

Narvik, 20 February 2008

## **Hurtigruten Interim Report for Q4 2008 and preliminary annual accounts for 2008**

### **Highlights of the fourth quarter**

- Loss of NOK 560 million, affected by NOK 384 million in impairment charges and loss on sale of business
- Operations improved, with far more round trip passengers
  - Round trip passengers up 60 per cent, big increase in revenues despite reduced prices
  - Fewer distance passengers because one ship was laid up
- Structural changes implemented, restructuring on schedule

### **Improved operations, but big impairment charges**

Underlying operations in the fourth quarter showed an improvement compared with the same period of 2007. However, substantial impairment charges were taken on assets, provisions were made for restructuring costs and a loss was taken on the sale of the ferry and fast ferry business. These items pulled down the result. The loss before tax for the fourth quarter was NOK 560 million, compared with a loss of NOK 336 million in the same period of 2007. The year 2008 yielded a pre-tax loss of NOK 686 million as against a loss of NOK 228 million in 2007.

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

- A loss of NOK 103 million on the sale of the ferry and fast ferry business
- Impairment charges of NOK 281 million on ships and goodwill

These special items added up to NOK 384 million.

Operating profit before depreciation and amortisation (EBITDA) improved by NOK 140 million for the fourth quarter compared with the same period last year. This improvement is mainly explained by the following conditions:

- NOK 132 million from renegotiation of the public procurement contract with the Norwegian government
- Charter out of MS Nordnorge contributes with net NOK 15 million
- More round trip passengers increase revenues with NOK 10 million
- Provision for restructuring programme, NOK 30 million

Major structural changes were made in the fourth quarter. These are described below, where a status report is provided on the main components in the restructuring plan.

### **Restructuring plan**

A four-point restructuring plan was launched at the annual general meeting on 15 May 2008 to turn Hurtigruten ASA into a profitable company. This programme has subsequently been expanded to include the financial restructuring plan. The work is well under way and is being pursued with undiminished vigour.

#### 1) Increase revenues – the Black Belt improvement programme

The Black Belt improvement programme yielded substantial operational benefits during 2008. The Hurtigruten service along the Norwegian coast expanded its revenues, with the biggest contributions coming from more onboard spending and higher round trip sales outside the summer season.

#### 2) Reduce debt – divestment of non-core business

The object of selling non-core businesses is to reduce debt and increase focus on the core business. So far, agreements have been concluded or sales completed for the following operations:

- Hotels in Bergen
- Ferry and fast ferry business
- Travel agencies
- The shares in Nor-Cargo Ltd, UK.

Hurtigruten ASA sold its shares in Hurtigruten Hotels AS in June 2008. This was reported in second quarter 2008. The sale yielded an accounting gain of NOK 17 million

The group's ferry and fast ferry business was sold in October to Torghatten Nord AS, a wholly owned subsidiary of Torghatten Trafikkselskap ASA. Four fast ferry routes operated by five fast ferries in Troms county, are not included in the transaction. These routes will continue until the contract with Troms county council expires 31 December 2009. The purchase price was NOK 488 million and generated a loss of NOK 103 million in the fourth quarter of 2008. The transaction took place at 5 January 2009. The effect on the balance sheet will not be present before the first quarter 2009.

In December 2008 Hurtigruten ASA entered into an agreement with VIA Travel Norge AS to sell its shares in Bergenske Reisebyrå AS. Bergenske Reisebyrå AS operates travel agencies for corporate and leisure travels, with offices in Bergen, Bodø and Tromsø. The buyer, VIA Travel Norge AS, operates the franchise license in the VIA chain, and also owns and operates several travel agencies. The executed share purchase agreement is subject to approval from the board of directors of both parties, buyers financing, and approval from the Norwegian Competition Authorities. The transaction is expected to be completed ultimo February 2009. The purchase price for the shares is NOK 52 million, which also will be the effect on the cash position for Hurtigruten ASA. The sale will generate a gain of approximately NOK 26 million. The gain will be recognized in the group account when the transaction is completed in February 2009.

