

Third quarter report 2020 Hurtigruten Cruise AS



Hurtigruten Cruise AS Interim Financial Statements

Published 26 November 2020

Key Figures ^{1,2}

<i>(EUR 1 000)</i>	Q3 2020	Q3 2019	% Change	01.01-30.09 2020	01.01-30.09 2019	% Change	Full year 2019
Operating revenue	35,474	103,940	-65.9 %	97,770	234,313	-58.3 %	296,567
Contractual revenues	19,928	18,353	8.6 %	60,116	55,381	8.6 %	72,696
Total revenue	55,401	122,292	-54.7 %	157,886	289,693	-45.5 %	369,264
EBITDA	(11,854)	42,637	-127.8 %	(47,569)	75,648	-162.9 %	68,532
Other gains/(losses) – net	(7,568)	(931)	-713.1 %	(18,525)	(3,534)	-424.2 %	(4,402)
EBITDA excl Other gains (losses)	(4,286)	43,567	-109.8 %	(29,045)	79,182	-136.7 %	72,934

¹ The figures presented in this report are unaudited.

² On January 1st, 2020, the Company changed its functional currency to Euro. See note 2 to the Interim Financial Statements.

About Hurtigruten Cruise AS

Hurtigruten Cruise AS, is the ship manager, operator and owner of the Hurtigruten Group cruise operations, which is the world leader expedition travel. With an operating fleet of 16 custom-built expedition cruise vessels in the Group

About Hurtigruten Group

Hurtigruten is the world's leading expedition cruise and adventure travel company, with a fleet of 16 expedition cruise vessels, where the new tailor-made expedition cruise vessels MS Roald Amundsen was delivered in June 2019, and MS Fridtjof Nansen was delivered in December 2019. Hurtigruten opens a unique gateway to experiences all over the world from the Arctic to warmer waters and down to Antarctica and along the Norwegian coast to travelers from all over the world. Hurtigruten's operations builds on a rich heritage, having connected the many coastal communities in Norway since 1893 and has operated expedition cruises since 1896 with the first sailing from Hammerfest to Svalbard. Today, Hurtigruten combines a deeply rooted desire to offer genuine local experiences while leaving a smaller footprint when shaping the future of the growing expedition cruise market. For more information on Hurtigruten, please visit <http://www.hurtigruten.no/>

Interim financial statements

Statement of profit and loss

Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	Q3 2020	Q3 2019	01.01-30.09 2020	01.01-30.09 2019	Full year 2019
Operating revenues		35,474	103,940	97,770	234,313	296,567
Contractual revenues		19,928	18,353	60,116	55,381	72,696
Total Revenues		55,401	122,292	157,886	289,693	369,264
Payroll costs		(2,803)	(2,715)	(8,363)	(5,890)	(8,950)
Depreciation, amortisation and impairment		(8,533)	(8,147)	(25,079)	(25,092)	(33,036)
Operating costs		(56,884)	(76,010)	(178,568)	(204,622)	(287,380)
Other (losses)/gains – net		(7,568)	(931)	(18,525)	(3,534)	(4,402)
Operating profit/(loss)		(20,387)	34,490	(72,648)	50,555	35,496
Operating profit/(loss) before depreciation, amortisation and impairment losses (EBITDA)		(11,854)	42,637	(47,569)	75,648	68,532
Finance income		11,111	918	21,975	1,236	6,229
Finance expenses		(6,292)	(1,769)	(18,408)	(2,543)	(7,756)
Net financial items	3	4,819	(851)	3,566	(1,307)	(1,527)
Profit/(loss) before income tax		(15,568)	33,639	(69,082)	49,249	33,969
Income tax expense		-	-	-	-	(126)
Profit/(loss) for the period		(15,568)	33,639	(69,082)	49,249	33,844

