

## Interim report for the first quarter of 2011



# Hurtigruten ASA

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### Highlights of the first quarter

- Pre-tax result improved by NOK 7 million from 2010
- A rise of 8.6 per cent in cruise nights improved capacity utilisation from 52.5 per cent last year to 57.8 per cent
- Agreement with the government on a new and significantly improved eight-year contract for the Bergen-Kirkenes coastal service from 1 January 2012
- Improved results from chartering out of ship
- Lower prices for port-to-port travel in Norway, reduced regularity, higher fuel costs and a weaker Australian dollar affected the results

### More passengers and marginal improvement in results

Hurtigruten normally has low occupancy and makes a loss in the first quarter. However, a stronger focus on winter traffic has yielded substantial passenger growth over the past four years and the loss has been reduced. The first quarter of 2011 was the best January-March period since the merger, with continued growth in tourist traffic. Hurtigruten Norwegian coast had 15 per cent more round-trip cruise nights than in the record year of 2010. The number of port-to-port cruise nights remained unchanged despite a 20 per cent reduction in prices. Revenues from the Norwegian coast accordingly rose only marginally. More cruise nights yielded increased costs for goods and crew. Higher oil prices also helped to boost overall operating costs by NOK 23 million for the Norwegian coast.

Mv Fram had more cruise nights during the quarter, but prices were lower because of reduced sales of pre/post trips as well as a higher proportion of group traffic. Operating profit for the charter of a ship to Australia was substantially higher than in the first quarter of 2010, when mv Finnmarken was in a mobilisation phase before the charter commenced at 30 April 2010.

A consolidated operating profit before depreciation and impairment (EBITDA) was achieved for the second year in a row. Reduced net financial expenses meant that the interim loss before tax was NOK 7 million lower than in the same period of 2010 at NOK 126 million.

The following factors explain the main features of the profit before depreciation for the quarter:

- an increase in round-trip sales, primarily in the UK/USA and Germany, yielded 8.6 per cent more cruise nights
- higher charter income because mv Finnmarken did not earn full revenues in the first quarter of 2010
- many service variances because of bad weather and undesirable incidents/technical problems led to weak progress for port-to-port travel
- higher fuel costs because of increased oil prices
- higher crew costs because of volume growth and general inflation

Progress in cruise nights for the round-trip product derived primarily from the UK, the USA and Germany. Developments in the Nordic region were weak, particularly in the Norwegian market.

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

## **Interim accounts**

### **Segment information**

The group's business segments comprise the following product areas: Hurtigruten Norwegian coast, explorer products, Spitsbergen and charter. Activities which do not naturally fall within these four areas are concentrated under other business. The group comments on operating results before depreciation and impairment (EBITDA) for the four product areas.

### **Income statement**

The Hurtigruten group had total operating revenues in the first quarter of NOK 798 million (2010: NOK 728 million). This improvement derived primarily from the charter area and from an increase in round-trip passengers along the Norwegian coast. More cruise nights also contributed to higher excursion sales.

Consolidated operating expenses before depreciation and impairment in the first quarter grew by NOK 81 million to NOK 795 million (2010: NOK 714 million). This rise was primarily attributable to the charter area, higher fuel costs and increased expenses because of more cruise nights along the Norwegian coast.

The group had no significant gains and losses in the first quarter of 2011 related to the continued business. The accounts for the first quarter of 2010 included a sales gain of NOK 3.3 million related mainly to the disposal of the workshop operation in the bus business.

Consolidated profit before depreciation and impairment (EBITDA) for the first quarter was NOK 3 million (2010: NOK 17 million).

Depreciation and impairment for the quarter totalled NOK 93 million (2010: NOK 90 million).

The consolidated operating loss before interest and tax (EBIT) for the first quarter was NOK 90 million (2010: NOK 72 million).

Net financial expenses for the first quarter were NOK 41 million (2010: NOK 57 million). This reduction reflected lower net interest costs and higher currency gain.

The share of profit from associated companies was NOK 2 million, on a par with the same period of last year.

The consolidated pre-tax loss for the continued business was NOK 129 million (2010: NOK 127 million) for the first quarter.

Consolidated pre-tax profit for the discontinued business was NOK 3 million (2010: loss of NOK 6 million) in the first quarter, and embraced chartering-out of two fast ferries in Troms county. The improvement in results reflects the sale of Hurtigruten's 50 per cent holding in Nor Lines AS, which contributed a loss last year.

The consolidated pre-tax loss in the first quarter came to NOK 126 million (2010: NOK 134 million).

### **Cash flow**

Net negative cash flow from operational activities during the first quarter improved by NOK 82 million from the same period of 2010. That primarily reflected a positive change in the group's working capital from the first quarter of last year, when the group's charter business was affected by preparation and mobilisation for the assignment.

Net cash flow from investing activities increased by NOK 124 million from the first quarter of 2010, reflecting settlement of the sale of the 50 per cent holding in Nor Lines in the first quarter of 2011 and a reduction in restricted assets. The latter was achieved by freeing up frozen funds related to the charter of two Hurtigruten ships from Kystruten KS and Kirberg Shipping KS. The liberated funds have been applied to an extraordinary redemption of debt in these two limited partnerships. Kystruten and Kirberg Shipping are consolidated in the group accounts in accordance with IFRS SIC-12 on special-purpose entities.

Net negative cash flow from financing activities declined by NOK 82 million from the first quarter of 2010. This reduction reflected the extraordinary redemption of debt in two limited partnerships which are consolidated in the group accounts in accordance with IFRS SIC-12 on special-purpose entities. The redemption was implemented by freeing up funds which had been frozen as security for Hurtigruten's charter of two Hurtigruten ships from the two limited partnerships.

