

# Third quarter report 2020



## Explorer II AS Financial Statements

Published 26 November 2020

## Key figures<sup>1</sup>

<i>(EUR 1 000)</i>	<b>Q3 2020</b>	Q3 2019	<b>01.01-30.09 2020</b>	01.01-30.09 2019	Full year 2019
Bareboat revenue	<b>12,603</b>	-	<b>32,299</b>	-	7,664
<b>Total revenue</b>	<b>12,603</b>	-	<b>32,299</b>	-	7,664
<b>EBITDA</b>	<b>12,458</b>	57	<b>31,674</b>	43	7,148
Other gains/(losses) – net	<b>(56)</b>	73	<b>(209)</b>	80	(328)
<b>EBITDA excl other gains (losses)</b>	<b>12,513</b>	(16)	<b>31,883</b>	(37)	7,476

<sup>1</sup> The figures presented in this report are unaudited

## Operational review

Explorer II AS is a ship owning company located in Tromsø within the Hurtigruten Group (Hurtigruten). Its purpose is to invest in, and lease out, under bareboat charter agreements, specialised cruise vessels for the operation in other Hurtigruten Group companies. At 30 September 2020 Explorer II AS owned the two new hybrid-powered expedition ships, MS Roald Amundsen and MS Fridtjof Nansen. MS Roald Amundsen was delivered from the Kleven yard in June 2019 and started its operation in July 2019. In December 2019 the sister ship MS Fridtjof Nansen was delivered and started its operations in the first quarter of 2020. The ships are state-of-the-art expedition vessels designed to meet guests' expectations as well as strict environmental and safety standards.

MS Roald Amundsen and MS Fridtjof Nansen have an ice-reinforced hull, a total length of 140 metres and will be able to carry 530 guests. The hybrid technology engines will reduce fuel consumption substantially and permit periods of emission-free sailing. The investment in new technology has been partly funded by Enova, a Norwegian government enterprise responsible for the promotion of environmentally-friendly production and consumption of energy, and as such lives up to Hurtigruten's vision to be the leading expedition travel company by offering authentic and accessible experiences around the world to travellers who wish to explore and travel in a sustainable way. Both vessels are operated by Hurtigruten Cruise, a sister company within the Hurtigruten Group.

## Financial review

*The financial information for the nine months ended 30 September 2020 discussed below is derived from the unaudited financial statements of Explorer II AS as of this date, and the unaudited financial statements for the nine months ended at 30 September 2019.*

### Profit and loss

Bareboat revenue in the third quarter of 2020 amounted to EUR 12.6 million and EUR 32.3 million in the nine first months of 2020. Total revenues in 2019 was 7.7 million and consists of bareboat charter for MS Roald Amundsen for the last 6 months of the year. Revenues in 2020 includes, in addition to bareboat charter for MS Roald Amundsen, bareboat charter for MS Fridtjof Nansen from February 24<sup>th</sup>. At the same date, the charter contract for MS Roald Amundsen were renegotiated, reducing the lease period while increasing the rent.

Net financial items in the third quarter and first nine months of the year consists of interest on debt to financial institutions, interest on group borrowings and amortization of financing fees. In 2020, total finance expenses of EUR 3.0 million and EUR 17.8 million for third quarter and first nine months respectively, include full amortization of the fees paid for the Export Credit Agency ("ECA") facility established in 2019.

Net profit in the third quarter was EUR 6.5 million, and a net profit of EUR 5.2 million for the first nine months of 2020.

### Financial position and liquidity

#### Balance sheet

Non-current assets consist of the ships MS Fridtjof Nansen and MS Roald Amundsen. Carrying value at September 30<sup>th</sup> 2020 was EUR 377.5 million. Given the current situation in the cruise industry, with COVID-19 pandemic effects, the Company has assessed impairment of the asset at reporting date. Given the financial solidity and liquidity position of the lessee, the underlying value of the vessels and the general interest in cruise travel post the COVID-19 pandemic the assessment concludes that there is no impairment to the ships carrying value.

In second quarter of 2019, the company drew on the ECA credit facility entered into in 2017 for financing of the purchase of the two vessels, in the amount of EUR 260 million. At year-end 2019, the facility was

fully drawn. The ECA financing was replaced in February 2020 with a bond of EUR 300 million. The bond has a 5-year tenor with semi-annual interest payments of 3.375% p.a.