Statement of financial position

Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	30.9. 2020	30.9. 2019	31.12. 2019
ASSETS				
Non-current assets				
Property, plant and equipment	5	422,704	367,033	391,095
Intangible assets	5	344	218	209
Loans to Group companies		6,992	-	-
Other non-current assets		15	15	15
Total non-current assets		430,055	367,266	391,319
CURRENT ASSETS				
Inventories		6,382	7,364	8,501
Trade and other receivables		10,873	5,773	14,598
Intragroup trade and other receivables		35,520	58,715	89,853
Derivative financial instruments		-	-	414
Cash and cash equivalents		103,047	84,621	54,050
Total current assets		155,822	156,472	167,416
Total assets		585,877	523,738	558,735
EQUITY				
Paid -in capital		400,229	398,852	400,229
Other equity		(54,420)	42,082	12,173
Total equity	4	345,810	440,934	412,402
LIABILITIES				
Non-current liabilities				
Intragroup non-current interest bearing liabilities		42,910	46,041	45,276
Derivative financial instruments		281	4,081	768
Total non-current liabilities		43,191	50,122	46,043
Current liabilities				
Trade and other liabilities		25,181	22,370	48,682
Intragroup trade and other liabilities		163,356	7,715	49,329
Derivative financial instruments		8,190	2,597	2,129
Other current liabilities		149	-	149
Total current liabilities		196,876	32,682	100,289
Total equity and liabilities		585,877	523,738	558,735

Cash flow statement

Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	Q3 2020	Q3 2019	01.01-30.09 2020	01.01-30.09 2019	Full year 2019
Cash flows from operating activities						
Profit/(loss) before income tax		(15,567)	33,639	(69,082)	49,249	33,315
Adjustments for:						
Depreciation, amortisation and impairment losses		8,533	8,146	25,079	25,092	33,012
Interest expenses	3	781	819	2,479	2,257	-
Unrealised currency and derivatives gains/losses		4,112	654	16,267	2,539	(933)
Change in working capital		134,757	2,555	149,123	4,724	47,308
Net cash flows from (used in) operating activities		132,616	45,814	123,866	83,862	112,702
Cash flows from investing activities						
Purchase of property, plant, equipment and intangibles		(2,969)	(10,464)	(56,823)	(22,729)	(68,981)
Other adjustments		(2,640)	(6,416)	(8,691)	(3,913)	-
Net cash flows from (used in) investing activities		(5,609)	(16,880)	(65,514)	(26,642)	(68,981)
Cash flows from financing activities						
Repayment of borrowings from group companies		(5,092)	312	(9,357)	(2,724)	(20,905)
Net cash flows from (used in) financing activities		(5,092)	312	(9,357)	(2,724)	(20,905)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		121,915	29,246	48,994	54,495	22,816
Cash and cash equivalents at the beginning of period		(18,871)	55,372	54,050	30,122	31,234
Cash and cash equivalents at end of period		103,044	84,618	103,044	84,618	54,050
Restricted cash		2	3	2	3	-
Cash and cash equivalents in statement of financial position		103,047	84,621	103,047	84,620	54,050

Notes to the interim financial statements

Note 1 Accounting policies

The interim financial report for the company is prepared in accordance with Norwegian Accounting Act and generally accepted accounting principles. 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 GAAP, and this report should therefore be read in connection with the annual report for Hurtigruten Cruise AS for 2019.

The annual report for 2019 for the company can be obtained through a request to the company's main office. The accounting policies applied in the interim financial reporting are described in the note of accounting policies in the annual report for 2019.

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 Functional currency

On January 1st, 2020, the Company changed its functional currency from NOK to EUR. The change was implemented with prospective effect. The presentation currency has also been changed, with retrospective effect on 2019 and 2018. The change was made to reflect that EUR has become the predominant currency in the Company's operations, counting for a significant part of the cash flow and financing.

Note 3 Net Financial items

Unaudited

Foreign exchange gains	10,886	918	21,750	1,236	6,229
Other financial income	225	-	225	-	-
Finance income	11,111	918	21,975	1,236	6,229
Interest expense	(974)	(801)	(2,649)	(2,201)	(3,257)
Foreign exchange losses	(5,285)	(950)	(15,704)	(286)	(4,432)
Other finance expenses	(32)	(19)	(55)	(56)	(67)
Finance expenses	(6,292)	(1,769)	(18,408)	(2,543)	(7,756)
Net Financial items	4,819	(851)	3,566	(1,307)	(1,527)

Note 4 Equity

Unaudited

	01.01-30.09.2020		
	Attributable to shareholders of Hurtigruten Cruise AS		
(EUR 1 000)	Paid -in capital	Other equity	Total Equity
Equity at beginning of the period	400,229	12,173	412,402
Profit/loss for the year	-	(69,082)	(69,082)
Cash flow hedges attributed directly to equity	-	2,489	2,489
Equity at the close of the period	400,229	-54,420	345,810