### **Balance sheet and liquidity**

Pursuant to IFRS 5, assets and liabilities related to discontinued business are presented as "assets classified as held-for-sale" and "liabilities related to assets classified as held-for-sale". At 31 March 2011 and 31 March 2010, the group's two remaining fast ferries were classified as held-for-sale. Included in "assets classified as held-for-sale" and "liabilities related to assets classified as held-for-sale" are the carrying amount and mortgage debt respectively for the two remaining fast ferries.

Consolidated non-current assets totalled NOK 4 568 million at 31 March (31 December 2010: NOK 4 573 million).

Current assets excluding assets held-for-sale at 31 March totalled NOK 1 733 million (31 December 2010: NOK 1 711 million). Working capital declined from 31 December 2010 to NOK 733 million at 31 March. This reduction derives from increased prepayments by customers and reduced net receivables related to the charter for mv Finnmarken in Australia.

Liquid assets were NOK 660 million at 31 March (NOK 527 million excluding restricted assets), compared with NOK 731 million at 31 December 2010 (NOK 492 million excluding restricted assets). The reduction in liquid assets relates to the extraordinary redemption of debt in two limited partnerships by freeing up funds which had been frozen as security for Hurtigruten's charter of two Hurtigruten ships from the two limited partnerships.

At 31 March, the group had assets classified as held-for-sale of NOK 68 million (31 December 2010: NOK 68 million).

The group's total non-current liabilities at 31 March amounted to NOK 3 705 million (31 December 2010: NOK 3 847 million). The reduction in non-current liabilities reflected the extraordinary redemption of debt in two limited partnerships which are consolidated in the group accounts in accordance with IFRS SIC-12 on special-purpose entities. In addition, ordinary instalments were paid on debt by some of the group's subsidiaries.

Current liabilities excluding liabilities related to assets classified as held-for-sale came to NOK 990 million (31 December 2010: NOK 763 million). This change relates primarily to increased prepayments by customers and higher trade payables in connection with mv Finnmarken's charter in Australia.

At 31 March, the group had liabilities related to assets classified as held-for-sale of NOK 80 million (31 December 2010: NOK 83 million). This reduction reflects ordinary instalments on the group's two remaining fast ferries.

Consolidated equity at 31 March was NOK 1 594 million (31 December 2010: NOK 1 658 million). The equity ratio was 25 per cent (31 December 2010: 26.1 per cent). The group has a convertible bond loan totalling NOK 48.4 million which is regarded as equity in relation to its loan covenants. Including this, the equity ratio at 31 March was 25.7 per cent.

## **Product areas**

### ***Hurtigruten Norwegian coast***

The Hurtigruten Norwegian coast product area is the largest activity in the group and accounted for about 56 per cent of its operating revenues in the first quarter. Operations in the first quarter were affected by many cancelled port calls because of bad weather, particularly in March. The company also experienced more technical problems than normal. Mv Midnatsol had to cancel two round trips in February and March because of technical faults with the propulsion system. In addition, the excursion to the North Cape at the end of February/beginning of March was affected by an overturned bus, which meant that the whole southbound sailing had to be cancelled. Mv Nordstjernen had many cancellations during the quarter because of technical faults. Operating regularity in the first quarter was 93.3 per cent compared with 96.8 per cent in 2010. The goal is 97 per cent for the full year. Weather conditions accounted for 51 per cent of the variances.

Operating revenues in the first quarter came to NOK 449 million (2010: NOK 446 million). Cruise nights for round-trip passengers in the first quarter achieved a good increase of 15 per cent from last year. However, Norwegian passengers on short trips showed a particular decline and port-to-port travel in the first quarter fell by 0.5 per cent from the same period of 2010. The reason revenues do not reflect the increase in cruise nights is that prices for port-to-port travel were reduced by about 20 per cent in 2011. This price cut did not yield a growth in volume comparable to that which the company achieved in the first quarter of 2010, when a reduction of about 10 per cent from 2009 contributed to a growth of no less than 33 per cent in volume. That had a big effect on the quarter because of the large number of port-to-port travellers in relation to round-trip passengers during the winter season. Reasons for the weak development in volume for the port-to-port product include a larger number of cancellations and changes to the schedule, particularly in March, and the failure of market efforts to have the necessary effect. The round-trip price has been stable in local currencies. This is satisfactory in relation to developments for the industry.

The biggest increase in cruise nights came from the UK and the USA, with a rise of no less than 14 600 (37 per cent) in the first quarter. Germany grew by 7 000 cruise nights (eight per cent). The Nordic market was hit hardest by all the cancellations, and declined by 6 200 cruise nights.

Capacity utilisation in the quarter rose from 52.5 per cent in 2010 to 57.8 per cent. This was no less than 17 percentage points better than two years ago. The increase in cruise nights also boosted onboard spending and excursion sales by five per cent.

Operating expenses for operations came to NOK 382 million for the first quarter (2010: NOK 358 million). This increase mainly reflected the rise in bunker costs by NOK 11 million or 19 per cent. The real oil price rise in the market during the same quarter of last year was just over 30 per cent. Hurtigruten's hedging strategy reduces the negative effect of higher oil prices.

Sales, marketing and administrative costs amounted to NOK 116 million in the quarter, down NOK 2 million from 2010.

Total operating expenses came to NOK 498 million (NOK 476 million).

The operating loss before depreciation and impairment (EBITDA) was NOK 49 million for the first quarter (2010: NOK 30 million).

### **Explorer products/mv Fram**

Mv Fram's activity during the first quarter related to cruising in the Antarctic until mid-March. After the completion of the Antarctic season, the ship returned directly to Europe without passengers and began its European cruises in April. Mv Fram increased its cruise nights by one per cent. Prices achieved in 2011 were lower, reflecting reduced sales of pre/post trips and a higher proportion of group traffic. Combined with an increase of about 18 per cent in fuel costs, this also led to a lower EBITDA. In total, this yielded an EBITDA of NOK 11 million, down NOK 10 million from the same period of last year.

