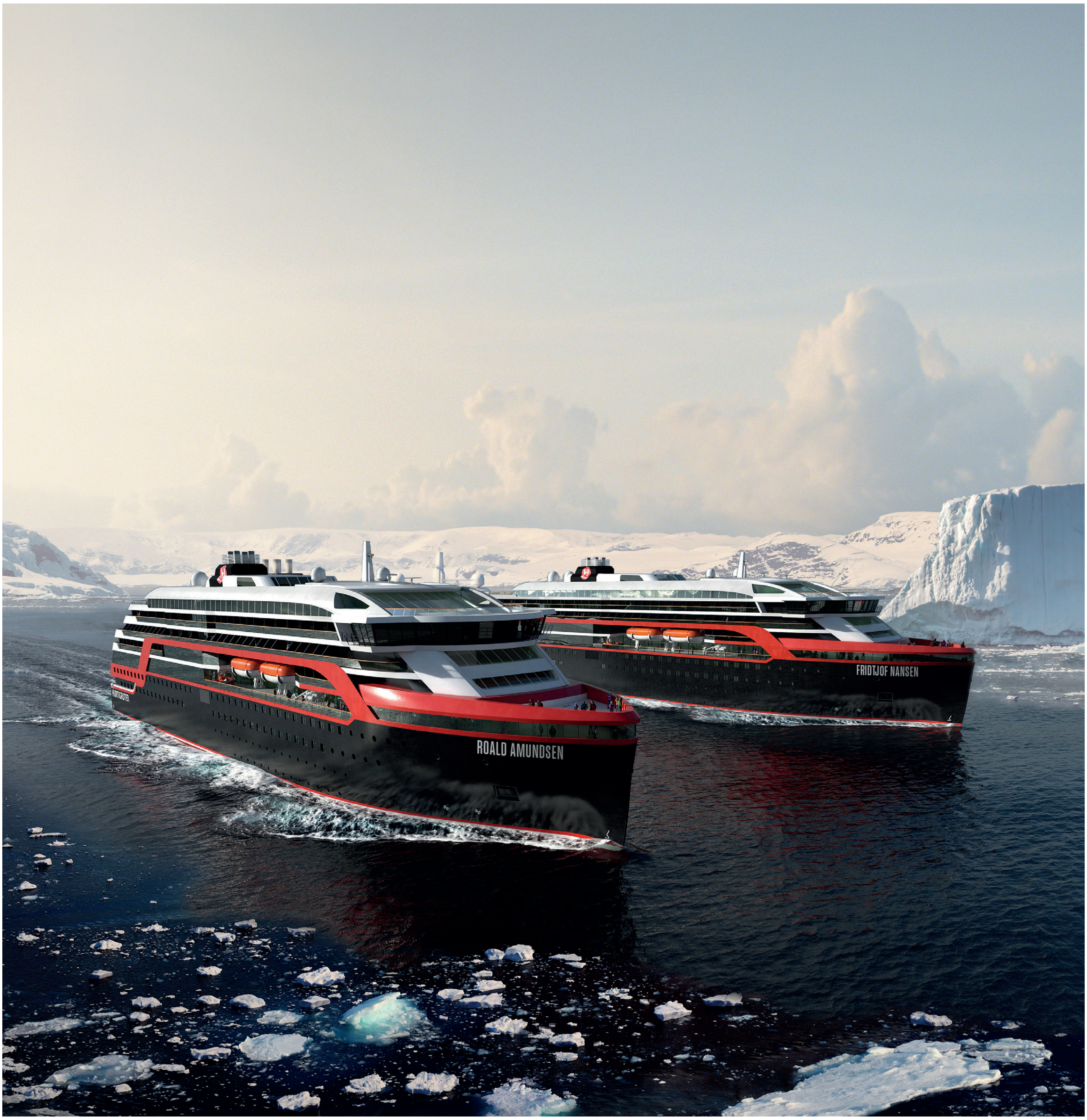
ANNUAL REPORT 2018



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HURTIGRUTEN

Directors' Report 2018

Hurtigruten - world leader in exploration travel

The Hurtigruten Group, through its brand Hurtigruten, is the world leader in expedition travel. With a fleet of 14 custom-built expedition cruise vessels – and the world's two first hybrid-powered expedition cruise ships under construction – Hurtigruten is the world's largest expedition cruise company. It offers a unique gateway to experiences in the Arctic, Antarctica, along the Norwegian coast and to other unique destinations to travellers from all over the world. Hurtigruten's operation builds on a rich and proud Norwegian Expedition Cruises heritage, having connected the many coastal communities in Norway for 125 years, offering the first voyages to Svalbard as early as 1896. Today, Hurtigruten combines a deeply-rooted desire to offer genuine experiences while leaving a smaller footprint as it shapes the future of the growing adventure travel and expedition cruise market.

Along the Norwegian coast, Hurtigruten offers the classic Hurtigruten round trip between Bergen and Kirkenes, often referred to as "The world's most beautiful voyage". During the 11-day voyage, guests enjoy the spectacular scenery and highlights such as the Northern Lights or the Midnight Sun. Including Bergen and Kirkenes, the ships call at 34 ports, allowing guests to experience local sights, culture and a rapidly growing number of active excursions. Hurtigruten has introduced the culinary concept of "Norway's Coastal Kitchen", offering authentic Norwegian cuisine with locally sourced ingredients delivered fresh to the ships throughout the journey, reflecting both the seasons and local specialties. Hurtigruten is the only operator offering year-round, daily departures from each of these 34 ports and holds a unique competitive position on the Norwegian Coast.

Travel industry trends continue to show growth in demand for unique destinations and an increasing interest in adventure travel and expedition cruising. With its strong history and clear positioning, Hurtigruten is becoming known as the world leader in this segment. With its strong focus on sustainability and the environment, Hurtigruten is in 2019 introducing the world's first hybrid expedition cruise ship, MS Roald Amundsen, powered by hybrid battery technology. Her sister ship, MS Fridtjof Nansen, is due to be launched in Q4 2019. These vessels are under construction at the Kleven Group's yard in Norway and will greatly enhance Hurtigruten's offering in the expedition cruise segment.

