



Narvik, 22 August 2008

Stock market announcement for 2nd quarter 2008

Highlights of the 2nd quarter

- Sale of businesses takes time in a difficult market
- Substantial increase in costs – financial and bunker
 - financial items almost doubled
 - bunker prices up by 38 per cent
 - NOK 30 million increase in provision for public transport contract
- Revenue growth in core business – Hurtigruten
 - more passengers on board
 - increase in ticket prices and onboard spending

Demanding position

Operations in the second quarter yielded a profit before tax of NOK 26 million, compared with profit of NOK 102 million in the same period of last year. The first half yielded a loss before tax of NOK 186 million as against a loss of NOK 34 million in 2007.

Results for the second quarter and first half were affected by higher bunker costs and financial expenses, but the Hurtigruten business area also reported more passengers, increased average prices and greater onboard spending.

The principle reasons why results for the second quarter were weaker than in the same period of 2007 are:

- a NOK 25 million rise in on-going bunker costs, and a further provision of NOK 30 million for increased bunker costs in the public transport contract with Troms county council
- financial expenses up by NOK 30 million
- nitrogen oxide tax was reduced by NOK 22 million because Hurtigruten joined the nitrogen oxide fund

Hurtigruten has become a member of the nitrogen oxide fund operated by the Confederation of Norwegian Enterprise (NHO), cutting its tax payments for nitrogen oxide emissions to about 25 per cent of the earlier costs. For this reason, nitrogen oxide expenses in the first half were reduced by NOK 22 million compared with the first half of 2007. The charge recognised in the first quarter was accordingly reversed in the second. Members of the fund are collectively committed to reducing their nitrogen oxide emissions by 30 000 tonnes, broken down into 2 000 tonnes in 2008, 4 000 in 2009 and 24 000 in 2010. By comparison, Hurtigruten's annual emissions are around 4 500 tonnes. The Norwegian Pollution Control Authority will check that the fund reaches its targets. Should it fall short, the members could be required to pay the full tax for their share of emissions.

The principle reasons why results for the first half were weaker than in the same period of 2007 are:

- a NOK 34 million rise in on-going bunker costs, and an NOK 30 million increase in the provision for the public transport contract because of increase in bunker prices
- financial expenses up by NOK 57 million
- NOK 30 million in costs related to the improvement programme and sales processes were recognised
- nitrogen oxide tax was reduced by NOK 22 million

The sharp rise in bunker costs has prompted many cruise/transport industry operators to introduce fuel surcharges. Hurtigruten followed suit in the second quarter with a surcharge of NOK 40 per person per day. Bunker prices have subsequently risen further, and the fuel surcharge is being increased to NOK 75 per person per day.

A process has been launched by the group to consider selling the Public Transport business area, one of the 1990's generation Hurtigruten ships and other operations not regarded as part of the core business. The objective is to reduce the burden of debt.

The group sold its shares in Hurtigruten Hotels AS, which runs the Neptun and Strand hotels in Bergen. In addition to the sales contract, a long-term collaboration agreement was concluded which secures capacity for Hurtigruten's cruise passengers at these hotels. The sale yielded an accounting gain of NOK 17 million.

A difficult market prevails for the disposal of businesses, and the continuing sales process will take time.

Negotiations are continuing with the Norwegian government over compensation for the nitrogen oxide tax and increased bunker costs under the prevailing public procurement contract.

The Hurtigruten group embraces the Hurtigruten, explorer cruise and public transport business areas. In addition comes other business.

Financial results

Income statement

The Hurtigruten group had total operating revenues in the second quarter of NOK 1 111 million (2007: NOK 1 069 million). This increase primarily reflected growth in passenger revenues and onboard spending for the Hurtigruten business area. The commitment to May made a particular contribution, with an increase of 16.4 per cent in cruise nights for round trips, a 3.7 per cent rise in average prices and a 9.1 per cent growth in onboard spending per cruise night. The bus business also contributed to the improvement in revenues as a result of increased activity for charter.

Total operating revenues for the Hurtigruten group in the first half came to NOK 1 891 million (2007: NOK 1 826 million). This improvement again derived primarily from the Hurtigruten and public transport business areas. The winter and May commitments by Hurtigruten yielded results in the form of increased passenger revenues and higher onboard spending. Bus operations made a particular contribution in the public transport area, but operating revenues also increased for the ferry and fast ferry business. Because Troms county council has taken over billing of school revenues in the bus business, the group's operating revenues declined by NOK 12 million in the second quarter and NOK 26 million in the first half, balanced by a corresponding increase in contractual revenue.