### **Spitsbergen**

Spitsbergen had a quarter on a par with the same period of 2010. The number of groups visiting the islands increased. That affected both hotel and excursion sales, although sales of food and beverages per guest night declined. EBITDA for the first quarter came to NOK 0.7 million (2010: loss of NOK 0.7 million).

### **Charter**

Mv Finnmarken was in full activity off Australia throughout the quarter, while the same period of 2010 was affected by preparation and mobilisation for the job as hotel ship on the Gorgon field off western Australia. This meant that the vessel served on full day rates throughout the first quarter of 2011.

EBITDA was NOK 35 million, up NOK 23 million from the year before. The negative development of the Australian dollar against the Norwegian krone is primary reason why the increase was not even higher.

### **Other business**

Other business comprises AS TIRB which provides bus services through Cominor AS and some minor companies. Cominor had a rather weaker EBITDA than in the first quarter of 2010, reflecting in part lost bids for regional bus services in Nordland and Troms. EBITDA was NOK 6 million (2010: NOK 15 million).

Cominor failed to win the Troms county council's competitive tender for bus services in Tromsø and Balsfjord. These account for about 50 per cent of the turnover in the company, which will accordingly in all probability have to take an impairment charge in the order of NOK 50 million on goodwill and fixed assets related to this part of the business. The changeover is on 1 February 2012, and the impairment charge will be recognised in connection with the award of the tender during the second quarter of 2011. AS TIRB owns large properties in Nordland and Troms counties that have a potential for development which can give gains higher than the write-down.

Cominor is still under investigation following criminal charges laid by Troms county council in May 2009. No new aspects emerged in this case during the quarter, but a number of the company's senior employees have been called for questioning.

### **Discontinued business**

Discontinued business comprises the fast ferry business in Troms, which was wound up at 31 December 2009. Since 1 January 2010, the company's two remaining fast ferries have been chartered to Veolia Transport Nord AS as the new operator of the Tromsø-Harstad service. This charterparty, which yielded a profit of NOK 2.5 million in the first quarter, has been extended for the moment to 19 May 2011. In addition, discontinued business in 2010 embraced Hurtigruten's holding in Nor Lines AS, which was sold on 31 December last year. That is the principal explanation for the improvement of almost NOK 9 million in results from 2010.

## Outlook

Bookings for 2011 have lain well above the corresponding curve for 2010 ever since last autumn, after a successful campaign at that time to get passengers to book early. The pace of bookings has slackened since mid-February but reservations for 2011 are still 11.3 per cent above their level at the same time last year.

Hurtigruten is not alone in noting a weakening of the market. This represents a challenge for the whole industry, which has prompted substantial price measures by competitors. The latter have also shown growing interest in the Scandinavian countries. Hurtigruten found the number of cruise nights in the first quarter acceptable, given that the corresponding period in 2010 set a record. Given market conditions, it is also satisfying to see that the same price per cruise night could be secured from the tourist segments (round trips) as in 2010.

Developments for port-to-port travel are unsatisfactory. Big price reductions and simplifications to the product have failed to boost volume. The many cancellations owing to bad weather and undesirable incidents/technical problems must bear part of the blame for this.

The board is satisfied with mv Finnmarken's performance in Australia, although the negative trend for the Australian dollar against the Norwegian kroner weakened the result.

General market conditions increase uncertainty for the rest of the year.

The restructuring of the sales and marketing organisation which was launched two years ago has now been completed. The board is satisfied that it has been possible to increase sales while simultaneously downsizing the sales team.

The board is satisfied that an agreement is achieved with the government on a new and significantly improved eight-year contract for the Bergen-Kirkenes coastal service. The new agreement secures predictability for the company, partners and the people along the coast.

Results for the first quarter of 2011 are satisfactory in view of the operating parameters. Market conditions have become more difficult over the past two months, but the company is still confident of acceptable profitability during 2011.

Bodø, 11 May 2011

The board of directors of Hurtigruten ASA

## HURTIGRUTEN GROUP

### Consolidated income statement

(NOK 1 000)

	Note	1st quarter 2011	1st quarter 2010	Year to date 2011	Year to date 2010
Operating revenues		591 354	516 360	591 354	516 360
Contractual revenues	6	206 602	211 516	206 602	211 516
<b>Total revenues</b>		<b>797 956</b>	<b>727 876</b>	<b>797 956</b>	<b>727 876</b>
Payroll costs		288 161	238 062	288 161	238 062
Depreciation and impairment		92 912	89 696	92 912	89 696
Other operating expenses	6	506 478	475 883	506 478	475 883
Other losses/(gains) - net		-	(3 301)	-	(3 301)
<b>Operating profit/(loss)</b>		<b>(89 595)</b>	<b>(72 464)</b>	<b>(89 595)</b>	<b>(72 464)</b>
<b>Operating profit/(loss) before depreciation and impairment</b>		<b>3 317</b>	<b>17 232</b>	<b>3 317</b>	<b>17 232</b>
Finance income		19 077	12 999	19 077	12 999
Finance expenses		(60 074)	(70 042)	(60 074)	(70 042)
<b>Finance expenses - net</b>		<b>(40 997)</b>	<b>(57 043)</b>	<b>(40 997)</b>	<b>(57 043)</b>
Share of profit/(loss) of associates		1 811	2 053	1 811	2 053
<b>Profit/(loss) before income tax from continuing business</b>		<b>(128 781)</b>	<b>(127 454)</b>	<b>(128 781)</b>	<b>(127 454)</b>
Income tax expense from continuing business		(34 773)	(31 751)	(34 773)	(31 751)
<b>Profit/(loss) from continuing business</b>		<b>(94 008)</b>	<b>(95 703)</b>	<b>(94 008)</b>	<b>(95 703)</b>
Profit/(loss) before income tax on discontinued business	2	2 471	(6 212)	2 471	(6 212)
Income tax expense on discontinued business	2	618	(1 553)	618	(1 553)
<b>Profit/(loss) for the period</b>		<b>(92 155)</b>	<b>(100 362)</b>	<b>(92 155)</b>	<b>(100 362)</b>
Attributable to minority interest		5 240	5 880	5 240	5 880
<b>Earnings per share for profit attributable to the equity holders of the company</b>					
<b>Earnings per share (NOK):</b>					
Continuing business		(0,24)	(0,24)	(0,24)	(0,29)
Discontinued business		0,00	(0,01)	0,00	(0,01)
<b>Total</b>		<b>(0,23)</b>	<b>(0,25)</b>	<b>(0,23)</b>	<b>(0,30)</b>
<b>Diluted earnings per share (NOK):</b>					
Continuing business		(0,24)	(0,24)	(0,24)	(0,29)
Discontinued business		0,00	(0,01)	0,00	(0,01)
<b>Total</b>		<b>(0,23)</b>	<b>(0,25)</b>	<b>(0,23)</b>	<b>(0,30)</b>

