

Fourth quarter report 2020



Explorer II AS Financial Statements

Published 25 February 2021

Key figures¹

<i>(EUR 1 000)</i>	Q4 2020	Q4 2019	Full year 2020	Full year 2019
Bareboat revenue	12,534	7,664	44,833	7,664
Total revenue	12,534	7,664	44,833	7,664
EBITDA	12,623	7,222	44,297	7,148
Other gains/(losses) – net	156	(408)	(53)	(328)
EBITDA excl other gains (losses)	12,467	7,631	44,349	7,476

¹ 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 31 December 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 twelve months ended 31 December 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 twelve months ended at 31 December 2019.

Profit and loss

Bareboat revenue in the fourth quarter of 2020 amounted to EUR 12.6 million and EUR 44.8 million for the financial year ending 31 December 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 Fritjof Nansen from February 24th. 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 fourth quarter and for 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 for the fourth quarter and EUR 20.8 million the year as a whole, include full amortization of the fees paid for the Export Credit Agency ("ECA") facility established in 2019.

Net profit in the fourth quarter was EUR 6.5 million, and a net profit of EUR 11.7 million for the financial year 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 December 31st, 2020 was EUR 374.5 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 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 December 31st, 2020 was 26.8%, compared to 0.0% at year-end 2019.

Cash flow

Net cash flow from operating activities in the quarter was an outflow of EUR 0.2 million vs. an inflow of EUR 0.96 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 0.1 million in the fourth quarter and consist of minor capitalized expenses for various upgrades and additions to the vessels in the period. For the year, net cash flow used for investing activities was EUR 17.4 million and consists of remaining payments for MS Fridtjof Nansen.

Net cash flow from financing activities the financial year 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 12.4 million were paid in the period.

Net cash and cash equivalents in the cash flow statement was EUR 2,6 million on December 31st, 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 more or less 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 expect this to continue. There is good demand for Hurtigruten Expeditions cruises 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.

Hurtigruten Group is of the opinion that the travel pattern will resume gradually in 2021 with the projected distribution of vaccines and that operations are back to a more normal state 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.

Hurtigruten 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. Hurtigruten has temporarily suspended the operations of 11 of our 16 ships, which is expected to continue to at least April 2021 with the risk of a prolonged suspension.

An increase in port taxes or fees or other adverse change of the terms of business with the authorities operating the ports in which Hurtigruten calls could increase the operating costs and adversely affect the business, financial condition, results of operations and prospects.

As the rest of the cruise and maritime industry, Hurtigruten is subject to complex laws and regulations, including environmental, health and safety laws and regulations, which could adversely affect the operations and any change in the current

Interim financial statements

Condensed statement of income

Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	Q4 2020	Q4 2019	Full year 2020	Full year 2019
Bareboat lease intragroup		12,534	7,664	44,833	7,664
Total revenues		12,534	7,664	44,833	7,664
Depreciation, amortisation and impairment		(3,133)	(1,490)	(11,763)	(3,002)
Operating costs		(68)	(33)	(484)	(188)
Other gains/(losses) – net		156	(408)	(53)	(328)
Operating profit/(loss)		9,489	5,732	32,533	4,145
Operating profit/(loss) before depreciation, amortisation and impairment losses (EBITDA)		12,623	7,222	44,297	7,148
Finance income		(4)	1,724	(17)	245
Finance expenses		(3,013)	(2,869)	(20,808)	(3,442)
Net financial items	4	(3,017)	(1,145)	(20,825)	(3,197)
Profit/(loss) before income tax		6,472	4,587	11,708	949
Income tax expense		-	-	-	-
Profit/(loss) for the period		6,472	4,587	11,708	949

Condensed statement of comprehensive income

Unaudited

<i>(EUR 1 000)</i>	Q4 2020	Q4 2019	Full year 2020	Full year 2019
Profit/(loss) for the period	6,472	4,587	11,708	949
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	6,472	4,587	11,708	949

Condensed statement of financial position

Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	31.12. 2020	31.12. 2019
ASSETS			
Non-current assets			
Property, plant and equipment	7	374,481	380,687
Total non-current assets		374,481	380,687
Current assets			
Intragroup receivables	6	58,321	8,170
Other receivables	5	15	775
Cash and cash equivalents	5	2,554	2,842
Total current assets		60,891	11,788
Total assets		435,372	392,474
EQUITY			
Paid -in capital		105,003	3
Retained earnings		11,606	(101)
Total equity		116,609	(98)
LIABILITIES			
Non-current liabilities			
Interest-bearing debt to financial institutions	3,5	295,625	223,789
Interest-bearing debt to group companies		18,095	133,917
Total non-current liabilities		313,720	357,706
Current liabilities			
Trade liabilities	5	-	410
Non-interest bearing intragroup liabilities		1,372	331
Income tax payable		7	3
Interest-bearing debt to financial institutions	3,5	-	21,667
Other current liabilities		3,664	12,456
Total current liabilities		5,043	34,867
Total equity and liabilities		435,372	392,475

