

## Interim report for the second quarter and first half of 2011



# Hurtigruten ASA

## Interim report for the second quarter and first half of 2011

### Highlights of the second quarter

- Pre-tax profit came to NOK 62 million, down NOK 80 million from the same quarter of 2010
  - impairment charges of NOK 40 million related to the bus business after failing to win a tender in Tromsø
  - NOK 30 million in losses on cancelled sailings
  - lower prices and volumes in port-to-port traffic along the Norwegian coast
  - higher fuel prices
  - weak results on Svalbard
- More tourists took round trips with the Hurtigruten service along the Norwegian coast
  - round-trip cruise nights increased by 8.2 per cent
  - 86 per cent capacity utilisation, up from 82 per cent last year
- Better results from explorer operations with mv Fram
- Fantastic response from the Norwegian TV programme Hurtigruten minute by minute, bookings for 2012

ESA ruled that agreement with the state regarding supplementary compensation represents illegal state aid. Hurtigruten will appeal

### Profit of NOK 62 million for second quarter

Revenues declined by NOK 36 million in the second quarter while rising by NOK 34 million for the first half compared with the corresponding periods of 2010. The first-half rise primarily reflected an increase in cruise nights as well as full operation under the charterparty in Australia.

Operating costs rose by NOK 27 million in the quarter and NOK 108 million for the first half. The big increase for January-June reflects the fact that the Australian charterparty was in full operation throughout the year, compared with only two months of the corresponding period in 2010, and an increase in fuel costs resulting from higher oil prices. Sales and administrative expenses declined by NOK 43 million in the quarter and the first half, largely because changes were made to pension's arrangements for administrative employees in the second quarter of 2011.

Many cancellations occurred along the Norwegian coast as a result of various incidents, technical faults and weather conditions. Activities in Svalbard were hard-hit when all sailings with the chartered vessel mv Polar Star had to be cancelled after the ship became unavailable because its owner went into liquidation. Cancellations in the second quarter caused losses of about NOK 30 million for the company. The explorer business with mv Fram made progress, and both volume and prices increased for all products during the quarter (Europe and Greenland).

The second quarter yielded a pre-tax profit of NOK 62 million, down NOK 80 million from the same period of 2010. A pre-tax loss of NOK 64 million was recorded for the first half, compared with a profit of NOK 9 million in the same six months of last year.

This weakening in results reflected the impairment charges related to the bus business, cancelled sailings, lower prices for the port-to-port product and higher fuel costs.

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 of NOK 1 137 million in the second quarter, compared with NOK 1 173 million in the same period of last year (figures for comparable periods in 2010 will be shown hereafter in brackets). This decline primarily reflected cancellations as a result of various incidents, technical faults and weather conditions along the Norwegian coast, and the cancellation of Spitsbergen cruises with mv Polar Star.

Consolidated operating revenues for the first half totalled NOK 1 935 million (NOK 1 901 million). This increase primarily reflected the fact that mv Finnmarken was on charter for the whole period, compared with only two months in the first half of 2010.

Operating expenses before depreciation and impairment for the group came to NOK 892 million (NOK 907 million) in the second quarter. This decline primarily reflected changes to pension arrangements for administrative employees as well as start-up costs for mv Finnmarken in 2010. Fuel costs went up by NOK 13 million during the quarter as a result of rising oil prices. Hurtigruten's hedging strategy has so far limited the effect of this cost increase to a considerable extent, but the earliest hedges are now maturing and being replaced by contracts on a higher level.

For the first half, the Group's operating expenses before depreciation and impairment came to NOK 1 687 million (NOK 1 621 million). The increase is primarily due to increased costs associated with cancellations, the charter contract in Australia this year has been in full operation throughout the year against only two months of the period last year and higher fuel costs because of increased oil prices. Fuel costs rose by NOK 21 million from the first half of 2010

A loss of NOK 2 million has been recognised in the quarter and the first half in relation to the sale of non-current assets. The accounts for the first half of 2010 include a sales gain of NOK 4 million related primarily to the sale of the workshop activity in the bus business.

Consolidated profit before depreciation and impairment (EBITDA) for the second quarter was NOK 243 million (NOK 266 million) and NOK 246 million in first half (NOK 283 million). The decline both for the second quarter and first half reflected the conditions described above for revenues and expenses during the period.

Depreciation and impairment totalled NOK 132 million (NOK 90 million) for the quarter and NOK 225 million (NOK 180 million) for the first half. The big increase in both the quarter and the first half reflects impairment of goodwill and operating assets for the bus business after failing to win the tender for Tromsø.

The consolidated operating profit before interest and tax (EBIT) was NOK 111 million (NOK 175 million) for the second quarter and NOK 22 million (NOK 103 million) for the first half.

Net financial expenses came to NOK 53 million (NOK 43 million) for the second quarter. The change in the quarter primarily reflected foreign exchange gains in 2010 and the payment of dividend from an associated company in the second quarter of 2010. Net financial expenses came to NOK 94 million (NOK 100 million) in the first half.

The share of profit from associated companies was NOK 2 million (NOK 1 million) for the second quarter and NOK 4 million (NOK 3 million) for the first half.

Consolidated pre-tax profit for the continued business was NOK 59 million (NOK 134 million) in the second quarter. A NOK 70 million pre-tax loss for the first half represented a decline of NOK 76 million from the same period of 2010.

Consolidated pre-tax profit for the discontinued business was NOK 3 million (NOK 8 million) in the second quarter and NOK 5 million (NOK 2 million) for the first half. Discontinued business embraces the group's two remaining fast ferries and in 2010 also including Hurtigruten's 50 per cent share of results from Nor Lines AS.