**Consolidated statement of comprehensive income**

(NOK 1 000)

	Note	1st quarter 2011	1st quarter 2010	Year to date 2011	Year to date 2010
Profit/(loss) for the period		(92 155)	(100 362)	(92 155)	(100 362)
<b>Other comprehensive income:</b>					
Cash flow hedges		24 114	(4 223)	24 114	(4 223)
Currency translation differences		3 578	(2 340)	3 578	(2 340)
Other equity adjustments		-	7 383	-	7 383
Other comprehensive income		27 692	820	27 692	820
<b>Total comprehensive income</b>		<b>(64 463)</b>	<b>(99 542)</b>	<b>(64 463)</b>	<b>(99 542)</b>
<b>Attributable to:</b>					
Equity holders of the company		(69 703)	(105 422)	(69 703)	(105 422)
Minority interests		5 240	5 880	5 240	5 880
<b>Total comprehensive income</b>		<b>(64 463)</b>	<b>(99 542)</b>	<b>(64 463)</b>	<b>(99 542)</b>

**Consolidated balance sheet**

(NOK 1 000)	Note	31.03.2011	01.01.2011	01.01.2010
<b>Assets</b>				
Tangible non-current assets		4 114 413	4 163 328	4 347 691
Intangible non-current assets		265 493	259 526	247 817
Investments in associates		38 515	36 705	136 478
Deferred income tax assets		102 853	69 789	53 862
Derivative financial instruments		15 046	12 677	-
Trade and other receivables		31 471	30 816	62 312
<b>Total non-current assets</b>		<b>4 567 789</b>	<b>4 572 841</b>	<b>4 848 160</b>
Inventories		74 892	72 918	75 340
Trade and other receivables		973 077	885 271	349 778
Derivative financial instruments		25 808	21 633	8 537
Cash and cash equivalents		659 657	731 109	800 116
		<b>1 733 434</b>	<b>1 710 931</b>	<b>1 233 770</b>
Assets of disposal group classified as held-for-sale	2	68 076	68 076	110 748
<b>Total current assets</b>		<b>1 801 510</b>	<b>1 779 007</b>	<b>1 344 518</b>
<b>Total assets</b>		<b>6 369 300</b>	<b>6 351 848,0</b>	<b>6 192 678</b>
<b>Equity and liabilities</b>				
Paid-in equity	5	1 154 588	1 154 588	1 154 588
Other paid-in equity	5	156 751	129 059	117 613
Retained earnings/(uncovered loss)	5	(10 679)	86 716	89 801
<b>Sum of capital and reserves attributable to equity holders of the company</b>		<b>1 300 661</b>	<b>1 370 364</b>	<b>1 362 002</b>
Minority interest in equity		293 366	288 126	282 663
<b>Total equity</b>		<b>1 594 027</b>	<b>1 658 490</b>	<b>1 644 665</b>
Borrowings	5	3 591 739	3 682 801	3 687 543
Derivative financial instruments		12 976	18 041	15 766
Deferred income tax liabilities		13 367	13 367	25 099
Retirement benefit obligations		76 929	126 721	117 739
Provisions for other liabilities and charges		10 201	5 617	5 783
<b>Total non-current liabilities</b>		<b>3 705 212</b>	<b>3 846 548</b>	<b>3 851 930</b>
Trade and other payables		959 140	716 604	529 297
Current income tax liabilities		7 922	13 419	7 484
Borrowings		15 018	15 785	13 884
Derivative financial instruments		7 306	17 102	20 739
Provisions for other liabilities and charges		675	566	15 000
		<b>990 061</b>	<b>763 477</b>	<b>586 404</b>
Liabilities of disposal group classified as held-for-sale	2	80 000	83 333	109 679
<b>Total current liabilities</b>		<b>1 070 061</b>	<b>846 811</b>	<b>696 084</b>
<b>Total liabilities</b>		<b>4 775 273</b>	<b>4 693 358</b>	<b>4 548 013</b>
<b>Total equity and liabilities</b>		<b>6 369 300</b>	<b>6 351 848</b>	<b>6 192 678</b>