	01.01-30.09.2019		
	Attributable to shareholders of Hurtigruten Cruise AS		
(EUR 1 000)	Paid -in capital	Other equity	Total Equity
Equity at beginning of the period	3	(8)	(5)
Profit/loss for the year	-	49,249	49,249
Cash flow hedges attributed directly to equity	-	(6,631)	(6,631)
Capital increase	404,250	-	404,250
Translation effect ¹⁾	(5,401)	(528)	(5,929)
Equity at the close of the period	398,852	42,082	440,934

¹⁾ As described in Note 2, the functional currency has been changed to EUR from January 1, 2020. The presentation currency has also been changed, with retrospective effect on 2019 and 2018. Equity per January 1, 2018 and 2019 has been translated to EUR using the EUR/NOK closing rate applicable for the same date. As a result, a translation effect occurs for each component of equity. The translation effect related to the paid-in equity is shown as a separate item in the table above for 2019.

Note 5 Impairment of assets

From the latter part of March and through second quarter, the company has experienced severe impact from the global spread of Covid-19 on its performance, as mobility restrictions and lockdown measures were implemented throughout the world. Thus, the COVID-19 pandemic has created challenging business environment for the Company and Hurtigruten Group, and an unprecedented uncertainty of potential negative impact on the financial performance. These events are impairment triggers, and as such, as of September 30, the Company assessed the carrying values of the assets for impairment. The value in use has been estimated on a cash generating unit level and has been calculated based on the present value of estimated future cash flows. The projected cash flows represent managements best estimate for future ramp-up in operations after the COVID-19 effects on the travel industry. Net present value is calculated based on a weighted discount rate for Hurtigruten Group at 12.0%. As of quarter end, the estimated value in use is equal or higher than the carrying value of the assets, and no impairment has been recognized in the financial statements as per 30 September 2020.

Note 6 Financial Risk Management

There are potential risks and uncertainties that can affect the operations of the Company. 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.

The Company is exposed to fluctuations in the price of bunker fuel, which is used to operate the ships. In order to reduce the risk related to the fuel price the Company has implemented a fuel hedging policy that follows the booking curve: the key principle in the bunker hedging policy is based on the company's ability to obtain visibility on earnings, hence the company has established a hedging policy linked to the development in the booking curve (actual vs. budgeted PCNs booked). For example, if at any given time 75% of the volume for one season is sold, a minimum of 50% of the bunker cost associated with the PCN volume sold are hedged. Additionally, the policy allows for some flexibility if market conditions are viewed as attractive.

In 2016, Hurtigruten AS purchased fuel derivatives contracts hedging estimated bunker oil consumption for the period 2017 until March 2019. These contracts were transferred to Hurtigruten Cruise on January 1st 2019. In July 2019, October 2019, and November 2019, the Company entered into additional derivative contracts with expiration in 2019 through 2021. At year-end 2019, a total of 142,350 MT bunker fuel volume was hedged at an average price of USD 656/MT during 2020-2021. At the end of third quarter 2020, a total of 8,850 MT bunker fuel volume is hedged at an average price of USD 650/MT.

Note 7 Events after the balance sheet date

On October 22nd, Hurtigruten announced cancellation of remaining Antarctica 20/21 season and reduced capacity on the Norwegian Coast, due to the challenging circumstances following the worldwide travel restrictions and quarantine requirements due to the Covid-19 pandemic. Many of the guests who have booked expedition cruises with Hurtigruten that have been cancelled, have chosen to postpone their trips rather than request a refund and the level of refund claims continue to be significantly below the industry average. With the escalating uncertainties, very low number of national and international travellers, and the impact the pandemic has on our operations on the Norwegian Coast; Hurtigruten has also decided to reduce capacity on the coastal service. From November until year end, Hurtigruten will only operate a limited service between Bodø and Kirkenes with two ships. This is at the request of the Norwegian Ministry of Transportation.

On October 15, 2020, Hurtigruten announced it will establish two separate operating entities, Hurtigruten Norway (Coastal) and Hurtigruten Expedition (Expedition). This operating reorganization will not impact the financial reporting as we have historically reported the Expedition cruise business (Hurtigruten Expedition) and the Coastal business (Hurtigruten Norway) separately.