The consolidated pre-tax profit came to NOK 62 million (NOK 142 million) in the second quarter. A pre-tax loss of NOK 64 million (profit of NOK 9 million) was recorded for the first half.

### **Cash flow**

Net positive cash flow from operational activities rose by NOK 52 million for the second quarter and by NOK 136 million in the first half from the comparable periods of 2010. The increase in both the quarter and the first half reflected positive changes in working capital which derived primarily from the group's charter business. The latter was affected by preparation and mobilisation for the assignment in the first half of 2010.

Net negative cash flow from investing activities rose by NOK 39 million from the second quarter of 2010, reflecting higher investments during this year's period. Net positive cash flow from investing activities in the first half increased by NOK 85 million from the same period of last year. That reflected the settlement for the sale of the group's 50 per cent holding in Nor Lines AS and a reduction in restricted funds through freeing up frozen funds for 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 rose by NOK 96 million from the second quarter of 2010 and by NOK 178 million from the first half. The increase for both the quarter and the first half 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. Extraordinary debt redemptions were also made in the parent company.

### **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 30 June 2011 and 30 June 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 4 494 million at 30 June (31 December 2010: NOK 4 573 million). The reduction related to depreciation and impairment of property, plant and equipment, reduced by investment in the period. Impairment charges were recognised for goodwill and operating assets in the bus business following the failure to win the tender for Tromsø.

Current assets excluding assets held-for-sale at 30 June totalled NOK 1 589 million (31

December 2010: NOK 1 711 million). Working capital declined from 31 December 2010 to a positive figure of NOK 709 million at 30 June. This reduction derives mainly from reduced net receivables related to the charter for mv Finnmarken in Australia.

Liquid assets amounted to NOK 672 million at 30 June (NOK 531 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. Extraordinary debt redemptions were also made in the parent company.

At 30 June, 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 30 June amounted to NOK 3 579 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 installments 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 871 million (31 December 2010: NOK 763 million). This change related primarily to increased prepayments by customers and higher trade payables in connection with mv Finnmarken's charter in Australia.

At 30 June, the group had liabilities related to assets classified as held-for-sale of NOK 77 million (31 December 2010: NOK 83 million). This reduction reflected ordinary installments on the group's two remaining fast ferries.

Consolidated equity at 30 June was NOK 1 624 million (31 December 2010: NOK 1 658 million). The equity ratio was 26.4 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 30 June was 27.1 per cent.

### **Transactions with close associates**

Transactions with close associates (related parties) have been conducted on market terms. Close associates in this context are key personnel in the company and associate companies. No significant changes occurred during the first half in the type or size of transactions with close associates.

## **Product areas**

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

The Hurtigruten Norwegian coast product area is the largest activity in the group and accounted for about 66 per cent of its operating revenues in the second quarter. Operating regularity in the second quarter was 95.3 per cent. This lay somewhat below the target level, primarily because of cancelled sailings after the grounding of mv Kong Harald in April and propeller damage to mv Polarlys in May. The other vessels operated as normal and performance in June set a record with an operating regularity of 99.4 per cent. Total capacity was unchanged from the second quarter of 2010.

Operating regularity in the first half was 96 per cent, on a par with last year. Almost 60 per cent of variances reflected technical conditions related to mv Midnatsol as well as to the incidents mentioned above with mv Kong Harald and mv Polarlys. The oldest vessel – mv Nordstjernen – also continued to suffer technical problems during the first half. Despite a doubling in maintenance frequency for this ship compared with the newer tonnage,

achieving satisfactory regularity is demanding. Regularity for mv Lofoten has improved substantially from 2010.

Operating revenues in the second quarter came to NOK 751 million (NOK 764 million). This reduction primarily reflects cancellations owing to the incidents mentioned above as well as volume and price reductions for the port-to-port product. Cruise nights for port-to-port travel declined by six per cent in the quarter, while prices were reduced. Cruise nights for round-trip passengers in the second quarter increased by eight per cent from last year. The number of cruise nights in the second quarter was 240 087 (221 867) for the round-trip segment (Bergen-Kirkenes-Bergen) and 102 492 (108 741) for the port-to-port segment (travelling part of the route). The increased round-trip volume boosted capacity utilisation for the quarter from 82 per cent in 2010 to 86 per cent. It was no less than 105 per cent in June. Weak port-to-port prices and the strength of the Norwegian krone against the euro, pound sterling and US dollar helped to reduce net ticket revenue per cruise night by 8.7 per cent over the quarter.

Onboard revenues have increased by 5 per cent both in the second quarter and first half as a result of more cruise nights. In the second quarter of 2010 it was recorded a value added tax compensation of NOK 8 million, which offset the improvement in both second quarter and first half.

Operating revenues for the first half came to NOK 1 200 million (NOK 1 210 million). Weaker operating regularity as well as price and volume reductions for port-to-port travel again accounted for the first half decline. The volume of port-to-port travel declined by four per cent in first six months, from 180 748 cruise nights in 2010 to 174 145. Round-trip travel grew by 10 per cent, from 331 787 cruise nights to 366 083. Weak prices achieved for the port-to-port product and a stronger krone against the euro, pound sterling and US dollar again contributed to a reduction of 8.8 per cent in net passenger revenue per cruise night for the first half.

Operating expenses came to NOK 608 million for the second quarter (NOK 597 million). This increase derived mainly from higher crew and fuel costs. The fuel costs were up by NOK 21 million from the year before, reflecting the development in oil prices. Sales and administrative expenses declined by NOK 30 million as a result of changes to pension arrangements for administrative employees.

First-half operating expenses amounted to NOK 1 107 million (NOK 1 073 million). The increase reflected the same factors which affected the second quarter.

EBITDA was NOK 142 million (NOK 167 million) for the second quarter and NOK 93 million (NOK 137 million) for the first half.