**Consolidated statement of changes in equity**

(NOK 1 000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total paid-in and retained capital	Minority interests	Total equity
<b>Balance at 1 January 2010</b>		419 966	734 622	117 613	89 801	<b>1 362 002</b>	282 663	<b>1 644 665</b>
Net profit/(loss) for the year		-	-	-	8 325	<b>8 325</b>	22 120	<b>30 445</b>
<b>Other comprehensive income</b>								
Currency translation differences		-	-	(5 072)	-	<b>(5 072)</b>	-	<b>(5 072)</b>
Cash flow hedges, net after tax		-	-	16 518	-	<b>16 518</b>	(253)	<b>16 265</b>
Actuarial gain/(loss) on retirement benefit obligation (after tax)		-	-	-	(11 411)	<b>(11 411)</b>	(5 311)	<b>(16 721)</b>
Other equity adjustments		-	-	-	-	-	(174)	<b>(174)</b>
<b>Other comprehensive income, net of tax</b>		-	-	11 446	(11 411)	<b>35</b>	(5 737)	<b>(5 702)</b>
<b>Total comprehensive income, net of tax</b>		-	-	11 446	(3 085)	<b>8 361</b>	16 383	<b>24 744</b>
<b>Transactions with owners</b>								
Distributions to owners		-	-	-	-	-	(10 920)	(10 920)
<b>Total transactions with owners</b>		-	-	-	-	-	<b>(10 920)</b>	<b>(10 920)</b>
<b>Balance at 31 December 2010</b>		419 966	734 622	129 059	86 716	<b>1 370 364</b>	288 126	<b>1 658 490</b>
<b>Balance at 1 January 2011</b>		419 966	734 622	129 059	86 716	<b>1 370 363</b>	288 126	<b>1 658 489</b>
Profit/(loss) for the period		-	-	-	(97 395)	<b>(97 395)</b>	5 240	<b>(92 155)</b>
<b>Other comprehensive income</b>								
Currency translation differences		-	-	<b>3 578</b>	-	<b>3 578</b>	-	<b>3 578</b>
Cash flow hedges		-	-	<b>24 114</b>	-	<b>24 114</b>	-	<b>24 114</b>
<b>Other comprehensive income</b>		-	-	27 692	-	<b>27 692</b>	-	<b>27 692</b>
<b>Total comprehensive income</b>		-	-	27 692	(97 395)	<b>(69 703)</b>	5 240	<b>(64 463)</b>
<b>Balance at 31 March 2011</b>		419 966	734 622	156 751	(10 679)	<b>1 300 661</b>	293 366	<b>1 594 027</b>

**Consolidated cash flow statement**

(NOK 1 000)

1st quarter 2011      1st quarter 2010

Cash generated from operations	(126 310)	(132 667)
Adjusted for:		
Depreciation and impairment on continuing and discontinued business	92 912	89 696
Other (losses)/gain - net	-	(2 689)
Exchange (losses)/gains unrealised	(3 709)	(5 815)
Interest expenses	49 041	59 041
Share of profit/loss of associates	(1 811)	4 659
Difference between expensed pension and payments	(5 997)	-
Change in working capital:		
Inventories	(1 974)	5 947
Trade and other receivables	(167 806)	(113 468)
Net adjustments on financial assets through income statement	(3 695)	4 855
Trade and other payables	220 465	54 878
<b>Cash flow from operations</b>	<b>51 115</b>	<b>(35 563)</b>
Interest paid	(53 376)	(56 236)
Income tax paid	(7 484)	-
<b>Net cash flow from operating activities</b>	<b>(9 745)</b>	<b>(91 799)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment (PPE)	(49 964)	(28 554)
Proceeds from sale of PPE	-	21 311
Proceeds from sale of shares	80 000	-
Change in restricted funds	106 397	19 846
<b>Net cash used in investing activities</b>	<b>136 433</b>	<b>12 603</b>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(95 436)	(13 142)
<b>Net cash used in financing activities</b>	<b>(95 436)</b>	<b>(13 142)</b>
<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>		
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	31 252	(92 339)
Cash, cash equivalents and bank overdrafts at beginning of period, excluding restricted cash	492 187	557 704
Exchange gains/(losses) on cash and bank overdrafts	3 695	(4 855)
<b>Cash, cash equivalents and bank overdrafts at end of period</b>	<b>527 133</b>	<b>460 510</b>

SEGMENT INFORMATION	HURTIGRUTEN NORWEGIAN							
	COAST		EXPLORER PRODUCTS		SPITSBERGEN		CHARTER	
	1st quarter 2011	1st quarter 2010	1st quarter 2011	1st quarter 2010	1st quarter 2011	1st quarter 2010	1st quarter 2011	1st quarter 2010
(NOK 1 000)								
Operating revenues	294 870	288 600	63 208	69 211	36 996	32 435	147 195	73 728
Contractual revenues	154 259	157 231	-	-	-	-	-	-
<b>Total revenues</b>	<b>449 129</b>	<b>445 831</b>	<b>63 208</b>	<b>69 211</b>	<b>36 996</b>	<b>32 435</b>	<b>147 195</b>	<b>73 728</b>
Payroll costs	158 430	148 076	9 627	8 819	12 229	11 245	54 718	16 774
Depreciation and impairment	62 333	58 946	4 682	4 605	3 601	3 577	8 589	8 971
Other operating expenses	339 926	327 692	42 417	39 569	24 048	21 917	57 786	44 984
Other losses/(gains) - net	-	-	-	-	-	-	-	-
<b>Operating profit/(loss)</b>	<b>(111 560)</b>	<b>(88 883)</b>	<b>6 482</b>	<b>16 218</b>	<b>(2 882)</b>	<b>(4 304)</b>	<b>26 102</b>	<b>2 999</b>
Finance expenses - net	(28 071)	(42 841)	(5 716)	(5 320)	250	58	(7 013)	(8 164)
Share of profit/(loss) of associates	-	-	-	-	-	-	-	-
<b>Profit/(loss) before income tax from continuing business</b>	<b>(139 631)</b>	<b>(131 724)</b>	<b>766</b>	<b>10 898</b>	<b>(2 632)</b>	<b>(4 246)</b>	<b>19 089</b>	<b>(5 165)</b>
Profit/(loss) before income tax on discontinued business	-	-	-	-	-	-	-	-
<b>Profit/(loss) before income tax</b>	<b>(139 631)</b>	<b>(131 724)</b>	<b>766</b>	<b>10 898</b>	<b>(2 632)</b>	<b>(4 246)</b>	<b>19 089</b>	<b>(5 165)</b>