Operating expenses before depreciation and amortisation for the group came to NOK 907 million in the second quarter (2007: NOK 820 million). The rise in costs reflected increased activity in the quarter, which resulted in higher goods, payroll and other passenger-related expenses in addition to costs incurred by stronger sales and marketing effort. Increased payroll expenses otherwise reflected pay increases and challenges faced by the ferry and fast ferry business in securing sufficient personnel during the summer holidays because of a high level of activity, a tight labour market and sickness absence. The group received NOK 20 million in net pay for Hurtigruten in the second quarter. Bunker prices rose by 38 per cent. However, a cut of NOK 22 million in nitrogen oxide tax because the Hurtigruten ships have been entered in the nitrogen oxide fund meant that the net increase in bunker costs was only NOK 3 million. The tax reduction relates to the whole first half. NOK 20 million in expenses related to the improvement programme and the process of selling businesses was recognised during the second quarter.

The group's operating expenses before depreciation and amortisation for the first half came to NOK 1 737 million (2007: 1 588 million). Costs for the first half were influenced by a 36 per cent increase in bunker prices. The additional expense for the period amounted to NOK 34 million after deducting NOK 22 million in compensation for nitrogen oxide tax. NOK 46 million was received by the group in net pay for the Hurtigruten business during the first half. NOK 30 million in expenses related to the improvement programme and the process of selling businesses was recognised during the first half. Other details correspond to those reported for the second quarter.

Other losses, gains and revenues yielded a net loss of NOK 8 million for the second quarter. A further provision of NOK 30 million was made on the public transport contract with Troms county council for operating ferries and fast ferries. This sum reflects developments in bunker prices during 2008. Reversal of an impairment charge on the corresponding contract in 2007 amounted to NOK 6 million, so that the net loss is NOK 24 million. Selling the hotel business in Bergen yielded a gain of NOK 17 million. No significant losses, gains or other revenues were recognised in the second quarter of last year.

For the first half, other losses, gains and revenues produced an expense of NOK 2 million. The net loss for the ferry and fast ferry business from the public transport contract came to NOK 20 million, which was offset by the gain on the sale of the hotel business in Bergen.

The consolidated operating profit before depreciation and amortisation (EBITDA) for the second quarter was NOK 196 million (2007: NOK 249 million). This NOK 53 million weakening is attributable primarily to higher operating expenses related to greater activity and a strengthened sales and marketing commitment, as well as high payroll costs in the ferry and fast ferry business. EBITDA for the first half was NOK 152 million (2007: NOK 260 million). The NOK 108 million decline primarily reflects higher bunker costs and increased operating and sales/marketing expenses related to expanded activity. Costs associated with the improvement programme and sale of businesses also explains the weakening for both second quarter and first half.

Depreciation and impairment charges totalled NOK 107 million (2007: NOK 115 million) for the quarter and NOK 218 million (2007: NOK 232 million) for the first half.

The consolidated operating profit before interest and tax (EBIT) was NOK 89 million for the second quarter (2007: NOK 134 million), while the first half yielded a consolidated operating loss of NOK 66 million (2007: profit of NOK 28 million).

Net financial expenses for the quarter were NOK 69 million (2007: NOK 39 million). This increase reflects a substantial rise in interest rates combined with a higher debt burden as a result of the delivery of *m/v Fram* in May 2007 and a weaker share of results from Nor Lines AS. Net financial expenses for the first half came to NOK 129 million (2007: NOK 72 million).

The consolidated pre-tax profit for the continued business was NOK 19 million for the second quarter (2007: NOK 95 million). A consolidated pre-tax loss of NOK 195 million was recorded for the first half (2007: NOK 43 million).

The consolidated pre-tax profit for the group was NOK 26 million for the second quarter (2007: NOK 102 million). A consolidated pre-tax loss of NOK 186 million was recorded for the first half (2007: NOK 34 million).

Cash flow

Net cash flow from operational activities for the second quarter declined by NOK 368 million from the same three months of 2007. During the first half, net cash flow from operational activities declined by NOK 342 million compared with the same period of last year. The reduction in the quarter and the first half compared with the same periods of 2007 is related to reduced profit from 2007 to 2008 and a negative development in working capital.

