative expense.

(5) Severance payments and other fees related to restructuring costs and other severance arrangements, which are included in marketing, general and administrative expense.

(6) Expenses related to the Acquisition of Prestige, which are included in marketing, general and administrative expense.

(7) Primarily related to reimbursements of certain legal costs, which are included in marketing, general and administrative expense.

**Three months ended March 31, 2018 (“2018”) compared to three months ended March 31, 2017 (“2017”)**

### ***Revenue***

Total revenue increased 12.4% to \$1.3 billion in 2018 compared to \$1.2 billion in 2017. Gross Yield increased 1.4%. Net Revenue increased 13.1% to \$1.0 billion in 2018 from \$0.9 billion in 2017 due to an increase in Capacity Days of 10.8% and an increase in Net Yield of 2.0%. The increase in Capacity Days was primarily due to Norwegian Joy joining our fleet in the second quarter of 2017. The increase in Gross Yield and Net Yield was primarily due to an increase in passenger ticket pricing. On a Constant Currency basis, Net Yield increased 1.0%.

### ***Expense***

Total cruise operating expense increased 6.7% in 2018 compared to 2017 primarily due to the increase in Capacity Days as discussed above. Gross Cruise Cost increased 9.1% in 2018 compared to 2017 due to an increase in total cruise operating expense and marketing, general and administrative expenses. Total other operating expense increased 15.1% in 2018 compared to 2017. Marketing, general and administrative expenses increased primarily due to incentive compensation. Depreciation and amortization expenses increased primarily due to the addition of Norwegian Joy and ship improvement projects. On a Capacity Day basis, Net Cruise Cost decreased 1.9% (2.4% on a Constant Currency basis) due to a decrease in maintenance and repairs including Dry-dock expenses partially offset by an increase in marketing, general and administrative expenses. Adjusted Net Cruise Cost Excluding Fuel per Capacity Day decreased 2.1% (2.7% on a Constant Currency basis).

Interest expense, net was \$59.7 million in 2018 compared to \$53.0 million in 2017. The increase in interest expense reflects additional debt in connection with the delivery of Norwegian Joy in April 2017, Project Leonardo financing, as well as higher interest rates due to an increase in LIBOR, partially offset by the benefit from the full redemption in October 2017 of our 4.625% Senior Notes due 2020.

Other income (expense), net was an expense of \$1.7 million in 2018 compared to an expense of \$2.8 million in 2017. In 2018, the expense was primarily related to losses on foreign currency exchange. In 2017, the expense was primarily related to losses on foreign currency exchange and unrealized and realized losses on derivatives.

In 2018, we had an income tax expense of \$2.5 million compared to \$2.0 million in 2017.

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**Liquidity and Capital Resources**

*General*

As of March 31, 2018, our liquidity was \$1.2 billion consisting of \$301.7 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 March 31, 2018, we had a working capital deficit of \$2.3 billion. This deficit included \$1.7 billion of advance ticket sales, which represents the total revenue we collect in advance of sailing dates and accordingly is 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.

*Sources and Uses of Cash*

*In this section, references to “2018” refer to the three months ended March 31, 2018 and references to “2017” refer to the three months ended March 31, 2017.*

Net cash provided by operating activities was \$610.8 million in 2018 as compared to \$434.9 million in 2017. The net cash provided by operating activities included timing differences in cash receipts and payments relating to operating assets and liabilities. Advance ticket sales increased by \$375.6 million in 2018 compared to \$222.9 million in 2017. Without the adoption of ASU No. 2014-09, the Advance ticket sales would have increased by \$359.0 million in 2018 (we refer you to Note 2— “Summary of Significant Accounting Policies— Revenue and Expense Recognition” of the Notes to Consolidated Financial Statements for more on the effects of adoption of ASU No. 2014-09).

Net cash used in investing activities was \$143.6 million in 2018 and \$117.8 million in 2017, primarily related to payments for ships under construction and ship improvement projects.

Net cash used in financing activities was \$341.6 million in 2018 primarily due to net repayments of our Revolving Loan Facility and other loan facilities. Additionally, in 2018, we repurchased \$263.5 million of our ordinary shares and incurred deferred financing fees related to financing of newbuild ships. In 2017, net cash used in financing activities was \$225.7 million primarily due to net repayments of our then existing revolving loan facility and other loan facilities.

