

Financial Review

For the third quarter ended 30 September 2001, the Group recorded a net profit of US\$37.3 million on revenue of US\$379.8 million, as compared to a net profit of US\$17.6 million on revenue of US\$428.9 million for the same quarter in 2000. Net profit for the nine months ended 30 September 2001 was US\$37.9 million on revenue of US\$1,042.4 million, compared to a net profit of US\$16.1 million on revenue of US\$981.4 million for the same period in 2000.

Results for nine months ended 30 September 2001 as compared with proforma results for nine months ended 30 September 2000

The results for the nine months ended 30 September 2001 are not directly comparable to the nine months ended 30 September 2000 as the Group consolidated the results of NCL Holding ASA ("NCL") which was acquired over the period December 1999 to February 2000, with effect from 1 March 2000. On a proforma basis, including NCL's results for January and February 2000, the Group recorded a net profit of US\$37.9 million compared to a proforma net profit of US\$22.0 million in the same period in 2000.

Proforma results for the nine months ended 30 September 2000 is as follows:

	Nine months ended 30 September 2001 <i>US\$'000</i> <i>unaudited</i>	2000 <i>US\$'000</i> <i>unaudited</i>
Reported operating profit	116,403	174,062
<u>Proforma adjustments</u>		
To consolidate 100% of NCL's results from 1 January 2000 as if the acquisition of 100% of NCL had occurred on 1 January 2000	—	15,243
Proforma operating profit	<u>116,403</u>	<u>189,305</u>
Reported net profit	37,926	16,096
<u>Proforma adjustments</u>		
To consolidate 100% of NCL's results from 1 January 2000 as if the acquisition of 100% of NCL had occurred on 1 January 2000	—	5,875
Proforma net profit	<u>37,926</u>	<u>21,971</u>
<u>Operating data</u>		
Passenger Cruise Days	5,353,701	5,500,640
Capacity Days	5,485,527	5,662,544
Occupancy as a percentage of capacity days	98%	97%

Note: The above unaudited proforma results for the nine months ended 30 September 2000 have been prepared for illustrative purposes only and exclude any proforma adjustments for increased interest expense on borrowings to fund the acquisition.

In the third quarter this year, on a quarter on quarter comparison, the Group experienced a decrease in revenue of 11.4% from US\$428.9 million to US\$379.8 million. This is a direct result of a 4.8% decrease in capacity days and an overall 6.9% decrease in yield. Total costs and expenses, excluding non-operating expenses decreased 6.1% from US\$339.7 million to US\$319.0 million. Operating profit decreased 31.8% from US\$89.2 million to US\$60.8 million. Excluding the one time start up costs for the new ships of approximately US\$10 million, operating profit for this quarter would have been 20.7% lower than the results for the third quarter last year. Non-operating expenses decreased 55.8% from US\$52.5 million to US\$23.2 million as a result of lower interest expenses and gains on foreign exchange contracts for the period.

Financial Review (Continued)

Quarter on quarter, revenue for the Group's Asia Pacific operations (excluding NCL's Asia Pacific operations) decreased 17.3% as a result of an 8.5% decrease in capacity days and 9.5% decrease in yield. The decline in capacity days compared to the same period last year was due to the sale of m.v. Star Aquarius, m.v. MegaStar Capricorn and m.v. MegaStar Sagittarius and drydock of m.v. SuperStar Leo and m.v. SuperStar Aries. The reduction in capacity days was partially offset by the introduction of m.v. Norwegian Star 1 in November 2000. Ship operating cost per capacity day for the Group's Asia Pacific operations reduced 2.5% in third quarter this year, resulting in a net nine months increase of 2.6%. Selling, general and administrative cost per capacity day reduced by 4.4% in third quarter this year, bringing the nine months movement to an overall increase of 2.2% over 2000.

Capacity days in third quarter for NCL decreased by 2.5% over the same period in 2000. The decrease in capacity days was mainly due to the transfer of m.v. Norwegian Star 1 into the Star Cruises Asia Pacific operations, partially offset by the introduction of M/S Norwegian Sun into the NCL's fleet from 1 September 2001. Net revenue yields for Norwegian Cruise Line Limited (excluding Norwegian Capricorn Line's operations in Australia), the combination of Norwegian Cruise Line and Orient Lines brands, declined 6.5% in third quarter, resulting in an overall 6.9% decline in the nine months of 2001. Ship operating costs per capacity day decreased by 4.4% in the third quarter and an overall decrease of 0.5% in the nine months of this year compared to last year. Selling, general and administrative costs per capacity day increased by 2.0% in third quarter, which results in an overall nine months increase of 5.6% over 2000. Higher selling, general and administrative expenses were mainly due to the US\$10 million shoreside overhead and promotional costs that were incurred for the start up of the new ships.

