



Narvik, 27 February 2008

Hurtigruten Interim Report for Q4 2007

Highlights of the fourth quarter

- Operations in line with expectations
- Provision for loss on public transport contract
- Compensation for nitrogen oxide tax unclarified
- More passengers – round trip/distance and rise in onboard sales
- Operating disruptions on m/v Fram in December
- Substantial progress for the bus business
- Extensive improvement programme initiated

Operations as expected, loss on public transport contract

The Hurtigruten group suffered an operating loss before tax of NOK 271 million for the fourth quarter, on a par with the forecast published three months ago.

The contract with Troms county council for operating fast ferries and ferries yielded a substantial loss, and a provision of NOK 59 million has been made to cover the deficit for the rest of the option period.

As a result, the pre-tax loss for the quarter was NOK 331 million against a loss of NOK 166 million in 2006. The pre-tax loss for the full year was NOK 224 million (2006: NOK 62 million).

The principle reasons why results for the fourth quarter were weaker than in 2006 are:

- the fourth quarter of 2006 was particularly good, with one-off income of NOK 75 million
- the NOK 59 million provision for the public transportation contract in the fourth quarter 2007
- an increase of NOK 16 million in bunkers costs from 2006, including NOK 11 million charged for nitrogen oxide tax
- a rise of NOK 29 million in net financial items as a result of increased borrowing and higher interest rates.

Hurtigruten has demanded compensation from the government for the nitrogen oxide tax incurred from fulfilling the public procurement contract for the Hurtigruten service, but the position remains to be clarified. With effect from the second half of 2007, Hurtigruten has been included in the net pay scheme for that part of the crew on Hurtigruten ships which forms the safety staffing. The amount concerned has yet to be paid by the government in anticipation of a conclusion to the discussions on the nitrogen oxide tax. The latter is recognised in the accounts as an expense, while compensation for net pay has been recognised as an expense reduction.

Following the merger of OVDS and TFDS two years ago, a number of improvement measures were implemented. These have been insufficient to compensate for higher financial expenses, increased bunkers costs and the nitrogen oxide tax. More extensive measures have accordingly been instituted.

A new and more far-reaching improvement programme has been launched. This embraces the whole Hurtigruten group on land and at sea, in Norway and abroad. It comprises seven main projects, of which five aim to boost revenue, one will improve safety and environmental protection, and one seeks to make staff and support functions more effective and efficient.

Hurtigruten is in a demanding position, and it will take time before its potential has been realised. A sharp improvement in results is nevertheless expected during 2008, with a net loss of NOK 50 million.

Financial results

The Hurtigruten group had total operating revenues in the fourth quarter of NOK 721 million (2006: NOK 740 million). This decline primarily reflects substantial charter earnings in the Hurtigruten business area in the fourth quarter of 2006, which were not repeated in 2007. Increased contractual and passenger revenues in the Hurtigruten business area provided some compensation. Operating revenues in the public transport business area were up from the same period of last year, primarily because of a change to accounting principles for ferries and fast ferries and increased contractual earnings for buses. The change in accounting principles for ferries and fast ferries yielded a positive effect of NOK 31 million in the fourth quarter but had zero effect for the full year. Increased contractual earnings for buses came to NOK 9 million. Overall operating revenues for the full year rose by NOK 112 million from 2006 to NOK 3 826 million.

Operating expenses before depreciation and amortisation for the group came to NOK 836 million in the fourth quarter (2006: NOK 784 million). Expenses were affected by the introduction of the nitrogen oxide tax, which imposed an additional cost of NOK 11 million. As in the third quarter, the ferry and fast ferry business faced challenges related to a tight labour market with a consequent increase in payroll costs. This unit also experienced higher costs related to maintenance. Operating expenses before depreciation and amortisation for the full year were NOK 3 376 million (2006: NOK 3 224 million).

Other losses, gains and revenues yielded a net loss of NOK 54 million for the quarter. This is mainly due to the provision for loss on the public transport contract with Troms county council totalling NOK 59.4 million. In addition, the net gain on asset sales totalled NOK 5.8 million, primarily reflecting the disposal of Hurtigruten vessel m/v Lyngen. A net loss of NOK 30 million was recognised for the full year, which also includes gains made principally on the sale of m/v Narvik in the first quarter. Net gain in 2006 came to NOK 53 million and related to the disposal of property in Tromsø, disposal of the bus freight business and derivatives transactions.

The consolidated result before depreciation and amortisation (EBITDA) was negative at NOK 168 million for the fourth quarter (2006: negative at NOK 8 million), a weakening of NOK 160 million from the fourth quarter of 2006. EBITDA for the full year declined by NOK 123 million, from NOK 543 million in 2006 to NOK 420 million.

Depreciation and impairment losses for the quarter totalled NOK 103 million (2006: NOK 127 million). This reduction related to an accounting impairment loss of NOK 15 million related to the sale of m/v Jupiter and reduced depreciation following the disposal of m/v Narvik. Depreciation and impairment losses for the full year came to NOK 456 million (2006: NOK 475 million).

The consolidated result before interest and tax (EBIT) was negative at NOK 271 million for the fourth quarter (2006: negative at NOK 136 million). For the full year, the corresponding figure was a negative NOK 36 million (2006: positive at NOK 67 million).

Net financial expenses for the quarter were NOK 60 million (2006: NOK 31 million). This increase reflects higher interest rates combined with increased borrowing as a result of the delivery of m/v Fram. Net expenses for the full year were NOK 188 million (2006: NOK 130 million)

The consolidated pre-tax loss for the continued business was NOK 331 million for the quarter (2006: NOK 166 million). For the full year, the pre-tax loss came to NOK 224 million (2006: NOK 62 million).

Prospects

Hurtigruten offers contemporary products in a market which has been strong for a number of years, and controls an appropriate fleet of vessels.

The group's financial structure is burdensome, however, with a net interest-bearing debt which corresponds to one year's turnover. It has not proved possible to sell the capacity acquired in recent years. Capacity utilisation varies from 80 per cent in the summer months to 30 per cent for large parts of the year.

Capacity must be utilised throughout the year. Greater efforts have accordingly been devoted in recent years to selling the winter season. This work is yielding results and will be intensified.

The whole sales organisation is being strengthened in terms of both expertise and capacity. A strong commitment is being made to getting more passengers on board while simultaneously expanding the offer to passengers both at sea and at the destinations on land.

Disposing of activities which are not critical for Hurtigruten in the longer term is kept under constant assessment.

The board takes the view that some time will be required to achieve satisfactory profitability for Hurtigruten, but expects to see a substantial improvement in 2008. A loss of NOK 50 million is expected for 2008.