**Operating profit/(loss) before depreciation and impairment** (49 227) (29 937) 11 164 20 823 719 (727) - 11 970

SEGMENT INFORMATION	OTHER BUSINESS		ELIMINATIONS		HURTIGRUTEN GROUP	
	1st quarter 2011	1st quarter 2010	1st quarter 2011	1st quarter 2010	1st quarter 2011	1st quarter 2010
	(NOK 1 000)					
Operating revenues	49 793	55 771	(709)	(3 385)	591 354	516 360
Contractual revenues	52 343	54 285	-	-	206 602	211 516
<b>Total revenues</b>	<b>102 136</b>	<b>110 056</b>	<b>(709)</b>	<b>(3 385)</b>	<b>797 956</b>	<b>727 876</b>
Payroll costs	53 158	53 148	-	-	288 161	238 062
Depreciation and impairment	13 707	13 597	-	-	92 912	89 696
Other operating expenses	43 008	45 107	(709)	(3 385)	506 478	475 883
Other losses/(gains) - net	-	(3 301)	-	-	-	(3 301)
<b>Operating profit/(loss)</b>	<b>(7 737)</b>	<b>1 505</b>	<b>-</b>	<b>-</b>	<b>(89 595)</b>	<b>(72 464)</b>
Finance expenses - net	(447)	(776)	-	-	(40 997)	(57 043)
Share of profit/(loss) of associates	1 811	2 053	-	-	1 811	2 053
<b>Profit/(loss) before income tax from continuing business</b>	<b>(6 373)</b>	<b>2 782</b>	<b>-</b>	<b>-</b>	<b>(128 781)</b>	<b>(127 454)</b>
Profit/(loss) before income tax on discontinued business	2 471	(6 212)	-	-	2 471	(6 212)
<b>Profit/(loss) before income tax</b>	<b>(3 902)</b>	<b>(3 430)</b>	<b>-</b>	<b>-</b>	<b>(126 310)</b>	<b>(133 666)</b>

**Operating profit/(loss) before depreciation and impairment** 5 970 15 102 - - 3 317 17 232

## Non-GAAP financial information Hurtigruten Norwegian coast

(NOK 1 000, except passenger CN)	Q1 2011	Q1 2010
Passenger cruise nights	197 649	181 927
Round trip cruise nights	125 996	109 920
Port to port cruise nights	71 653	72 007
Available passenger cruise nights (APCN)	341 840	346 686
Occupancy rate	57.8 %	52.5 %
Passenger ticket revenues	207 897	213 341
Onboard revenues	63 625	60 566
<b>Total revenues</b>	<b>271 522</b>	<b>273 907</b>
Less:		
Commissions, transportation and other	67 315	74 374
Onboard	43 886	40 302
<b>Net revenues</b>	<b>160 321</b>	<b>159 231</b>
Gross ticket revenues per cruise night (NOK)	1 374	1 506
Net ticket revenues per cruise night (NOK)	811	875
Total cruise operating expenses	382 108	357 519
Selling, general and administrative expenses	116 248	118 249
<b>Gross cruise costs</b>	<b>498 356</b>	<b>475 768</b>
Less:		
Commissions, transportation and other	67 315	74 374
Onboard	43 886	40 302
<b>Net cruise costs</b>	<b>387 155</b>	<b>361 092</b>
Gross cruise costs per APCN (NOK)	1 458	1 372
Net cruise costs per APCN (NOK)	1 133	1 042
Net cruise costs exclusive fuel per APCN (NOK)	929	873
Net cruise costs per cruise night (NOK)	1 959	1 985
Fuel consumption litre/nautical mile	77.9	78.8
Fuel cost per litre (NOK)	4.15	3.40

## Notes to the accounts

### **Note 1 Accounting policies**

The interim financial report for the group includes Hurtigruten ASA with subsidiaries and associated companies. The interim financial report is prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial report does not include all information which will appear in the annual financial report which is prepared in accordance with all effective IFRS-standards, and should therefore be read in connection with the annual report for 2010.

The annual report 2010 for the company can be obtained through a request to the company's main office or on the website [www.hurtigruten.com](http://www.hurtigruten.com). A description of the accounting policies applied in the interim financial reporting are described in the note of accounting policies in the annual report for 2010.

In the preparation of the interim financial report, estimates and assumptions have been applied, which has affected assets, liabilities, revenues and costs. Actual figures can deviate from estimates applied.

### **Note 2 Assets classified as held-for-sale and discontinued business**

#### *Assets held-for-sale*

Pursuant to IFRS 5, assets and liabilities related to discontinued business are presented as "assets held-for-sale" and "liabilities on assets held-for-sale". Assets and liabilities related to the group's two remaining fast ferries are classified as held-for-sale at 31 March 2011 and 31 December 2010.

Assets held-for-sale, and liabilities on assets held-for-sale appears as follows:

(NOK 1 000)	31.03.2011	01.01.2011
<b>Assets classified as held-for-sale</b>		
Tangible non-current assets	68 076	68 076
<b>Assets held-for-sale</b>	<b>68 076</b>	<b>68 076</b>
<b>Liabilities on assets classified as held-for-sale</b>		
Current liabilities	80 000	83 333
<b>Liabilities on assets held-for-sale</b>	<b>80 000</b>	<b>83 333</b>

#### *Discontinued business*

Discontinued business is a part of the business which is either sold or classified as held-for-sale. Pursuant to IFRS 5 "Non-current assets held-for-sale and discontinued operations", such items must be classified apart from other results through a separate line in the income statement. Corresponding assets and liabilities are presented (gross) apart from other assets and liabilities in the balance sheet.