Foreign exchange and interest rate swaps

As at 30 September 2001, the Group has effectively converted the interest rate of aggregate US\$318.5 million of its term loan to a fixed rate obligation, and the estimated fair market value of these interest rate swaps was approximately US\$14.4 million, which was unfavourable to the Group. The changes in the fair value of these interest rate swaps are included as a separate component of reserves.

In the three months ended 30 September 2001, the Group entered into several additional forward contracts totalling US\$34.2 million to hedge currency exchange risk relating to its anticipated Singapore dollars' stream of revenue. As at 30 September 2001, the Group has forward contracts with a total notional amount of US\$201.2 million and the estimated fair market value of these forward contracts was US\$10.0 million, which was favourable to the Group. The changes in fair value of these forward contracts are included in the profit and loss account.

Liquidity and capital resources

In the nine months ended 30 September 2001, operating activities generated cash inflow of US\$244.9 million.

The Group made principal repayments of US\$381.2 million in relation to its long-term bank loans in the nine months ended 30 September 2001, of which US\$150 million was made from the proceeds of the disposal of m.v. Star Aquarius in 2001 of US\$75 million with the balance from the proceeds of the convertible notes issued to RWL and the share placement. In August 2001, the Group borrowed US\$225 million under the M/S Norwegian Sun Post-Delivery Loan Agreement and together with the US\$45 million term loan obtained during this quarter, it repaid the 1999 KfW Loan and the final shipyard contract payment (including costs related to extras). The 1999 KfW Loan had been fully drawdown during the six months ended 30 June 2001.

In the nine months ended 30 September 2001, the Group incurred approximately US\$283.7 million of capital expenditure on fixed assets. Capital expenditure for the nine months ended 30 September 2001 were primarily associated with the payments to shipyards upon delivery of M/S Norwegian Sun to the Group as well as for ships under construction and the refurbishment of the Group's existing fleet. Approximately US\$90.7 million was received from disposal of fixed assets, mainly from the disposal of m.v. Star Aquarius and m.v. MegaStar Sagittarius during the nine months ended 30 September 2001.

Prospects

The unexpectedly pronounced general slowdown in the global economy coupled with the impact of the terrorist attacks in the United States in September 2001, have adversely affected travelling patterns, passenger traffic and the leisure industry in general in which the Group operates. In this present continuing difficult environment, the Group has been continually reviewing its operations and taking the necessary measures to meet the dynamics of demand and capacity in the cruise operations. Such measures enable the Group to consolidate its operations and to provide a strong foundation for the Group's future growth when the economic outlook becomes more positive. The measures that have been taken include:

- delaying the planned and previously announced swap of the m.v. SuperStar Aries and the s/s Norway.
- focusing on the primary core markets such as Singapore, Hong Kong and North America and promoting "homeland cruising" in part to address people's fear of long-haul flights currently.

Financial Review *(Continued)*

Prospects *(Continued)*

- reorganising the Group's Japan operations to focus only on fly cruise by withdrawing the m.v. SuperStar Taurus from Fukuoka, Japan.
- merging the Norwegian Cruise Line and Orient Lines' shoreside operations.
- adding a second ship to the Hawaii market in 2002 in view of the strong bookings for the m.v. Norwegian Star. The Norwegian Wind, originally scheduled to operate in Asia until 4 January 2003, instead will operate 10- and 11-night cruises from Honolulu starting 27 September 2002, through April 2003.

As well, the Group has introduced additional measures to further streamline the cost structure. Such measures are, among others, salary restructuring for employees and centralising back office functions. These cost control initiatives are being implemented and the Group expects to deliver an approximate cost reduction of around 5% in 2002. The Group has also eliminated, deferred or reduced a number of capital projects after reviewing its capital expenditure programme.

Other than as disclosed above and elsewhere in the interim report, the Directors are not aware of any other material changes to the information in relation to the Group's performance and the material factors underlying its result and financial position published in the annual report for the year ended 31 December 2000 and in the interim reports for the three months ended 31 March 2001 and six months ended 30 June 2001.