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

Mv Fram conducted Europe cruises during April and May, and pursued Greenland cruise operations from June. That represents a change from 2010, when the vessel spent the first part of the summer season in Spitsbergen and the second part off Greenland. This makes it difficult to compare results for explorer products and Spitsbergen in the second quarter. Mv Fram was chartered to the Spitsbergen Travel AS subsidiary in 2010 for the explorer-cruises at Spitsbergen. Comments on these product areas are accordingly based on key performance indicators (KPIs).

Cruise nights for mv Fram in the second quarter totalled 17 087 (16 668) for the period, an improvement of 2.5 per cent from 2010. Prices achieved during the period were also two per cent higher than last year.

#### ***Spitsbergen***

Comparing second-quarter results for the Spitsbergen product area with the same period of last year is difficult. Both mv Fram and mv Polar Star were part of this area in June 2010. During 2011, mv Fram first began operating in Spitsbergen during July and then as part of the explorer products area. Operating revenues for the quarter came to NOK 45 million (NOK 86 million).

Mv Polar Star had to cancel its whole Spitsbergen season after its owner, Karlsen Shipping, went into liquidation in May and the vessel was arrested at the yard in Las Palmas. Changes to the Spitsbergen cruises also had consequences for hotel turnover. In addition, margins on groups were somewhat reduced because a large proportion are sold via travel agencies in Norway. This led to a reduction in EBITDA to NOK 9 million (NOK 27 million).

First-half revenues declined by NOK 36 million to NOK 82 million. EBITDA came to NOK 9 million, down NOK 17 million from the first six months of 2010.

### **Charter**

Activities related to mv Finnmarken were classified from 1 January 2010 as a separate, newly established product area. Comparisons with figures for 2010 must take account of the fact that the first quarter and part of the second in 2010 were affected by preparation and mobilisation of mv Finnmarken for the job as hotel ship on the Gorgon field off western Australia. The vessel sailed from Norway on 15 January and arrived at Fremantle in Australia on 2 March. During this period, the charterer paid a mobilisation fee. The ship has been in full operation under the charter since 30 April 2010. That meant it also served on full day rates throughout the first half of 2011. The charter runs until 30 October 2011. The charterer has a unilateral option to extend the contract for a further 18 months from that date on the same terms as the first 18 months. This option must be exercised by 31 August. If that is not done, the ship will be back on the Norwegian coast from 2012.

EBITDA for the second quarter was NOK 58 million, up NOK 16 million from the year before because the charter commenced in the middle of the period in 2010.

First-half EBITDA for charter was NOK 92 million (NOK 54 million). That again reflects the fact that mv Finnmarken was only on full charter for two months of last year's first half as against all six months in 2011.

### **Other business**

Other business comprises Hurtigruten's involvement in bus services through Cominor AS and some minor companies. Operations were normal during the second quarter. Operating revenues for the quarter were NOK 105 million (NOK 112 million). EBITDA was NOK 23 million (NOK 31 million).

Cominor sold its workshop activity in the first quarter of 2010, yielding an accounting gain of NOK 3 million last year. EBITDA for the first half came to NOK 29 million (NOK 46 million). The profit decline reflects the loss of income and expenses after the failure to win competitive tenders for the regional services Narvik – Tromsø – Alta, increased fuel costs and repair and maintenance costs.

AS TIRB and its Cominor subsidiary are still under investigation following criminal charges laid by Troms county council in May 2009. These relate to ambiguities over the remuneration of casual support driving, and the police are expected to reach a final decision in the near future.

### **Discontinued business**

The fast ferry business in Troms was wound up at 31 December 2009. Since 1 January 2010, the company's two remaining fast ferries have been chartered to Boreal Transport Nord AS (formerly Veolia Transport Nord AS) as the new operator of the Tromsø-Harstad

service. This charterparty terminated at 2 July 2011. The 2010 figures include results from Hurtigruten's holding in Nor Lines AS, which was sold on 31 December last year.

Pre-tax profit for discontinued business in the first half came to NOK 5 million (NOK 2 million). This improvement reflects the loss in Nor Lines AS for the first six months of 2010.

## **Key risk and uncertainty factors in the second half**

### **Currency risk**

The group is exposed to currency risk in multiple currencies. This risk is especially relevant in relation to the euro (EUR), US dollar (USD), pound sterling (GBP) and Australian dollar (AUD). Currency risk arises from ticket sales in foreign currencies and charter contracts as well as balance sheet assets and liabilities. Fuel costs are quoted in USD. The group's strategy is to hedge 40-80 per cent of the net exposure in the main currencies for the next one-two years through the use of transparent and liquid financial derivatives, usually futures contracts. The group will seek to achieve a "natural hedge" if loans are refinanced, where new borrowings will be nominated in the currencies in which the group has an exposed cash flow.

The strong exchange rate for the Norwegian krone during much of 2011 compared with the previous year has meant that revenues in this currency have not increased at the same pace as the volume of business.

### **Interest rate risk**

The group's interest rate risk relates to non-current debt. Loans with a floating interest rate present a risk to the total cash flow for the group. The group manages part of its interest rate risk through floating-to-fixed interest rate hedges. Such interest rate swaps involve converting loans with floating interest rates to fixed-interest loans. Through these swaps, the group enters into contracts with other parties to swap the difference between the contract's fixed interest rate and the amount of the floating interest rate calculated on the agreed principal.

### **Liquidity risk**

Hurtigruten's business is highly seasonal, with just under 50 per cent of its total revenues earned in the May-August period. The first and fourth quarter are weak in terms of income and liquidity. This means that the group has a substantial liquidity surplus and balance after the summer season, which is utilised during the winter.