Hurtigruten completed the buy-back of MS Richard With in 2017 and MS Nordlys at the beginning of 2018, which are tailor made for the coastal route. Hurtigruten has leased the vessels since 2002. MS Richard With underwent a complete refurbishment in 2018, increasing the number of suites, improving the cabins and the indoor decks and improving the general service offering on the vessels. MS Nordlys will undergo the same upgrade in May 2019.The existing fleet has provided Hurtigruten with greater flexibility and an opportunity to tailor offerings, attracting more guests and new segments.

In 2017, Hurtigruten made the largest investment in land-based operations in the company's history, announcing a NOK 200 million expansion programme for the operations of its subsidiary, Hurtigruten Svalbard, including upgrades of two hotels and Arctic adventure travel experiences. The first stage of the investment plan was the refurbishment of the Funken Lodge which was completed in February 2018. Funken Lodge is taking lodging in the Arctic to another level with state of the art cuisine and guest experience. In October 2018, refurbishments started at the Svalbard Radisson Blu Polar hotel, which was completed in February of 2019. The upgraded hotel will offer enhanced facilities for the guests and employees and will further strengthen the company's position in the market. Hurtigruten Svalbard offers a wide range of excursions including dogsledding under the Northern Lights, ice-caving and snowmobile trips.

Business and location

Hurtigruten is the global leader in cruise-based exploration and adventure travel based on APCNs, offering adventures that provide customers with the feel of authentic exploration into polar waters. Its offering is differentiated from that of most other cruise operators, including itineraries with a wide range of distinctive excursions and activities that allow customers to connect with exotic and remote places. The Group views its ships as safe and comfortable platforms from which to offer its customers unique engagement with the surrounding nature, culture and activities and therefore, unlike traditional cruise operators, the ship itself is not the main attraction. It also provides local transport and cargo shipment on the Norwegian coast pursuant to the Coastal Service Contract. The Group has a fleet of 14 ships and has 125 years of experience operating ships in polar waters, having provided services along the Norwegian coast since 1893. As a result of its long-established presence, public service origins and association with a long and naturally distinct coast line, Hurtigruten is one of Norway's most recognized international travel brands. Hurtigruten's global headquarters are located in Tromsø, one of the key ports of call on the Norwegian coastal route. In addition, commercial offices in Oslo, Trondheim, Hamburg, London, Paris, Seattle, Tallinn, Hong Kong and Kirkenes (which also functions as Hurtigruten's crew centre) form a global organisation serving Hurtigruten's most important and emerging markets.