### ***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 March 31, 2018, our anticipated capital expenditures were \$1.4 billion for the remainder of 2018, \$1.3 billion and \$0.9 billion for the years ending December 31, 2019 and 2020, respectively. We have export credit financing in place for the anticipated expenditures related to ship construction contracts of \$0.7 billion for the remainder of 2018, \$0.6 billion for 2019 and \$0.5 billion for 2020. These future expected capital expenditures will significantly increase our depreciation and amortization expense as we take delivery of the ships.

Project Leonardo will introduce an additional four ships with expected delivery dates through 2025 and we have an option to introduce two additional ships for delivery in 2026 and 2027, subject to certain conditions. Each of the four Project Leonardo ships is approximately 140,000 Gross Tons with approximately 3,300 Berths. We have an Explorer Class Ship, Seven Seas Splendor, on order for delivery in the winter of 2020. This ship is approximately 55,000 Gross Tons and 750 Berths. Norwegian Bliss was delivered on April 19, 2018 (we refer you to Note 12— “Subsequent Events”). We have one additional Breakaway Plus Class Ship, Norwegian Encore, on order for delivery in the fall of 2019. Each of Norwegian Bliss and Norwegian Encore is approximately 168,000 Gross Tons with approximately 4,000 Berths. The combined contract price of these seven ships (exclusive of the option for two additional ships) was approximately €5.6 billion, or \$6.9 billion based on the euro/U.S. dollar exchange rate as of March 31, 2018. 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 2025, subject to certain conditions. For ships expected to be delivered after 2023, the contract prices are subject to adjustment under certain circumstances.

In connection with the contracts to build these ships, we do not anticipate any contractual breach or cancellation to occur. However, if any were to occur, it could result in, among other things, the forfeiture of prior deposits or payments made by us, subject to certain refund guarantees, and potential claims and impairment losses which may materially impact our business, financial condition and results of operations.

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Capitalized interest for the three months ended March 31, 2018 and 2017 was \$10.1 million and \$8.5 million, respectively, primarily associated with the construction of our newbuild ships.

**Off-Balance Sheet Transactions**

None.

**Contractual Obligations**

As of March 31, 2018, 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<br>1 year | 1-3 years   | 3-5 years   | More than<br>5 years |
|---------------------------------|--------------|---------------------|-------------|-------------|----------------------|
| Long-term debt (1)              | \$6,463,202  | 772,187             | 1,248,165   | 2,753,129   | 1,689,721            |
| Operating leases (2)            | 128,428      | 15,404              | 28,872      | 26,206      | 57,946               |
| Ship construction contracts (3) | 6,255,252    | 1,051,336           | 1,345,138   | 1,171,738   | 2,687,040            |
| Port facilities (4)             | 306,293      | 44,108              | 78,846      | 55,565      | 127,774              |
| Interest (5)                    | 935,758      | 224,407             | 378,589     | 188,192     | 144,570              |
| Other (6)(7)                    | 1,504,037    | 237,267             | 436,407     | 356,971     | 473,392              |
| Total                           | \$15,592,970 | \$2,344,709         | \$3,516,017 | \$4,551,801 | \$5,180,443          |

(1) Includes discounts and premiums aggregating \$0.5 million. Also includes capital leases. The amount excludes deferred financing fees which are included in the consolidated balance sheets as an offset to long-term debt.

(2) Primarily for offices, motor vehicles and office equipment.

(3) For our newbuild ships based on the euro/U.S. dollar exchange rate as of March 31, 2018. Export credit financing is in place from syndicates of banks.

(4) Primarily for our usage of certain port facilities.

(5) Includes fixed and variable rates with LIBOR held constant as of March 31, 2018.

(6) Future commitments for service, maintenance and other Business Enhancement Capital Expenditure contracts.

(7) The table has been updated to reflect revisions to amounts previously included in the Annual Report on Form 10-K for the year ended December 31, 2017 for the periods less than 3 years in the “Other” category.

The table above does not include \$0.5 million of unrecognized tax benefits.

## **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 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, 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 March 31, 2018.

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 our ability to pay cash dividends to our shareholders. We are a holding company and depend upon our subsidiaries for their ability to pay distributions to us 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 twelve-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.