### **Increases in bunker prices**

Fuel accounts for a significant proportion of expenses in all transport activities. The effects of increased fuel and oil prices can be substantial, and higher fuel prices will reduce the group's results. The cost of bunkers forms one element in the annual regulation mechanism in Hurtigruten's public procurement contract with the government. Nevertheless, the risk rests primarily on the group, which seeks to reduce this by hedging bunker volumes for the next 18 months. This is done by entering into quarterly rolling hedge contracts for 20-60 per cent of estimated future consumption for four-six future quarters, where a larger share of consumption is hedged in the near future and a smaller share further ahead.

### **Cruise industry developments**

A large proportion of Hurtigruten's revenues derives from the cruise segment along the Norwegian coast and from mv Fram. After the financial crisis led to some decline for the cruise industry, demand was growing in 2010. Markets are again uncertain this year following the unrest in north Africa and the economic problems in southern Europe and the USA.

### **ESA investigation of Hurtigruten's public procurement contract**

The Norwegian government gave Hurtigruten ASA a contract in 2004 to deliver transport services along the Norwegian coast between Bergen and Kirkenes. Awarded on the basis of competitive tendering, this contract ran from 2005-12. Compensation to Hurtigruten was increased in October 2008 for the remaining contractual period through refunding 90 per cent of the nitrogen oxides tax, a general compensation for increased costs and the opportunity to reduce the number of ships in service during the winter from 11 to 10. The Efta Surveillance Authority (ESA) opened a formal investigation in July 2010 to check whether the supplementary agreement entered into in 2008 accorded with the European Economic Area's rules on state subsidies.

The ESA has now concluded that the supplementary compensation given to Hurtigruten by the government in 2008 was not awarded in accordance with the EEA's rules. Hurtigruten has subjected the ESA's decision and the reasons for its judgement to detailed study, and concluded that an appeal will be lodged.

At 30 June 2011, Hurtigruten had recorded about NOK 333 million as revenues under the supplementary contract and had received about NOK 130 million of this sum. It is not clear how much of the supplementary agreement is regarded by the ESA as an illegal government subsidy.

### **Unresolved investigation**

AS TIRB and its Cominor subsidiary are still under investigation following criminal charges laid by Troms county council in May 2009. These relate to ambiguities over the remuneration of casual support driving. The police are expected to reach a final decision in the near future.

### **Outlook**

Hurtigruten's challenges in the first half were maritime operations and the development of sales in the Norwegian market. Signs of improvement can be seen in both areas. Operations have been stable in recent months, and the TV program Hurtigruten minute by minute has led to a sharp increase in sales for 2012 – particularly in the Norwegian market. A good booking base has been laid for next year.

Unrest in North Africa and the economic problems in southern Europe and the USA have presented challenges for the cruise business in general. Against that background, it is encouraging to note that Hurtigruten's round-trip product increased in volume during every month of the first half.

Hurtigruten's net result for 2011 will be weak as a result of special conditions in the first half (impairment charges in the bus business and cancellations). In the longer term, it is positive that revenues from the tourist segment are growing, the ships are being better utilised and the group will start a new contract with the government at 1 January 2012 which alone provides some NOK 300 million in additional income annually over the next few years.

Narvik, 17 August 2011  
The board of directors

## HURTIGRUTEN GROUP

### Consolidated income statement

(NOK 1 000)

	Note	2nd quarter 2011	2nd quarter 2010	Year to date 2011	Year to date 2010
Operating revenues		1 028 575	1 065 757	1 619 928	1 582 117
Contractual revenues	6	108 216	106 946	314 817	318 463
<b>Total revenues</b>		<b>1 136 790</b>	<b>1 172 704</b>	<b>1 934 746</b>	<b>1 900 580</b>
Payroll costs		260 242	255 338	548 403	493 400
Depreciation and impairment		132 196	90 322	225 108	180 018
Other operating expenses	6	631 838	651 989	1 138 316	1 127 873
Other losses/(gains) - net		1 798	(314)	1 798	(3 615)
<b>Operating profit/(loss)</b>		<b>110 717</b>	<b>175 370</b>	<b>21 121</b>	<b>102 905</b>
<b>Operating profit/(loss) before depreciation and impairment</b>		<b>242 913</b>	<b>265 691</b>	<b>246 229</b>	<b>282 923</b>
Finance income		8 064	23 581	27 141	36 580
Finance expenses		(61 461)	(66 417)	(121 536)	(136 458)
<b>Finance expenses - net</b>		<b>(53 398)</b>	<b>(42 836)</b>	<b>(94 395)</b>	<b>(99 878)</b>
Share of profit/(loss) of associates		1 894	1 400	3 705	3 453
<b>Profit/(loss) before income tax from continuing business</b>		<b>59 213</b>	<b>133 933</b>	<b>(69 569)</b>	<b>6 480</b>
Income tax expense from continuing business		17 381	33 024	(17 392)	1 273
<b>Profit/(loss) from continuing business</b>		<b>41 832</b>	<b>100 909</b>	<b>(52 176)</b>	<b>5 207</b>
Profit/(loss) before income tax on discontinued business	2	2 696	8 309	5 168	2 097
Income tax expense on discontinued business	2	829	2 077	1 447	524
<b>Profit/(loss) for the period</b>		<b>43 700</b>	<b>107 141</b>	<b>(48 456)</b>	<b>6 780</b>
Attributable to minority interest		202	5 149	5 442	11 029
<b>Earnings per share for profit attributable to the equity holders of the company</b>					
<b>Earnings per share (NOK):</b>					
Continuing business		0,10	0,23	(0,14)	(0,02)
Discontinued business		0,00	0,01	0,01	0,00
<b>Total</b>		<b>0,10</b>	<b>0,24</b>	<b>(0,13)</b>	<b>(0,01)</b>
<b>Diluted earnings per share (NOK):</b>					
Continuing business		0,10	0,23	(0,14)	(0,02)
Discontinued business		0,00	0,01	0,01	0,00
<b>Total</b>		<b>0,10</b>	<b>0,24</b>	<b>(0,13)</b>	<b>(0,01)</b>