In March 2020, the company increased its equity by increasing the face value of the ordinary shares from NOK 100 to NOK 101. A total of EUR 105 million of debt to the parent company Hurtigruten AS was converted, increasing the paid in capital to a total of EUR 105.003.000 at the end of the first half year of 2020.

The equity ratio on September 30<sup>th</sup> 2020 was 25.9%, compared to 0.0% at year-end 2019.

#### Cash flow

Net cash flow from operating activities in the quarter was an outflow of EUR 1.1 million vs.an inflow of EUR 0.7 million same quarter last year. The negative change is mainly due to changes in receivables from Group companies.

Net cash flow used for investing activities was EUR 0.6 million in the third quarter and consist of capitalized expenses for various upgrades and additions to the vessels in the period. In the first nine months of the year, net cash flow used for investing activities was EUR 17.3 million and consists of remaining payments for MS Fridtjof Nansen.

Net cash flow from financing activities in the first nine months of 2020 consist of proceeds from the new issued bond of EUR 300 million, offset by repayments of the ECA facility and Group borrowings. Interest and finance fees in the amount of EUR 12.3 million were paid in the period.

Net cash and cash equivalents in the cash flow statement was EUR 2,5 million on September 30<sup>th</sup>, 2020, equal to cash and cash equivalents in the statement of financial position. At year end 2019, cash and cash equivalents in the statement of financial position was EUR 2.8 million but included restricted funds of EUR 2.8 million. These restricted funds were related to the ECA financing and was released in connection with the repayment in February 2020.

## Outlook

The Covid-19 pandemic has caused travel restrictions to be implemented worldwide temporarily reducing the level of travel and the entire cruise industry has laid up their fleet until Q2 2021, with sporadic efforts to resume cruising. There have been some companies that have started up operations again, but this has partly been reversed due to the increased level of infections.

There is still a lot of uncertainty around the duration and magnitude of the Covid-19 pandemic, but positive signs have emerged with news flow regarding vaccines that is expected to give protection against Covid-19.

As a result of this the company cannot estimate the impact of Covid-19 with reasonable certainty, but we expect travel to gradually pick up with the distribution of Covid-19 vaccines.

Hurtigruten Group still see a good booking momentum for second half of 2021 and beyond and we expect this to continue. There is good demand for Expedition cruises and the classical Hurtigruten voyage when travel is expected to resume.

The MS Roald Amundsen and MS Fridtjof Nansen is state of the art expedition vessels and has received great customer feedback on the last cruises which underlines the quality of the company's ships.

We are of the opinion that the travel pattern will resume gradually in 2021 and that we are back to a more normal state of operations in 2H 2021.

## Risks and uncertainties

The risks described below are not the only risks the Group faces.

Additional risks and uncertainties not currently known to the Group or that Group currently deems to be immaterial may also materially adversely affect the business, financial condition or results of operations. The global Covid-19 pandemic has had, and will continue to have, a material adverse impact on our business and results of operations. The global spread of Covid-19 and the unprecedented responses by governments and other authorities to control and contain the spread has caused significant disruptions, created new risks, and exacerbated existing risks to our business.

The Hurtigruten Group have been, and will continue to be, negatively impacted by the Covid-19 pandemic, including impacts that resulted from actions taken in response to the outbreak. Examples of these include, but are not limited to, travel bans, restrictions on the movement and gathering of people, social distancing measures, shelter-in-place/stay-at-home orders, and disruptions to businesses in our supply chain. In addition to the imposed restrictions affecting our business, the extent, duration, and magnitude of the Covid-19 pandemic's effect on the economy and consumer demand for cruising and travel is still rapidly fluctuating and difficult to predict.

