

Narvik, 25 November 2008

Hurtigruten Interim Report for Q3 2008

Highlights of the third quarter

Third quarter as expected.

- Result weaker than last year, mainly due to two reasons
 - Drop in passenger numbers in summer season
 - Substantial increase in bunker costs and financial items
- Results from change programme
 - Ferries and fast ferries business sold for NOK 488 million
 - Increased compensation Hurtigruten agreement

Weaker results

Third quarter operations in 2008 yielded a pre-tax profit of NOK 60 million, compared with a profit of NOK 141 million in the same period last year.

The drop in profit of NOK 81 million is mainly due to:

- Fewer passengers on Hurtigruten in the summer season (NOK 32 million)
- Increased bunker costs (NOK 48 million)
- Increased financial items (NOK 27 million)
- With positive effect reduced provision for loss on contract with Troms county council (NOK 20 million)

Operations in the third quarter were influenced by a drop in revenues from the round trip segment for the Hurtigruten business area. This was primarily due to lower numbers of passengers. The Explorer business area in Greenland with MS Fram, is also weaker, mainly due to increased bunker and other operating costs. The bus business shows improvement, with increased revenues, whilst ferries and fast ferries business yielded lower profits as a result of higher bunker and personnel costs. Other business incurred costs due to the improvement programme.

The significant increase in bunker costs has forced many operators introduce a fuel surcharge. Hurtigruten introduced a fuel surcharge of NOK 40 per person per day in second quarter 2008. The surcharge was later increased to NOK 75 per person per day. Even though bunker prices have recently shown a fall, they do not yet reflect the fall in oil prices. The company has decided to continue the surcharge.

The company started a process in May of selling the Public Transport business area, one ship, and non-core business activities with the aim of reducing debt. After the end of the quarter, the group sold the ferries and fast ferries business to Torghatten Nord AS, a 100 per cent owned subsidiary of Torghatten Trafikkselskap ASA. The contract value was NOK 488 million comprised of NOK 355 million in assumption of debt and a cash sum of NOK 133 million. The sale will give a book loss of NOK 103 million. The loss has not been recognised in the third quarter, as the sale requires the approval of the Norwegian Competition Authority. The transfer will take place on 5 January 2009 presuming the necessary approvals are in place. The business area transferred has 606 employees and 45 vessels. Four fast ferry routes in Troms county operated by five vessels are not included in the transaction. These routes will continue to be operated by Hurtigruten ASA until the contract with Troms county council expires 31 December 2009.

In accordance with IFRS 5 the ferries and fast ferries business is classified in the accounts as a discontinued business. Comparative periods have been revised accordingly.

In October, the company reached agreement with the Norwegian Ministry of Transport and Communications on a new increased compensation for the state's procurement of maritime transport services on the Bergen-Kirkenes coastal route (the Hurtigruten agreement). The agreement and result of negotiations will be covered later in the interim report under Prospects.

The Hurtigruten group consists of the Hurtigruten, Explorer and Public Transport business areas. Furthermore, the report includes Other business.

Financial results

The interim report has been prepared in accordance with IAS 34.

Income statement

The Hurtigruten group had total operating revenues in the third quarter of NOK 934 million, compared to NOK 978 million in the third quarter of 2007 (figures for same period in 2007 are shown in brackets). The NOK 44 million drop in revenues was mainly due to lower passenger figures within the round trip segment for Hurtigruten in the summer season.

The group's operating costs before depreciation and amortisation were NOK 732 million in the third quarter (NOK 698 million). The increase in costs is mainly related to higher bunker costs. The bunker prices were 58% higher compared with the same quarter 2007. Including the ferries and fast ferries business (classified as a discontinued business) the bunker costs increase was NOK 48 million. The NOx tax has been reduced to a quarter of the cost level in the third quarter last year as a result of the Hurtigruten ships becoming members of the NOx fund. The quarter contains costs of NOK 9 million linked to the improvement programme.

There were no major losses or gains for continued business areas in the third quarter 2008. There was however a reduced provision of NOK 20 million in the quarter for a public transport contract with Troms county council. This arises from written notification from Troms county council of their intention to not exercise the option for 2010, which is the third and final option year. It is included in the income statement under profit/loss before tax for discontinued business.

The group's operating profit before depreciation and amortisation (EBITDA) was NOK 202 million in the third quarter (NOK 280 million). The drop of a total of NOK 78 million is mainly due to lower passenger revenues for Hurtigruten within the round trip segment due to fewer cruise nights, increased bunker costs and costs linked to the improvement programme.