**Consolidated statement of comprehensive income**

(NOK 1 000)

	Note	2nd quarter 2011	2nd quarter 2010	Year to date 2011	Year to date 2010
Profit/(loss) for the period		43 700	107 141	(48 456)	6 780
<b>Other comprehensive income:</b>					
Cash flow hedges		(14 426)	3 345	9 688	(878)
Currency translation differences		833	2 264	4 411	(76)
Other equity adjustments		-	(7 383)	-	-
Other comprehensive income		(13 593)	(1 774)	14 099	(954)
<b>Total comprehensive income</b>		<b>30 107</b>	<b>105 367</b>	<b>(34 357)</b>	<b>5 826</b>
<b>Attributable to:</b>					
Equity holders of the company		29 905	100 218	(39 799)	(5 203)
Minority interests		202	5 149	5 442	11 029
<b>Total comprehensive income</b>		<b>30 107</b>	<b>105 367</b>	<b>(34 357)</b>	<b>5 826</b>

**Consolidated balance sheet**

(NOK 1 000)

	Note	30.06.2011	01.01.2011	01.01.2010
<b>Assets</b>				
Tangible non-current assets		4 073 915	4 163 328	4 347 691
Intangible non-current assets		246 445	259 526	247 817
Investments in associates		40 075	36 705	136 478
Deferred income tax assets		84 708	69 789	53 862
Derivative financial instruments		18 026	12 677	-
Trade and other receivables		31 071	30 816	62 312
<b>Total non-current assets</b>		<b>4 494 240</b>	<b>4 572 841</b>	<b>4 848 160</b>
Inventories		72 628	72 918	75 340
Trade and other receivables		831 604	885 271	349 778
Derivative financial instruments		12 792	21 633	8 537
Cash and cash equivalents		672 242	731 109	800 116
		1 589 266	1 710 931	1 233 770
Assets of disposal group classified as held-for-sale	2	68 076	68 076	110 748
<b>Total current assets</b>		<b>1 657 342</b>	<b>1 779 007</b>	<b>1 344 518</b>
<b>Total assets</b>		<b>6 151 582</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	142 935	129 059	117 613
Retained earnings/(uncovered loss)	5	33 041	86 716	89 801
<b>Sum of capital and reserves attributable to equity holders of the company</b>		<b>1 330 565</b>	<b>1 370 364</b>	<b>1 362 002</b>
Minority interest in equity		293 568	288 126	282 663
<b>Total equity</b>		<b>1 624 133</b>	<b>1 658 490</b>	<b>1 644 665</b>
Borrowings	5	3 492 052	3 682 801	3 687 543
Derivative financial instruments		12 978	18 041	15 766
Deferred income tax liabilities		13 367	13 367	25 099
Retirement benefit obligations		47 179	126 721	117 739
Provisions for other liabilities and charges		13 916	5 617	5 783
<b>Total non-current liabilities</b>		<b>3 579 492</b>	<b>3 846 548</b>	<b>3 851 930</b>
Trade and other payables		835 863	716 604	529 297
Current income tax liabilities		6 065	13 419	7 484
Borrowings		15 785	15 785	13 884
Derivative financial instruments		12 471	17 102	20 739
Provisions for other liabilities and charges		1 105	566	15 000
		871 290	763 477	586 404
Liabilities of disposal group classified as held-for-sale	2	76 667	83 333	109 679
<b>Total current liabilities</b>		<b>947 957</b>	<b>846 811</b>	<b>696 084</b>
<b>Total liabilities</b>		<b>4 527 449</b>	<b>4 693 358</b>	<b>4 548 013</b>
<b>Total equity and liabilities</b>		<b>6 151 582</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>1 370 364</b>	288 126	<b>1 658 490</b>
Profit/(loss) for the period		-	-	-	(53 675)	<b>(53 675)</b>	5 219	<b>(48 456)</b>
<b>Other comprehensive income</b>								
Currency translation differences		-	-	4 411	-	<b>4 411</b>	-	<b>4 411</b>
Cash flow hedges		-	-	9 465	-	<b>9 465</b>	223	<b>9 688</b>
<b>Other comprehensive income</b>		-	-	13 876	-	<b>13 876</b>	223	<b>14 099</b>
<b>Total comprehensive income</b>		-	-	13 876	(53 675)	<b>(39 799)</b>	5 442	<b>(34 357)</b>
<b>Balance at 31 March 2011</b>		419 966	734 622	142 935	33 041	<b>1 330 565</b>	293 568	<b>1 624 133</b>

**Consolidated cash flow statement**

(NOK 1 000)