In October 2008 Bring Logistics purchased Nor-Cargo Limited (UK) from Det Stavangerske Dampskibsselskab (DSD) and Hurtigruten ASA. Nor-Cargo Limited has 60 employees and the company is represented in 6 UK cities. The liquidity effect for Hurtigruten ASA was NOK 12 million and the transaction generated a minor net loss.

#### 3) Reduce costs – new cost-cutting programme

A detailed plan was drawn up in the fourth quarter covering the way Hurtigruten ASA will cut administrative and sales costs by NOK 150 million per annum from 2010. The principal components are:

- Concentrate attention on Hurtigruten and on explorer products
- Centralise functions and services (marketing, administration, accounting and invoicing)
- Restructure the sales organisation to sell more and administer less
- Reduce global call centres from eight to two, both located in low-cost countries and outsourced
- New booking system

#### 4) Adjusted public procurement contract for Hurtigruten in place

The Norwegian Ministry of Transport and Communications and the company reached agreement on 27 October on a new and higher payment for the government's purchase of maritime transport service along the coast between Bergen and Kirkenes. The company received a payment of NOK 125 million in December. The payment included NOK 59 million in compensation for 90 per cent of the nitrogen oxide tax paid in 2007 and the first half of 2008. In addition, the annual payment was increased by NOK 66 million from 2008. The increase for 2009 will be NOK 88 million. The general compensation of NOK 66 million and 90 per cent of nitrogen oxide tax paid will continue for the rest of the contract period. NOK 7 million in compensation for nitrogen oxide tax in the second half of 2008 was recognised as income in the fourth quarter. The group is also allowed to take one Hurtigruten vessel out of service during the winter season.

The criteria for a new tender is in process, and affected authorities entitled to comment have got a deadline on 20 February 2009 to give their comments.

#### 5) Financial restructuring

The banks accepted the group's financial restructuring plan on 3 February 2009, and this will be considered by an extraordinary general meeting on 20 February 2009. The financial restructuring plan includes:

- Provision of new equity through a private placement with today's principal shareholders, who have subscribed NOK 314 million. The board has requested a mandate from the general meeting to implement a repair issue of up to NOK 170 million to those shareholders who did not have the opportunity to participate in the private placement, to the group's employees and to the bondholders who did not have the opportunity to participate in the private placement.
- A bridging loan of NOK 300 million maturing at 31 December 2009.
- A three-year grace period for the NOK 3.3 billion syndicated loan, though with possible repayments through a cash sweep solution.
- No repayment element for three years in the bareboat fee to the Kystruten KS/KirBerg Shipping KS limited partnerships, though both will participate in the cash sweep solution.
- A three-year postponement for redeeming the NOK 150 million convertible bond loan which matures in June 2009. An interest-free period of one year has been awarded, and interest will be accumulated for the remaining term. Bondholders also have the opportunity to participate in the share issue on the same terms as the shareholders, so that they can convert half the loan to equity and allow the remainder to continue as an ordinary bond loan for 36 months.

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

## **Interim report for the continued business**

### **Income statement**

The Hurtigruten group had total operating revenues in the fourth quarter of NOK 494 million (same period of 2007: NOK 355 million). This increase primarily reflected increased payments from the government under the renegotiated public procurement contract. The additional compensation totalled NOK 125 million for the year 2008. NOK 7 million in compensation for the nitrogen oxide tax for the second half of 2008 was recognised as income in the fourth quarter. See the details of the adjusted contract provided above. The Hurtigruten business area also increased its operating revenues through a substantial expansion in the number of round trip passengers and charter fees from MS Nordnorge. Operating revenues for the year 2008 totalled NOK 2 551 million, up by NOK 122 million from 2007.

Operating expenses before depreciation, amortisation and impairment charges for the group came to NOK 535 million in the fourth quarter (NOK 541 million). Expenses were affected by NOK 31 million in higher bunker costs for the Hurtigruten business area, NOK 7 million in reduced nitrogen oxide tax as a result of entering the nitrogen oxide fund, and a decline in payroll costs which partly reflected a cut in the number of ships sailing in the Antarctic from two to one. For the year 2008, operating expenses before depreciation, amortisation and impairment charges came to NOK 2 332 million (NOK 2 195 million). NOK 66 million of the 2008 increase reflected higher spending on bunker by the Hurtigruten business area.