The amount for depreciation and amortisation was NOK 80 million (NOK 95 million). The reduction is mainly linked to the depreciation for MS Nordnorge which is stopped as a result of the ship being put up for sale. This is in accordance with IFRS 5.

The group's operating profit after depreciation and amortisation (EBIT) was NOK 122 million in the third quarter (NOK 186 million).

The net financial items for the quarter were NOK -76 million (NOK -49 million). The increase reflects a significant increase in interest rates.

The group's pre-tax profit for continued businesses was NOK 46 million in the quarter (NOK 137 million).

The group's pre-tax profit for discontinued businesses was NOK 14 million (NOK 4 million). The result includes the ferry and fast ferry operations and Bergenske Reisebyrå AS.

The group's pre-tax profit was NOK 60 million in the third quarter of 2008 (NOK 141 million).

Prospects

Hurtigruten is in a demanding situation in a difficult market, and further changes are needed. The company is continuing the major change programme, with the following main points:

1. Increase revenues – Black Belt continues
Through an extensive improvement programme, the organisation has been bolstered in terms of increased focus, better routines and a common work platform. Focus is heavily on getting more passengers onboard, and increasing the range of products to passengers onboard and at land destinations. An element of this was launched on 3 November, in the form of a new more sales-oriented version of the company's website, www.hurtigruten.com. A new web-based sales tool at www.velgogseil.no has also been developed and launched on 5 November, along with a new global booking platform which has been tested in the Nordic region. External consultants used for the improvement programme were out of the organisation by 30 September.
2. Reduce debt – divestment of business
The company has interest-bearing debt of NOK 4 325 million. This must be reduced, which is why a programme designed to assess the sale of businesses areas and assets was launched at the annual general meeting in May. The company's ferries and fast ferries business was sold to Torghatten Nord AS in October, a 100 per cent owned subsidiary of Torghatten Trafikkselskap ASA, with the exception of five fast ferries with 4 related route contracts in Troms county. The contract value was NOK 488 million, which is a satisfactory price. The transaction date is 5 January 2009, depending on approval from the Norwegian Competition Authority, licensing authorities, plus contract parties and lenders. Hurtigruten also sold its shareholding in Nor-Cargo UK after the end of the quarter. The sale gave cash effect of around NOK 12 million. Hurtigruten ASA will continue the divestment process related to other business areas. It is a difficult market and it is expected that this work will take time.
3. Reduce costs – new programme launched
The group's sales, marketing and administration costs are higher than those of competitors which we can naturally compare with. A major effort has therefore been launched to consolidate the group and reduce costs within the Norwegian land-based organisation and the sales organisation abroad. The company aims to reduce annual costs related sales and administration by a total of NOK 150 million by the end of 2009. This corresponds to a reduction of approximately 35% and will lead to a reduction in the number of employees of around 200. It will also mean that some areas will be exposed to competition. After the end of the quarter the company's ICT systems were outsourced to Funn IT AS. This took effect from 10 November 2008.

The cost reductions will be made possible partially through a common work platform created through the Black Belt improvement programme and a common IT platform.

4. New revised Hurtigruten agreement

The Norwegian Ministry of Transport and Communications and the company reached agreement on 27 October for a new and increased compensation for the state's procurement of marine transport service on the Bergen-Kirkenes coastal route, the "Hurtigruten agreement". The new agreement involves NOK 125 million in 2008 in increased compensation. This includes a 90% compensation for NOx tax paid in 2007, 90% compensation for NOx costs paid in the first half of 2008, and a general compensation for 2008. The agreement will also include increased compensation for 2009 totalling NOK 88 million. The general compensation of NOK 66 million annually and 90% of NOx costs will continue for the rest of the contract period. There will also be the option for the company to withdraw one Hurtigruten ship from service during the winter season. The Norwegian government will issue a new tender in the first half of 2009.

5. Financial restructuring plan

Hurtigruten has good dialogue with its banks and the company is in compliance with the loan covenants by third quarter. The ongoing extensive change and improvement programme contribute to the development of a solid business case. Due to traditionally weak results in fourth and first quarter the company's cash position will be tight through the winter. Hurtigruten put efforts in establishing a financial restructuring plan. The restructuring plan contents are not fully defined as yet, but it will include a bridge loan for the divestment period, a softer instalment profile and new equity.

The situation for the company continues to be demanding. This is a difficult market dominated by global economic turmoil and high financial and bunker costs.

The board is satisfied with two important goals in the action plan being achieved – sale of the ferries and fast ferries division and a new Hurtigruten agreement. This gives occasion to focus the efforts on the remaining points in the change programme to create lasting profitability for Hurtigruten.