2nd quarter 2011    2nd quarter 2010    Year to date 2011    Year to date 2010

**Cash generated from operations**

Profit/(loss) before income tax from continuing and discontinued business	61 909	142 242	(64 401)	8 577
Adjusted for:				
Depreciation and impairment on continuing and discontinued business	132 196	90 322	225 108	180 018
Other (losses)/gain - net	1 798	(314)	1 798	(3 615)
Exchange (losses)/gains unrealised	(2 727)	5 673	(6 436)	(142)
Interest expenses	50 220	54 618	99 262	113 659
Share of profit/loss of associates on continuing and discontinued business	(1 894)	(429)	(3 705)	4 230
Difference between expensed pension and payments	(21 207)	8 124	(27 204)	8 124
Change in working capital:				
Inventories	2 263	(761)	289	5 185
Trade and other receivables	132 162	(374 912)	(35 645)	(488 380)
Net adjustments on financial assets through income statement	7 731	(10 706)	4 036	(5 851)
Trade and other payables	(128 608)	293 507	91 856	348 997
<b>Cash flow from operations</b>	<b>233 844</b>	<b>207 364</b>	<b>284 959</b>	<b>170 801</b>
Interest paid	(47 286)	(65 651)	(100 661)	(121 888)
Income tax paid	131	(7 484)	(7 353)	(7 484)
<b>Net cash flow from operating activities</b>	<b>186 689</b>	<b>134 228</b>	<b>176 944</b>	<b>41 430</b>

**Cash flows from investing activities**

Purchases of property, plant and equipment (PPE)	(58 589)	(28 545)	(99 490)	(54 458)
Proceeds from sale of PPE	162	-	162	21 311
Purchases of intangible assets	(14 527)	(5 639)	(23 590)	(8 279)
Loan to associates	-	700	-	700
Proceeds from purchase of shares	(995)	-	(995)	-
Proceeds from sale of shares	10 000	-	90 000	-
Net liquid assets from purchase and sale of businesses	-	(1 046)	-	(1 046)
Change in restricted funds	(9 179)	343	97 218	20 189
<b>Net cash used in investing activities</b>	<b>(73 128)</b>	<b>(34 186)</b>	<b>63 305</b>	<b>(21 584)</b>

**Cash flows from financing activities**

Proceeds from borrowings	5 000	-	5 000	-
Repayment of borrowings	(107 425)	(6 545)	(202 861)	(19 688)
<b>Net cash used in financing activities</b>	<b>(102 425)</b>	<b>(6 545)</b>	<b>(197 861)</b>	<b>(19 688)</b>

**Net (decrease)/increase in cash, cash equivalents and bank overdrafts**

Net (decrease)/increase in cash, cash equivalents and bank overdrafts	11 137	93 496	42 388	158
Cash, cash equivalents and bank overdrafts at beginning of period, excluding restricted cash	527 133	459 511	492 187	557 704
Exchange gains/(losses) on cash and bank overdrafts	(7 731)	10 706	(4 036)	5 851
<b>Cash, cash equivalents and bank overdrafts at end of period</b>	<b>530 539</b>	<b>563 713</b>	<b>530 539</b>	<b>563 713</b>

**SEGMENT INFORMATION**

(NOK 1 000)	HURTIGRUTEN NORWEGIAN COAST				EXPLORER PRODUCTS			
	2nd quarter 2011	2nd quarter 2010	Year to date 2011	Year to date 2010	2nd quarter 2011	2nd quarter 2010	Year to date 2011	Year to date 2010
Operating revenues	696 486	708 946	991 357	997 545	63 941	39 490	127 149	108 701
Contractual revenues	54 259	55 162	208 517	212 394	-	-	-	-
<b>Total revenues</b>	<b>750 745</b>	<b>764 108</b>	<b>1 199 874</b>	<b>1 209 939</b>	<b>63 941</b>	<b>39 490</b>	<b>127 149</b>	<b>108 701</b>
Payroll costs	149 409	163 763	307 838	311 839	5 723	8 948	15 351	17 766
Depreciation and impairment	62 140	59 908	124 472	118 854	4 741	4 615	9 423	9 220
Other operating expenses	459 082	433 006	799 009	760 698	46 955	32 018	89 371	71 588
Other losses/(gains) - net	-	-	-	-	-	-	-	-
<b>Operating profit/(loss)</b>	<b>80 114</b>	<b>107 431</b>	<b>(31 445)</b>	<b>18 548</b>	<b>6 522</b>	<b>(6 091)</b>	<b>13 004</b>	<b>10 127</b>
Finance expenses - net	(39 033)	(29 373)	(67 104)	(72 214)	(5 693)	(5 489)	(11 410)	(10 808)
Share of profit/(loss) of associates	-	-	-	-	-	-	-	-
<b>Profit/(loss) before income tax from continuing business</b>	<b>41 081</b>	<b>78 058</b>	<b>(98 549)</b>	<b>(53 666)</b>	<b>829</b>	<b>(11 580)</b>	<b>1 594</b>	<b>(681)</b>
Profit/(loss) before income tax on discontinued business	-	-	-	-	-	-	-	-
<b>Profit/(loss) before income tax</b>	<b>41 081</b>	<b>78 058</b>	<b>(98 549)</b>	<b>(53 666)</b>	<b>829</b>	<b>(11 580)</b>	<b>1 594</b>	<b>(681)</b>
<b>Operating profit/(loss) before depreciation and impairment</b>	<b>142 254</b>	<b>167 339</b>	<b>93 027</b>	<b>137 402</b>	<b>11 263</b>	<b>(1 476)</b>	<b>22 427</b>	<b>19 347</b>