## Interim financial statements

### Condensed statement of income

#### 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
Bareboat lease intragroup		12,603	-	32,299	-	7,664
<b>Total revenues</b>		<b>12,603</b>	<b>-</b>	<b>32,299</b>	<b>-</b>	<b>7,664</b>
Depreciation, amortisation and impairment		(2,877)	(1,512)	(8,630)	(1,512)	(3,002)
Operating costs		(90)	(16)	(416)	(37)	(188)
Other gains/(losses) – net		(56)	73	(209)	80	(328)
<b>Operating profit/(loss)</b>		<b>9,581</b>	<b>(1,455)</b>	<b>23,044</b>	<b>(1,470)</b>	<b>4,145</b>
<b>Operating profit/(loss) before depreciation, amortisation and impairment losses (EBITDA)</b>		<b>12,458</b>	<b>57</b>	<b>31,674</b>	<b>43</b>	<b>7,148</b>
Finance income		(34)	(388)	(13)	897	245
Finance expenses		(3,019)	(1,763)	(17,795)	(3,092)	(3,442)
<b>Net financial items</b>	<b>4</b>	<b>(3,053)</b>	<b>(2,151)</b>	<b>(17,808)</b>	<b>(2,195)</b>	<b>(3,197)</b>
<b>Profit/(loss) before income tax</b>		<b>6,528</b>	<b>(3,607)</b>	<b>5,236</b>	<b>(3,664)</b>	<b>949</b>
Income tax expense		-	-	-	-	-
<b>Profit/(loss) for the period</b>		<b>6,528</b>	<b>(3,607)</b>	<b>5,236</b>	<b>(3,664)</b>	<b>949</b>

### Condensed statement of comprehensive income

#### Unaudited

<i>(EUR 1 000)</i>	Q3 2020	Q3 2019	01.01-30.09 2020	01.01-30.09 2019	Full year 2019
<b>Profit/(loss) for the period</b>	<b>6,528</b>	<b>(3,607)</b>	<b>5,236</b>	<b>(3,664)</b>	<b>949</b>
Other comprehensive income, net of tax	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>6,528</b>	<b>(3,607)</b>	<b>5,236</b>	<b>(3,664)</b>	<b>949</b>

## Condensed statement of financial position

### Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	<b>30.9. 2020</b>	30.9. 2019	31.12. 2019
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7	<b>377,526</b>	225,537	380,687
<b>Total non-current assets</b>		<b>377,526</b>	225,537	380,687
<b>Current assets</b>				
Intragroup receivables	6	<b>45,317</b>	336	8,170
Other receivables	5	-	-	775
Cash and cash equivalents	5	<b>2,545</b>	2,922	2,842
<b>Total current assets</b>		<b>47,862</b>	3,258	11,788
<b>Total assets</b>		<b>425,388</b>	228,794	392,474
<b>EQUITY</b>				
Paid -in capital		<b>105,003</b>	3	3
Retained earnings		<b>5,134</b>	(4,715)	(101)
<b>Total equity</b>		<b>110,137</b>	<b>(4,712)</b>	<b>(98)</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Interest-bearing debt to financial institutions	3,5	<b>295,408</b>	118,089	223,789
Interest-bearing debt to group companies		<b>17,740</b>	114,384	133,917
<b>Total non-current liabilities</b>		<b>313,147</b>	232,473	357,706
<b>Current liabilities</b>				
Trade liabilities	5	<b>9</b>	76	410
Non-interest bearing intragroup liabilities		<b>1,028</b>	878	331
Income tax payable		<b>3</b>		3
Interest-bearing debt to financial institutions	3,5	-	-	21,667
Other current liabilities		<b>1,064</b>	79	12,456
<b>Total current liabilities</b>		<b>2,103</b>	1,033	34,867
<b>Total equity and liabilities</b>		<b>425,388</b>	228,794	392,475

## Condensed statement of changes in equity

### Unaudited

<i>(EUR 1 000)</i>	01.01-30.09.2020		
	Attributable to shareholders of Explorer II AS		
	Paid -in capital	Other equity	Total Equity
<b>Equity at beginning of the period</b>	<b>3</b>	<b>(101)</b>	<b>(98)</b>
Total comprehensive income	-	5,236	5,236
Capital increase	105,000	-	105,000
<b>Equity at the close of the period</b>	<b>105,003</b>	<b>5,134</b>	<b>110,137</b>

<i>(EUR 1 000)</i>	01.01-30.09.2019		
	Attributable to shareholders of Explorer II AS		
	Paid -in capital	Other equity	Total
<b>Equity at beginning of the period</b>	<b>3</b>	<b>(1,050)</b>	<b>(1,047)</b>
Total comprehensive income		(3,664)	(3,664)
<b>Equity at the close of the period</b>	<b>3</b>	<b>(4,715)</b>	<b>(4,711)</b>

<i>(EUR 1 000)</i>	01.01-31.12.2019		
	Attributable to shareholders of Explorer II AS		
	Paid -in capital	Other equity	Total
<b>Equity at beginning of the period</b>	<b>3</b>	<b>(1,050)</b>	<b>(1,047)</b>
Total comprehensive income		949	949
<b>Equity at the close of the period</b>	<b>3</b>	<b>(101)</b>	<b>(98)</b>