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**Item 3. 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 March 31, 2018, we had interest rate swap agreements to hedge our exposure to interest rate movements and to manage our interest expense. As of March 31, 2018, 56% of our debt was fixed and 44% was variable, which includes the effects of the interest rate swaps. The notional amount of outstanding debt associated with the interest rate swap agreements as of March 31, 2018 was \$218.6 million. Based on our March 31, 2018 outstanding variable rate debt balance, a one percentage point increase in annual LIBOR interest rates would increase our annual interest expense by approximately \$28.2 million excluding the effects of capitalization of interest.

**Foreign Currency Exchange Rate Risk**

As of March 31, 2018, 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 €3.3 billion, or \$4.1 billion based on the euro/U.S. dollar exchange rate as of March 31, 2018. We estimate that a 10% change in the euro as of March 31, 2018 would result in a \$0.4 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 12.2% and 12.3% for the three months ended March 31, 2018 and 2017, respectively. We use fuel derivative agreements to mitigate the financial impact of fluctuations in fuel prices and as of March 31, 2018, we had hedged approximately 64%, 48% and 26% of our remaining 2018, 2019 and 2020, respectively, projected metric tons of fuel purchases. We estimate that a 10% increase in our weighted-average fuel price would increase our anticipated 2018 fuel expense by \$31.6 million. This increase would be partially offset by an increase in the fair value of our fuel swap agreements of \$15.9 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 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

Our management has evaluated, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of March 31, 2018. 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 Interim Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2018 to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, 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 Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

##### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2018 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.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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 1A. Risk Factors**

We refer you to our 2017 Annual Report on Form 10-K for a discussion of the risk factors that affect our business and financial results. There have been no material changes in our risk factors from those disclosed in our 2017 Annual Report on Form 10-K. We wish to caution the reader that the risk factors discussed in “Item 1A. Risk Factors” in our 2017 Annual Report on Form 10-K, elsewhere in this report or other SEC filings, could cause future results to differ materially from those stated in any forward-looking statements.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Purchases of Equity Securities by the Issuer**

On April 29, 2014, NCLH’s Board of Directors authorized, and NCLH announced, a three-year share repurchase program for up to \$500.0 million. The share repurchase program was scheduled to expire on April 29, 2017, but was extended through April 29, 2020 (the “Original Repurchase Program”). As of March 31, 2018, there was no cash remaining available for repurchases under the Original Repurchase Program.

Share repurchase activity during the three months ended March 31, 2018 was as follows (in thousands):

| Period  | Total Number of Shares Purchased as Part of a Publicly Announced Program | Average Price Paid per Share | Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in thousands) |
|---|--|------------------------------|---|
| January 1, 2018– January 31, 2018               | —  | \$ —                         | \$ 263,505  |
| February 1, 2018 – February 28, 2018            | —  | \$ —                         | \$ 263,505  |
| March 1, 2018 – March 31, 2018                  | 4,722  | (1) \$ 55.80                 | \$ —  |
| Total for the three months ended March 31, 2018 | 4,722  | \$ 55.80                     | \$ —  |

(1) Represent the repurchase of 4,722,312 of our ordinary shares sold in a Secondary Equity Offering by the Apollo Holders and Genting HK on March 2, 2018.

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.

## Item 5. Other Information

None.

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**Item 6. Exhibits**

10.1\* 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.+

10.2\* Transition, Release and Consulting Agreement by and between NCL (Bahamas) Ltd. and Wendy A. Beck, dated February 2, 2018†

31.1\* Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

31.2\* Certification of the Interim Chief Financial Officer and Senior Vice President, Finance pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

32.1\*\* Certifications of the President and Chief Executive Officer and the Interim Chief Financial Officer and Senior Vice President, Finance pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code

The following unaudited consolidated financial statements are from Norwegian Cruise Line Holdings Ltd.'s 101\* Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in Extensible Business Reporting Language (XBRL), as follows:

- (i) the Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017;
- (ii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017;
- (iii) the Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017;
- (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017;
- (v) the Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2018 and 2017; and
- (vi) the Notes to the Consolidated Financial Statements, tagged in summary and detail.

\*Filed herewith.

\*\*Furnished herewith.

Management contract or compensatory plan.

- + Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.



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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORWEGIAN CRUISE LINE HOLDINGS LTD.  
(Registrant)

By: /s/ FRANK J. DEL RIO  
Name: Frank J. Del Rio  
Title: President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ MARK A. KEMPA  
Name: Mark A. Kempa  
Title: Interim Chief Financial Officer and Senior Vice President, Finance  
(Principal Financial Officer)

Dated: May 7, 2018