Condensed statement of changes in equity

Unaudited

<i>(EUR 1 000)</i>	01.01-31.12.2020		
	Attributable to shareholders of Explorer II AS		
	Paid -in capital	Other equity	Total Equity
Equity at beginning of the period	3	(101)	(98)
Total comprehensive income	-	11,708	11,708
Capital increase	105,000	-	105,000
Equity at the close of the period	105,003	11,607	116,610

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

Condensed statement of cash flows

Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	Q4 2020	Q4 2019	Full year 2020	Full year 2019
Cash flows from operating activities					
Profit/(loss) before income tax		6,472	4,613	11,708	949
Adjustments for:					
Depreciation, amortisation and impairment losses		3,133	1,490	11,763	3,002
Interest expenses	4	3,017	5,365	20,566	3,197
Change in working capital		(12,828)	(10,505)	(46,530)	(541)
Other adjustments		(2)	-	257	-
Net cash flows from (used in) operating activities		(208)	963	(2,236)	6,607
Cash flows from investing activities					
Purchase of property, plant, equipment (PPE)		(89)	(144,619)	(20,258)	(307,436)
Change in restricted cash		-	(2,820)	2,820	(2,820)
Net cash flows from (used in) investing activities		(89)	(147,439)	(17,438)	(310,256)
Cash flows from financing activities					
Proceeds from borrowings		-	181,103	300,000	311,103
Repayment of borrowings to financial institutions		-	(2,709)	(254,583)	(5,417)
Net change of borrowings to group companies		356	(42,028)	(10,822)	-
Paid interest and fees	4	(49)	7,208	(12,389)	(2,022)
Net cash flows from (used in) financing activities		307	143,575	22,206	303,664
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		10	(2,900)	2,532	15
Cash and cash equivalents at the beginning of period		2,545	2,922	23	6
Cash and cash equivalents at end of period		2,554	21	2,554	21
Restricted cash		-	2,820	-	2,820
Cash and cash equivalents in the statement of financial position		2,554	2,842	2,554	2,842

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>	31.12. 2020	31.12. 2019
Non-current interest bearing debt		
Bond	295,625	-
Collateralized borrowings	-	223,789
Interest bearing debt to group companies	18,095	133,917
Total	313,720	357,706
Current interest bearing debt		
Collateralized borrowings	-	21,667
Total	-	21,667
Total interest bearing debt	313,720	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>	31.12. 2020	31.12. 2019
Less than one year	-	21,667
Year 2 and 3	-	43,333
Year 4 and 5	45,000	113,750
More than 5 years	273,095	209,750
Total	318,095	388,500
Unamortised transaction cost	(4,375)	(9,127)
Total carrying value in balance sheet	313,720	379,373

Note 4 Net Financial items

Unaudited

<i>(EUR 1000)</i>	Q4 2020	Q4 2019	Full year 2020	Full year 2019
Interest income on current bank deposits	(4)	(874)	(17)	1
Foreign exchange gains	0	2,598	-	244
Finance income	(4)	1,724	(17)	245
Interest expense and amortized borrowing fees	(3,012)	(282)	(20,549)	(3,354)
Foreign exchange losses	(1)	(2,587)	(259)	(88)
Finance expenses	(3,013)	(2,869)	(20,808)	(3,442)
Net Financial items	(3,017)	(1,145)	(20,825)	(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>	31.12. 2020	31.12. 2019
	Amortised Cost (AC)	Amortised Cost (AC)
Assets as per balance sheet		
Current intragroup receivables and other receivables	58,337	8,945
Cash and cash equivalents	2,554	2,842
Total	60,891	11,788
Liabilities as per balance sheet		
Non-current interest bearing debt	313,720	357,706
Current interest bearing debt	-	21,667
Trade payables and other short term payables	3,664	12,866
Total	317,384	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 31 December 2020 was EUR 318.1 million (EUR 388.5 31 December 2019).

Note 6 Related parties

Unaudited

<i>(EUR 1000)</i>	Full year 2020	Full year 2019
Operating revenues		
Bareboat lease to Hurtigruten Cruise AS	44,833	7,664
Total	44,833	7,664
Interest expenses		
Interest expenses to Hurtigruten AS	(688)	(1,533)
Total	(688)	(1,533)
Intragroup balances		
<i>(EUR 1000)</i>	31.12. 2020	31.12. 2019
Current assets		
Current receivables from Hurtigruten AS	4,277	507
Current receivables from Hurtigruten Cruise AS	54,044	7,664
Total	58,321	8,170
Non-Current liabilities		
Non-Current liabilities due to Hurtigruten AS	18,095	133,917
Total	18,095	133,917
Current liabilities		
Payables to Hurtigruten Pluss AS	117	72
Payables to Hurtigruten Sjø AS	665	259
Payables to Hurtigruten Group	453	-
Payables to Hurtigruten AS	137	-
Total	1,372	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 31 December 2020.

Note 8 Events after the balance sheet date

There are no events after balance sheet date that would materially affect the financial statements of Explorer II AS.