## Condensed statement of cash flows

### Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	<b>Q3 2020</b>	<b>Q3 2019</b>	<b>01.01-30.09 2020</b>	<b>01.01-30.09 2019</b>	<b>Full year 2019</b>
<b>Cash flows from operating activities</b>						
Profit/(loss) before income tax		6,528	(3,606)	5,236	(3,664)	949
Adjustments for:						
Depreciation, amortisation and impairment losses		2,877	1,512	8,630	1,512	3,002
Interest expenses	4	3,017	(1,510)	17,550	(2,168)	3,197
Change in working capital		(13,596)	4,283	(33,701)	9,964	(541)
Other adjustments		74	13	259	-	-
<b>Net cash flows from (used in) operating activities</b>		<b>(1,100)</b>	693	<b>(2,028)</b>	5,644	6,607
<b>Cash flows from investing activities</b>						
Purchase of property, plant, equipment (PPE)		635	(7,910)	(20,169)	(162,817)	(307,436)
Change in restricted cash		-	(0)	2,820	-	(2,820)
<b>Net cash flows from (used in) investing activities</b>		<b>635</b>	(7,911)	<b>(17,349)</b>	(162,817)	(310,256)
<b>Cash flows from financing activities</b>						
Proceeds from borrowings		-	-	300,000	130,000	311,103
Repayment of borrowings to financial institutions		0	(2,708)	(254,583)	(2,708)	(5,417)
Net change of borrowings to group companies		5,434	12,851	(11,178)	42,028	-
Paid interest and fees	4	(4,960)	(2,839)	(12,340)	(9,230)	(2,022)
<b>Net cash flows from (used in) financing activities</b>		<b>474</b>	7,303	<b>21,899</b>	160,089	303,664
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		8	86	2,522	2,915	15
Cash and cash equivalents at the beginning of period		2,536	2,836	23	6	6
<b>Cash and cash equivalents at end of period</b>		<b>2,545</b>	2,922	<b>2,545</b>	2,922	21
Restricted cash		-	0	-	0	2,820
<b>Cash and cash equivalents in the statement of financial position</b>		<b>2,545</b>	2,922	<b>2,545</b>	2,922	2,841



## Notes to the condensed financial statements

### **Note 1 Accounting policies**

The interim financial report for Explorer II AS 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 Explorer II 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 Financial risk management**

There are potential risks and uncertainties that can affect the operations of the company. The company main source of income is from Hurtigruten Cruise AS, a sister-company within the Silk Topco Group, where currently the operations is affected by the COVID-19 pandemic. However, the funding position within Silk Topco Group is sound. The company's financing through the issued bond is at a fixed rate. Any market fluctuations will not affect the financing charge. Information concerning the most important risks and uncertainties is disclosed in the latest annual report.

### Note 3 Interest-bearing Debt

Unaudited

<i>(EUR 1 000)</i>	<b>30.9. 2020</b>	30.9. 2019	31.12. 2019
<b>Non-current interest bearing debt</b>			
Bond	<b>295,408</b>	-	-
Collateralized borrowings	-	118,089	223,789
Interest bearing debt to group companies	<b>17,740</b>	114,384	133,917
<b>Total</b>	<b>313,147</b>	232,473	357,706
<b>Current interest bearing debt</b>			
Collateralized borrowings	-	-	21,667
<b>Total</b>	-	-	21,667
<b>Total interest bearing debt</b>	<b>313,147</b>	232,473	379,373

The interest-bearing debt in the company is classified as financial liabilities measured at amortised cost. During the first quarter of 2020, the company issued a EUR 300 million bond to refinance the existing ECA credit facility of EUR 260 million, drawn to purchase the vessels in 2019.

### Maturity Profile in nominal value

The below maturity schedule reflects the borrowings at nominal values.