**SEGMENT INFORMATION**

(NOK 1 000)	SPITSBERGEN				CHARTER			
	2nd quarter 2011	2nd quarter 2010	Year to date 2011	Year to date 2010	2nd quarter 2011	2nd quarter 2010	Year to date 2011	Year to date 2010
Operating revenues	44 929	85 726	81 925	118 161	174 693	188 170	321 888	261 898
Contractual revenues	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>44 929</b>	<b>85 726</b>	<b>81 925</b>	<b>118 161</b>	<b>174 693</b>	<b>188 170</b>	<b>321 888</b>	<b>261 898</b>
Payroll costs	12 520	11 647	24 749	22 892	54 239	30 015	108 958	46 789
Depreciation and impairment	3 051	3 064	6 652	6 641	8 600	8 685	17 189	17 656
Other operating expenses	23 691	46 838	47 740	68 755	62 760	116 295	120 545	161 278
Other losses/(gains) - net	-	-	-	-	-	-	-	-
<b>Operating profit/(loss)</b>	<b>5 667</b>	<b>24 177</b>	<b>2 784</b>	<b>19 873</b>	<b>49 094</b>	<b>33 175</b>	<b>75 196</b>	<b>36 175</b>
Finance expenses - net	192	157	442	215	(8 201)	(7 526)	(15 213)	(15 690)
Share of profit/(loss) of associates	-	-	-	-	-	-	-	-
<b>Profit/(loss) before income tax from continuing business</b>	<b>5 859</b>	<b>24 334</b>	<b>3 226</b>	<b>20 088</b>	<b>40 893</b>	<b>25 649</b>	<b>59 983</b>	<b>20 485</b>
Profit/(loss) before income tax on discontinued business	-	-	-	-	-	-	-	-
<b>Profit/(loss) before income tax</b>	<b>5 859</b>	<b>24 334</b>	<b>3 226</b>	<b>20 088</b>	<b>40 893</b>	<b>25 649</b>	<b>59 983</b>	<b>20 485</b>
<b>Operating profit/(loss) before depreciation and impairment</b>	<b>8 718</b>	<b>27 241</b>	<b>9 436</b>	<b>26 514</b>	<b>57 694</b>	<b>41 860</b>	<b>92 385</b>	<b>53 831</b>

**SEGMENT INFORMATION**

(NOK 1 000)	OTHER BUSINESS				ELIMINATIONS			
	2nd quarter 2011	2nd quarter 2010	Year to date 2011	Year to date 2010	2nd quarter 2011	2nd quarter 2010	Year to date 2011	Year to date 2010
Operating revenues	51 458	59 774	101 250	115 546	(2 933)	(16 350)	(3 641)	(19 735)
Contractual revenues	53 957	51 784	106 300	106 069	-	-	-	-
<b>Total revenues</b>	<b>105 415</b>	<b>111 558</b>	<b>207 550</b>	<b>221 615</b>	<b>(2 933)</b>	<b>(16 350)</b>	<b>(3 641)</b>	<b>(19 735)</b>
Payroll costs	38 349	40 966	91 507	94 114	-	-	-	-
Depreciation and impairment	53 664	14 049	67 372	27 646	-	-	-	-
Other operating expenses	42 284	40 182	85 292	85 289	(2 933)	(16 350)	(3 641)	(19 735)
Other losses/(gains) - net	1 798	(314)	1 798	(3 615)	-	-	-	-
<b>Operating profit/(loss)</b>	<b>(30 680)</b>	<b>16 675</b>	<b>(38 419)</b>	<b>18 181</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Finance expenses - net	(663)	(605)	(1 110)	(1 381)	-	-	-	-
Share of profit/(loss) of associates	1 894	1 400	3 705	3 453	-	-	-	-
<b>Profit/(loss) before income tax from continuing business</b>	<b>(29 449)</b>	<b>17 470</b>	<b>(35 824)</b>	<b>20 253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Profit/(loss) before income tax on discontinued business	2 696	8 309	5 168	2 097	-	-	-	-
<b>Profit/(loss) before income tax</b>	<b>(26 753)</b>	<b>25 779</b>	<b>(30 656)</b>	<b>22 350</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating profit/(loss) before depreciation and impairment</b>	<b>22 984</b>	<b>30 724</b>	<b>28 953</b>	<b>45 827</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**SEGMENT INFORMATION**

(NOK 1 000)	HURTIGRUTEN GROUP			
	2nd quarter 2011	2nd quarter 2010	Year to date 2011	Year to date 2010
Operating revenues	1 028 575	1 065 757	1 619 928	1 582 117
Contractual revenues	108 216	106 946	314 817	318 463
<b>Total revenues</b>	<b>1 136 790</b>	<b>1 172 704</b>	<b>1 934 746</b>	<b>1 900 580</b>
Payroll costs	260 242	255 338	548 403	493 400
Depreciation and impairment	132 196	90 322	225 108	180 018
Other operating expenses	631 838	651 989	1 138 316	1 127 873
Other losses/(gains) - net	1 798	(314)	1 798	(3 615)
<b>Operating profit/(loss)</b>	<b>110 717</b>	<b>175 370</b>	<b>21 121</b>	<b>102 905</b>
Finance expenses - net	(53 398)	(42 836)	(94 395)	(99 878)
Share of profit/(loss) of associates	1 894	1 400	3 705	3 453
<b>Profit/(loss) before income tax from continuing business</b>	<b>59 213</b>	<b>133 933</b>	<b>(69 569)</b>	<b>6 480</b>
Profit/(loss) before income tax on discontinued business	2 696	8 309	5 168	2 097
<b>Profit/(loss) before income tax</b>	<b>61 909</b>	<b>142 242</b>	<b>(64 401)</b>	<b>8 577</b>
<b>Operating profit/(loss) before depreciation and impairment</b>	<b>242 913</b>	<b>265 691</b>	<b>246 229</b>	<b>282 923</b>