Profit or loss from discontinued operations includes the groups's remaining fast ferry business and share of profit/loss from Nor Lines AS. The company's ownership in Nor Lines was sold in 2010. Comparative figures in the income statement are restated pursuant to IFRS 5. The balance sheet for 2010 has not been restated.

Income statement for discontinued business appears as follows:

(NOK 1 000)	1st quarter 2011	1st quarter 2010
Operating revenue	4 320	5 754
Payroll costs	-	897
Depreciation and impairment	-	-
Other operating costs	1 107	2 956
Other losses/(gains) - net	-	612
<b>Operating profit/(loss)</b>	<b>3 213</b>	<b>1 290</b>
Financial income	-	-
Financial costs	742	790
<b>Finance costs - net</b>	<b>(742)</b>	<b>(790)</b>
Share of profit/(loss) of associates	-	(6 712)
<b>Profit/(loss) before income tax</b>	<b>2 471</b>	<b>(6 212)</b>
Income tax expense	618	(1 553)
<b>Profit/(loss)</b>	<b>1 853</b>	<b>(4 659)</b>

Net cash flow for discontinued business appears as follows:

(NOK 1 000)	1st quarter 2011	1st quarter 2010
Net cash flow from operations	2 471	1 112
Net cash used in investing activities	-	21 311
Net cash used in financing activities	(3 333)	(3 333)
<b>Total net cash flow</b>	<b>(862)</b>	<b>19 090</b>

### **Note 3 Financial risk management**

There are potential risks and uncertainties that can affect the operation of the companies in the group. This may lead to actual results deviating from expected and historical results. Information concerning the most important risks and uncertainties is disclosed in the latest annual report published on the company website [www.hurtigruten.com](http://www.hurtigruten.com). The group's most important risks and uncertainties are described in the directors' report and in note 3 to the consolidated accounts.

No essential changes in the financial risk management have been done since the annual report for 2010 was published.

### **Note 4 Information about segments**

The group's business segments comprise the following product areas: Hurtigruten Norwegian coast, explorer products, Spitsbergen and charter. Activities which do not naturally fall within these four areas are combined in other business. The business segments are reported in the same way as the internal reporting to the company's board and executive management.

### **Note 5 Proceeds from and payments of borrowings**

The group has clauses on financial covenants related to parts of its loan portfolio regarding liquidity, solidity and cash flow. These covenants must be met at the end of each quarter and the second covenant must be met on a running basis.

According to the financial covenants, the following conditions must be met:

- The group's working capital and unused credit facilities must be positive.
- The group must maintain a free liquidity of at least NOK 200 million over the term of the loan.
- EBITDA must be greater than the group's annual debt obligation and dividend payments, or the group's free liquidity (with credit facilities included) must be a minimum of NOK 350 million.
- The equity ratio from 30 September 2009 to 30 June 2010 must be 25 per cent. From 30 September onwards, the equity ratio was to have been 27.5 per cent. The equity requirement has been waived ("waiver") so that the equity ratio remains at 25 per cent from September 2010 throughout the term of the loan. The convertible bond loan issued by Hurtigruten ASA is regarded as equity in relation to the loan agreements.

An addendum to the agreement with the bank syndicate financing the Hurtigruten vessels was agreed in February 2009. This implies that no term instalment will fall due between March 2009 and December 2011. The deferred instalments are to be repaid on a pro rata basis together with the remaining instalments which mature from March 2012. The revised agreement contains a "cash sweep" condition which obligates Hurtigruten to use all free cash exceeding NOK 500 million at the end of the first quarter of each year to make repayments on the loan, starting in the first quarter of 2010. A repayment made in accordance with the "cash sweep" condition can only be drawn down again under the loan agreement by an amount equal to 50 per cent of the actual repayment made in the first quarter of 2010. No such drawdown right exists for a repayment made in accordance with the "cash sweep" condition in the first quarter of 2011. The limited partnerships Kystruten KS and Kirberg Shipping KS are also embraced by the "cash sweep" terms in relation to their proportionate share of debt. No instalment payment has been made under the "cash sweep" agreement in 2010, and there will be such payment by the end of the first quarter of 2011.

In the first quarter Hurtigruten ASA has made an extraordinary redemption of the instalment part of the bare boat charter hire for two Hurtigruten ships chartered from the two limited partnerships Kystruten KS and Kirberg Shipping KS. This was achieved by freeing up frozen funds as security for the charter. The liberated funds have in its entirety been applied to an extraordinary redemption of debt in these two limited partnerships. Kystruten and Kirberg Shipping are consolidated in the group accounts in accordance with IFRS SIC-12 on special-purpose entities.

### **Note 6 Contingencies**

#### *Membership in the NOx Fund*

NOK 3 million in nitrogen oxide tax was charged to the first quarter accounts for 2011 (2010: NOK 3 million). Members of the industrial fund for nitrogen oxides (NOx) have collectively undertaken to reduce emissions of these gases by 18 000 tonnes in total, broken down into:

Year	NOx in tonnes
2008	2 000
2009	4 000
2010	12 000

The Norwegian Climate and Pollution Agency will monitor that the fund reaches its collective goals. If these are not met, the members may be required to pay the full amount of the tax on their respective share of the emissions. This requirement will be calculated on the basis of the percentage share of the collective goals which fail to be achieved. The fund has achieved the set goal for 2008 and 2009, and as stated in the half yearly report of 2010, they will also achieve the set goals for 2010.