Net negative cash flow from investing activities in the second quarter was down by NOK 618 million from the same period of 2007, primarily as a result of the investment in *m/v Fram* during the second quarter of last year. During the first half, net negative cash flow from investing activities declined by NOK 435 million from the same period of 2007. This reflected the investment in *m/v Fram* in 2007 as well as increased spending on buses in the first quarter of this year related to the start of contracts secured through competitive tendering in Ofoten, Ballangen and Nord-Salten. The effect of these investments was reduced by sales concluded in the first half, which generated receipts of NOK 142 million.

Net cash flow from financial activities declined by NOK 437 million from the second quarter of 2007. This reduction arises because investment in *m/v Fram* in the second quarter of last year was partly financed by a loan of NOK 450 million. Borrowing in the second quarter of 2008 was NOK 100 million as a short term loan. Net cash flow from financial activities in the first half was NOK 375 million lower than in the same period of last year, reflecting a significant reduction in borrowing between the two periods.

Balance sheet and liquidity

In accordance with IFRS 5, assets and liabilities associated with Bergenske Reisebyrå AS and the book value of one 1990's generation vessel are presented at 30 June 2008 as fixed assets held-for-sale and liabilities on assets held-for-sale.

Consolidated fixed assets totalled NOK 6 216 million at 30 June (2007: NOK 6 306 million), including fixed assets held-for-sale. This change primarily reflects the increase in financial assets resulting from the higher market value of the group's financial instruments.

Current assets at 30 June totalled NOK 1 680 million (2007: NOK 1 645 million). Working capital was reduced by NOK 288 million from 30 June 2007, and was negative at NOK 37 million.

Liquid assets were NOK 1 024 million at 30 June included NOK 200 million in unused commitment under credit lines (NOK 682 million excluding restricted assets and unused commitment under credit lines), compared with NOK 1 022 million (NOK 795 million excluding restricted assets) a year earlier.

The group's total long-term liabilities at 30 June amounted to NOK 4 138 million including liabilities on assets held-for-sale (2007: NOK 4 430 million). This reduction reflects debt repayments reduced by NOK 132 million in new borrowing.

Current liabilities came to NOK 1 717 million (2007: NOK 1 394 million). The change relates to the growth in the first year's instalment on long-term debt owing to higher borrowing and increased public duties.

The group had an equity at 30 June of NOK 1 689 million (2007: NOK 1 652 million), and an equity ratio of 21.4 per cent (2007: 20.8 per cent). Hurtigruten has a NOK 150 million convertible bond loan which is regarded as equity in relation to the group's loan covenants. Including this, the equity ratio at 30 June was 23.2 per cent.

Prospects

The Hurtigruten group occupies a demanding position in a difficult market, and extensive changes are required. It is pursuing four principal measures.

1. Increase revenues

An extensive improvement programme has strengthened the sales organisation in terms of both expertise and capacity. A heavy commitment is being made to getting more passengers onto the ships while expanding the range of products and services offered to them both on board and at the destinations on shore. The improvement programme yielded results during the quarter, including a 16 per cent increase in round trips in May.

2. Reduce debt

The company has a burdensome financial structure, with a gross interest-bearing debt of NOK 4 505 million. This debt burden must be reduced, and a programme was accordingly launched at the annual general meeting in May to consider selling operations and assets equivalent to roughly 40 per cent of the group's business. This work is continuing.

3. Cut costs

The group's sales, marketing and administrative costs are higher than those of competitors which provide an appropriate comparison. Work will accordingly start on consolidating the business and cutting costs both at the land organisation in Norway and in the sales units abroad.

4. Hurtigruten public procurement contract

The public procurement contract with the Norwegian government concerning Hurtigruten came into force on 1 January 2005 and last until 31 December 2012 and determines framework and conditions for the operation of this service. Negotiations have been pursued for a long time with the government to secure compensation for the nitrogen oxide tax and increased bunker costs. No satisfactory solution has been achieved so far, but work is continuing and will be intensified. In the company's opinion the Hurtigruten public procurement contract can not continue in its current form.

The Board considers that it will take time to implement the changes required in Hurtigruten to achieve satisfactory profitability. An extensive programme to reduce debt, increase revenues and cut costs is being pursued by the company. The Board is however of the opinion that a speedy clarification is required in the relationship to the government on the framework and conditions governing the company's future operations.