Other losses, gains and revenues yielded a net loss of almost NOK 1 million for the fourth quarter, compared with a gain of NOK 6 million in the same period of 2007 which mainly is related to the sale of the Hurtigruten vessel MS Lyngen.

Consolidated operating profit before depreciation and amortisation (EBITDA) for the fourth quarter were negative at NOK 40 million (negative at NOK 180 million). This improvement of NOK 140 million is primarily attributable to an increased payment from the government following the renegotiation of the public procurement contract for the Hurtigruten service. EBITDA for the year 2008 was NOK 237 million (NOK 258 million), a decline of NOK 21 million.

Depreciation, amortisation and impairment charges totalled NOK 301 million (NOK 72 million) for the quarter and NOK 528 million (NOK 328 million) for the year 2008. The fourth-quarter increase reflected impairment of ships and goodwill.

Consolidated earnings before interest and taxes (EBIT) were negative at NOK 342 million for the fourth quarter (negative at NOK 252 million), and negative at NOK 291 million for the year 2008 (negative at NOK 71 million).

Net financial expenses for the quarter were NOK 62 million (net expenses of NOK 58 million). Net financial expenses were on a par with the fourth quarter of 2007. Net expenses for the year 2008 were NOK 259 million (net expenses of NOK 184 million). The increase of NOK 75 million reflects a substantial rise in interest rates.

The consolidated pre-tax loss for the continued business was NOK 403 million for the fourth quarter (loss of NOK 310 million), and a loss of NOK 550 million for the year 2008 (loss of NOK 254 million).

The consolidated pre-tax loss for discontinued business was NOK 157 million for the fourth quarter (loss of NOK 25 million), and a loss of NOK 136 million for the year 2008

(profit of NOK 26 million). These figures include the public transport activities with Ferries and fast ferries and buses, as well as Bergenske Reisebyrå and Nor Lines AS. The fourth-quarter figure for 2008 includes NOK 103 million in provision for loss on the sale of the Ferry and fast ferry business and NOK 50 million in impairment charges for the fast ferry vessels. In 2007, the fourth-quarter amount included NOK 59 million in provision for loss on the public transport contract with Troms county council.

The consolidated pre-tax loss was NOK 560 million for the fourth quarter (loss of NOK 336 million) and a loss of NOK 686 million for the year 2008 (loss of NOK 229 million).

### **Prospects**

Hurtigruten ASA is well under way with an extensive restructuring designed to create a profitable and sustainable business. This will be concentrated on the Hurtigruten service along the Norwegian coast and naturally associated operations.

Hurtigruten is a very strong brand, which tourists associate with real experiences in magnificent natural surroundings. For people resident along the Norwegian coast, the service will be a good option for local transport and a reliable freight carrier.

The combination of a cruise-like tourist product and an everyday workhorse makes Hurtigruten special. This is the exceptional product the group wants to continue developing.

It will accordingly be important to win the new tender for the Bergen-Kirkenes coastal service when announced by the government, providing the terms are satisfactory and provide scope for acceptable profitability. The criteria for a new tender are in process, but no decision has been taken on when this will be issued.

The public procurement contract with the government provides a framework for the business. Within these limits, however, scope exists for developing further tourist products. The group is committed both to provide passengers with greater experiences on board and to an expanded collaboration with tourism activities on land. A good example of successful cooperation is provided by the Hunting the Light winter programme. Hurtigruten is important for a number of tourism companies along the Norwegian coast, which individually lack the sales and marketing resources required to attract guests from distant markets.

It would be desirable for Hurtigruten that the new tender criteria also take account of the tourist industry, by making it possible to stay longer in certain ports which have good offers for visitors.

The board of directors believes it will take some time to achieve satisfactory profitability for Hurtigruten. Substantial restructuring remains to be completed, and the financial crisis has increased uncertainty about future occupancy rates and revenues.

However, the financial platform which has now been created lays a good basis for implementing the rest of the programme to create a focused and profitable Hurtigruten company. Restructuring will characterise the whole of 2009 and part of 2010.