## Non-GAAP financial information Hurtigruten Norwegian coast

(NOK 1 000, except passenger CN)	Q2 2011	Q2 2010	YTD 2011	YTD 2010
Passenger cruise nights	<b>342 579</b>	330 608	540 228	512 535
Round trip cruise nights	<b>240 087</b>	221 867	366 083	331 787
Port to port cruise nights	<b>102 492</b>	108 741	174 145	180 748
Available passenger cruise nights (APCN)	<b>397 854</b>	403 318	739 694	750 004
Occupancy rate	<b>86,1 %</b>	82,0 %	73,0 %	68,3 %
Passenger ticket revenues	<b>542 320</b>	569 450	750 217	782 791
Onboard revenues	<b>118 019</b>	119 847	181 644	180 413
<b>Total revenues</b>	<b>660 339</b>	689 297	931 861	963 204
Less:				
Commissions, transportation and other	<b>132 938</b>	137 672	200 253	212 046
Onboard	<b>77 666</b>	76 323	121 552	116 625
<b>Net revenues</b>	<b>449 735</b>	475 302	610 056	634 533
Gross ticket revenues per cruise night (NOK)	<b>1 928</b>	2 085	1 725	1 879
Net ticket revenues per cruise night (NOK)	<b>1 313</b>	1 438	1 129	1 238
Total cruise operating expenses	<b>532 173</b>	489 697	914 281	847 216
Selling, general and administrative expenses	<b>76 318</b>	106 629	192 566	224 878
<b>Gross cruise costs</b>	<b>608 491</b>	596 326	1 106 847	1 072 094
Less:				
Commissions, transportation and other	<b>132 938</b>	137 672	200 253	212 046
Onboard	<b>77 666</b>	76 323	121 552	116 625
<b>Net cruise costs</b>	<b>397 887</b>	382 331	785 042	743 423
Gross cruise costs per APCN (NOK)	<b>1 529</b>	1 479	1 496	1 429
Net cruise costs per APCN (NOK)	<b>1 000</b>	948	1 061	991
Net cruise costs exclusive fuel per APCN (NOK)	<b>773</b>	775	845	821
Net cruise costs per cruise night (NOK)	<b>1 161</b>	1 156	1 453	1 450
Fuel consumption litre/nautical mile	<b>75,6</b>	76,0	76,6	77,3
Fuel cost per litre (NOK)	<b>4,70</b>	3,68	4,45	3,55

## 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**

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.

#### *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 30 June 2011 and 31 December 2010.

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

(NOK 1 000)	30.06.2011	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	76 667	83 333
<b>Liabilities on assets held-for-sale</b>	<b>76 667</b>	<b>83 333</b>

#### *Discontinued business*

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)	2nd quarter 2011	2nd quarter 2010	YTD 2011	YTD 2010
Operating revenue	4 542	8 094	8 862	13 848
Payroll costs	-	-	-	897
Depreciation and impairment	-	-	-	-
Other operating costs	1 113	(1 953)	2 220	1 003
Other losses/(gains) - net	-	23	-	635
<b>Operating profit/(loss)</b>	<b>3 430</b>	<b>10 023</b>	<b>6 643</b>	<b>11 313</b>
Financial income	-	-	-	-
Financial costs	733	743	1 475	1 533
<b>Finance costs - net</b>	<b>(733)</b>	<b>(743)</b>	<b>(1 475)</b>	<b>(1 533)</b>
Share of profit/(loss) of associates	-	(971)	-	(7 683)
<b>Profit/(loss) before income tax</b>	<b>2 697</b>	<b>8 309</b>	<b>5 168</b>	<b>2 097</b>
Income tax expense	829	2 077	1 447	524
<b>Profit/(loss)</b>	<b>1 868</b>	<b>6 232</b>	<b>3 721</b>	<b>1 573</b>

Net cash flow for discontinued business appears as follows:

(NOK 1 000)	2nd quarter 2011	2nd quarter 2010	YTD 2011	YTD 2010
Net cash flow from operations	2 696	9 303	2 696	9 303
Net cash used in investing activities	-	21 311	-	21 311
Net cash used in financing activities	(3 333)	(3 333)	(3 333)	(3 333)
<b>Total net cash flow</b>	<b>(637)</b>	<b>27 281</b>	<b>(637)</b>	<b>27 281</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 installment will fall due between March 2009 and December 2011. The deferred installments are to be repaid on a pro rata basis together with the remaining installments 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 installment payment has been made under the "cash sweep" agreement in 2010, nor by the end of the first quarter of 2011.

In the first quarter Hurtigruten ASA has made an extraordinary redemption of the installment 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. There has also been made an extraordinary redemption on debt in Hurtigruten ASA in the second quarter.

### **Note 6 Contingencies**

#### *Membership in the NOx Fund*

NOK 7 million in nitrogen oxide tax was charged to the first half accounts for 2011 (2010: NOK 7 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 the period.

A new environmental agreement was signed on the 14<sup>th</sup> 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 gave Hurtigruten ASA a contract in 2004 to deliver transport services along the Norwegian coast between Bergen and Kirkenes. Awarded on the basis of competitive tendering, this contract ran from 2005-12. Compensation to Hurtigruten was increased in October 2008 for the remaining contractual period through refunding 90 per cent of the nitrogen oxides tax, a general compensation for increased costs and the opportunity to reduce the number of ships in service during the winter from 11 to 10. The Efta Surveillance Authority (ESA) opened a formal investigation in July 2010 to check whether the supplementary agreement entered into in 2008 accorded with the European Economic Area's rules on state subsidies.

The ESA has now concluded that the supplementary compensation given to Hurtigruten by the government in 2008 was not awarded in accordance with the EEA's rules. Hurtigruten has subjected the ESA's decision and the reasons for its judgement to detailed study, and concluded that an appeal will be lodged.

At 30 June 2011, Hurtigruten had recorded about NOK 333 million as revenues under the supplementary contract and had received about NOK 130 million of this sum. It is not clear how much of the supplementary agreement is regarded by the ESA as an illegal government subsidy.

*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. The police are expected to reach a final decision in the near future. TIRB and Cominor are in the view that the claim is groundless.

**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 land based Svalbard operation has a main season reaching from March through August. The activity is operated by the subsidiary Spitsbergen Travel group.