<i>(EUR 1 000)</i>	<b>30.9. 2020</b>	30.9. 2019	31.12. 2019
Less than one year	-	-	21,667
Year 2 and 3	-	-	43,333
Year 4 and 5	<b>45,000</b>	-	113,750
More than 5 years	<b>272,740</b>	241,675	209,750
<b>Total</b>	<b>317,740</b>	241,675	388,500
Unamortised transaction cost	<b>(4,592)</b>	(9,203)	(9,127)
<b>Total book value in balance sheet</b>	<b>313,147</b>	232,473	379,373

## Note 4 Net Financial items

Unaudited

<i>(EUR 1000)</i>	<b>Q3 2020</b>	Q3 2019	<b>01.01-30.09 2020</b>	01.01-30.09 2019	Full year 2019
Interest income on current bank deposits	<b>(4)</b>	(409)	<b>(13)</b>	874	1
Foreign exchange gains	<b>(30)</b>	21	-	22	244
Finance income	<b>(34)</b>	(388)	<b>(13)</b>	897	245
Interest expense and amortized borrowing fees	<b>(3,030)</b>	(1,742)	<b>(17,537)</b>	(3,070)	(3,354)
Foreign exchange losses	<b>12</b>	(21)	<b>(259)</b>	(21)	(88)
Finance expenses	<b>(3,018)</b>	(1,763)	<b>(17,795)</b>	(3,092)	(3,442)
<b>Net Financial items</b>	<b>(3,053)</b>	(2,151)	<b>(17,808)</b>	(2,195)	(3,197)

## Note 5 Financial assets and liabilities at fair value

Unaudited

The following principles have been applied for the subsequent measurement of financial assets and liabilities:

<i>(EUR 1000)</i>	<b>30.9. 2020</b>	<b>30.9. 2019</b>	<b>31.12. 2019</b>
	Amortised Cost (AC)	Amortised Cost (AC)	Amortised Cost (AC)
<b>Assets as per balance sheet</b>			
Current intragroup receivables and other receivables	<b>45,317</b>	336	8,945
Cash and cash equivalents	<b>2,545</b>	2,922	2,842
<b>Total</b>	<b>47,862</b>	3,258	11,788
<b>Liabilities as per balance sheet</b>			
Non-current interest bearing debt	<b>313,147</b>	232,473	357,706
Current interest bearing debt	-	-	21,667
Trade payables and other short term payables	<b>1,073</b>	155	12,866
<b>Total</b>	<b>314,220</b>	232,628	392,239

The carrying value for the financial assets and liabilities has been assessed and does not differ materially from fair value, except for interest bearing debt. Fair value of total borrowings at 30 September 2020 was EUR 317.7 million (EUR 241.7 30 September 2019).

**Note 6 Related parties**

Unaudited

<i>(EUR 1000)</i>	<b>01.01-30.09 2020</b>	01.01-30.09 2019	Full year 2019
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**Operating revenues**

Bareboat lease to Hurtigruten Cruise AS	<b>32,299</b>	-	7,664
<b>Total</b>	<b>32,299</b>	-	7,664

**Interest expenses**

Interest expenses to Hurtigruten AS	<b>(550)</b>	(2,102)	(1,533)
<b>Total</b>	<b>(550)</b>	(2,102)	(1,533)

**Intragroup balances**

<i>(EUR 1000)</i>	<b>30.9. 2020</b>	30.9. 2019	31.12. 2019
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**Current assets**

Current receivables from Hurtigruten AS	<b>3,893</b>	-	507
Current receivables from Hurtigruten Cruise AS	<b>41,425</b>	336	7,664
<b>Total</b>	<b>45,317</b>	336	8,170

**Non-Current liabilities**

Non-Current liabilities due to Hurtigruten AS	<b>17,740</b>	114,384	133,917
<b>Total</b>	<b>17,740</b>	114,384	133,917

**Current liabilities**

Payables to Hurtigruten Pluss AS	<b>111</b>	243	72
Payables to Hurtigruten Sjø AS	<b>385</b>	635	259
Payables to Hurtigruten Group	<b>453</b>	-	-
Payables to Hurtigruten AS	<b>78</b>	-	-
<b>Total</b>	<b>1,028</b>	878	331

**Note 7 Impairment of assets**

From the latter part of March and through third quarter, Hurtigruten Group has seen impact from the global spread of Covid-19 on the performance, as mobility restrictions and lockdown measures were implemented throughout the world. Thus, the COVID-19 pandemic has created challenging business environment for the Group, and an unprecedented uncertainty of potential negative impact on the financial performance. For the Group, these events are impairment triggers, and as such, as of the end of third quarter 2020, the Group has assessed the carrying values of the Groups assets for impairment according to IAS 36. The value in use has been estimated for the ships 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. As of quarter end, the estimated value in use for the assets in the Company 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 8 Events after the balance sheet date**

On October 22nd, Hurtigruten announced cancellation of remaining Antarctica 20/21 season, 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.