A new environmental agreement was signed on the 14th of December 2010, regarding the period 2011-2017. Members of the industrial fund for nitrogen oxides (NOx) have collectively undertaken to reduce emissions of these gases by 16 000 tonnes in total for this period. Reductions in emissions achieved for the period 2008-2010 will also be upheld. The goals set for this period is partly annual and partly for two years:

Year	NOx in tonnes
2011	3 000
2012	2 000
2013 og 2014	4 000
2015 og 2016	4 000
2017	3 000

*Supplementary agreement in relation to the Government's purchase of maritime transport services between Bergen–Kirkenes*

The Norwegian Government agreed in 2004 on a contract with Hurtigruten ASA for the delivery of transport services along the Norwegian coast from Bergen to Kirkenes, until the expiration of the contract 31 December 2012. This contract was granted through a tender process. The Parliament decided in December 2008 to grant an additional NOK 125 million in 2008 on top of the existing agreement. The additional funding were granted as to compensate the NOx fee in 2007, estimated at NOK 52 million, 90 per cent of payments to the NOx Fund for the first half of 2008, estimated at 7 million, and a general compensation for 2008 estimated at NOK 66 million. The Ministry of Transport and Communications will propose to the Parliament to compensate future payments to the NOx Fund, and to carry on the general compensation. The company has, for the period 1 July 2008 to 31 March 2011, recognised 35 million in compensation for the payment to the NOx Fund and 160 million in increased general compensation. The company also had an opportunity to reduce the number of ships during winter from 11 to 10 for the remaining of the contractual period.

It is planned that the general compensation will continue for the remainder of the contract period unless the profits of the company related to the agreement with the government becomes significantly better. The ministry of Transport and Communications has assumed that the additional grant is in line with state aid policies. EFTA's Surveillance Authority (ESA) decided on July 2010 to formally investigate in order to verify whether grants are necessary to provide the public services in question. If the ESA were to state the grants as being in contrary to EU rules on state aid, all or part of the compensation will be required to be refunded. Hurtigruten is of the view that the service is not overly compensated.

The existing agreement with the Norwegian government terminates 31 December 2011 after the Ministry of Transport and Communications and Hurtigruten ASA have entered into a new agreement to operate the coastal route Bergen-Kirkenes for the period 2012 – 2019, starting 1 January 2012.

*Legal charges against TIRB and Cominor*

Legal charges were brought against AS TIRB and its Cominor AS subsidiary in May 2009 by Troms county council. A complaint was filed with the court of conciliation in December 2009. The group was uninformed of the details of these charges until January 2010, when it became aware that the companies are accused of overcharging for occasional assistance, and for unforeseen and unplanned services. The total amount in subject is NOK 24 million, excluding interests. No new aspects emerged in this case during the quarter, but a number of the company's senior employees have been called for questioning. It is not clear when a

final decision by the police might be expected. TIRB and Cominor are in the view that the claim is groundless.

*Sales credit on the sale of shares in Nor Lines*

Hurtigruten ASA sold its holding in Nor Lines AS with accounting effect from 31 December 2010. In connection with the sale, Hurtigruten awarded a seller's credit of NOK 10 million based on the assumption that the seller would be awarded the public procurement contract for the Bergen–Kirkenes service by 31 December 2011, to run over a period of eight years beginning no later than 1 January 2013. If this condition was not met, the sale price would be reduced by Hurtigruten waiving the agreed sales credit of NOK 10 million.

This condition in the sales agreement was met at 13 April 2011 as the Norwegian Ministry of Transport and Communications and Hurtigruten ASA entered into a new agreement to operate the coastal route Bergen-Kirkenes for the period 2012-2019. The sales credit is settled by the announcement of the first quarter financials.

**Note 7 Business influenced by seasonal factors**

The Hurtigruten coastal operation is influenced by seasonal factors with the main season from May through September (more than 75 per cent occupancy). The itinerary and fleet of the company is, according to the Hurtigruten public procurement, the same the whole year, except from the November-March period. The exception is a consequence of the renegotiation of the public procurement contract with the government, where Hurtigruten has been given the opportunity to reduce the production by one ship on the Bergen-Kirkenes coastal service in this period.

Explorer cruises with mv Fram is cyclic because the cruises are concentrated around four geographic areas (different parts of the year); Antarctica, Svalbard, Greenland and cruise between Antarctica and the Arctic. The Svalbard operation has a main season reaching from March through August. The activity is operated by the subsidiary Spitsbergen Travel group.

**Note 8 Events after the balance sheet day**

*New agreement with the state for the Coastal service Bergen-Kirkenes*

The Norwegian Ministry of Transport and Communications and Hurtigruten ASA have the 13 April entered into a new agreement to operate the coastal route Bergen-Kirkenes for the period 2012-2019. The key points of the agreement are as follows:

- The agreement ensures daily departures from all the existing 34 ports all year round.
- The agreement comes into force on 1 January 2012 and is valid for a period of eight years thereafter. The state has the right to extend the agreement by one year after the agreement expires.
- The agreement is worth a total of NOK 5,120 million (at 2011 prices), which gives average remuneration for the state's purchase of services of NOK 640 million per year. In comparison, the state paid NOK 377 million in 2010.
- The payments are arranged so that the largest payment of NOK 700 million will take place in 2012, with a gradual downscaling to NOK 580 million in 2019 (all figures at 2011 prices). The remuneration sum will, in its entirety, be price adjusted every year.

*Cominor failed to win tender for bus services in Tromsø and Balsfjord*

Cominor AS failed to win the Troms county council's competitive tender for bus services in Tromsø and Balsfjord. These account for about 50 per cent of the turnover in the company, which will accordingly in all probability have to take an impairment charge in the order of NOK 50 million on goodwill and fixed assets related to this part of the business. The changeover is on 1 February 2012, and the impairment charge will be recognised in

connection with the award of the tender during the second quarter of 2011. AS TIRB owns large properties in Nordland and Troms counties that have a potential for development which can give gains higher than the write-down.