Hurtigruten's wholly-owned subsidiary Hurtigruten Svalbard AS, is headquartered in Longyearbyen.

The group's business segments are divided into the following product areas: Hurtigruten Norwegian Coast, Expedition Cruises and Svalbard.

Hurtigruten Norwegian Coast represents Hurtigruten's longest-running and largest business area and comprises a fleet of 11 ships providing a scheduled service between Bergen and Kirkenes. Calling at 34 ports northbound and 33 southbound, Hurtigruten's legendary voyage ranks as one of Norway's most renowned and iconic attractions. In recent years, Hurtigruten has developed the voyages significantly to offer a wide range of activities and excursions to guests along the coast. In this process, Hurtigruten Expedition Teams have been added to most of the ships, providing lectures, organising excursions and adding to the onboard experience. Each port on the voyage receives a daily northbound and southbound call from Hurtigruten throughout the year, except Vadsø (only northbound). The Norwegian state purchases local transport and freight shipment services along the Norwegian coast. In the period 2012-2020 Hurtigruten will operate 11 ships under the "Coastal Route Agreement". In 2018 there was a tender for a new contract for the period 2021-2031. In the new tender the agreement was divided into 3 packages of 3,4 and 4 ships where potential interested parties could bid for one, two or three packages. Hurtigruten was awarded 2 packages of a total of 7 ships and will receive an annual payment NOK 546m (2018 value) for 7 ships (NOK 78m per vessel) which is a 22% increase in annual compensation per vessel compared to the compensation in 2018 of NOK 64m per vessel and will be KPI adjusted over the life time of the contract. This is a very positive outcome for Hurtigruten as we will be able to deploy our 3 largest ships into the fast-growing Expedition Cruise segment from 2021.
Expedition Cruises products include Hurtigruten's expedition cruise operations outside of the Norwegian coastal route. Voyages include visits to the Antarctic and Arctic, Iceland, Greenland, South America and a variety of other destinations. Two vessels operate year-round in this segment, MS Fram, MS Midnatsol (September–April) and MS Spitsbergen (May–August). MS Midnatsol and MS Spitsbergen operate in the Norwegian Coast segment when they are not in the Expedition Cruises segment, as part of the 11-ship fleet. In addition, MS Nordstjernen homeports in Longyearbyen and operates shorter expedition cruises around Svalbard during the Arctic summer. In 2019, MS Roald Amundsen and MS Fridtjof Nansen, the two hybrid vessels under construction, will join the Expedition Cruises segment, further increasing the number of unique itineraries. From 2021 our 3 largest ships will join this segment after undergoing a full refurbishment.

The *Svalbard* product area comprises year-round hotel and restaurant activities, as well as Arctic adventure tourism in Svalbard. From a base in Longyearbyen, Hurtigruten Svalbard AS offers active Arctic experiences on snow-covered and snow-free terrain with an extensive portfolio of activities and excursions. These include day trips on skis, dog sledding, snowmobile trips, boat or hiking excursions and longer expeditions in the archipelago. Hurtigruten's operations – originating back in 1896 – are the largest and most diversified in Svalbard.

Business concept, objective and strategy

Objective and vision

Hurtigruten's vision is to be the world leader in exploration travel by offering authentic and accessible experienced around the world to travellers who wish to explore and travel in a sustainable way. Hurtigruten will be a frontrunner in adventure tourism and expedition cruising, a niche with substantial global growth potential. With a fleet of 14 custom-built expedition ships, Hurtigruten is already the world's largest expedition cruise operator. Two-thirds of the Bergen–Kirkenes route lies north of the Arctic Circle. Accordingly, Hurtigruten has, at any given time, more than half its fleet in Arctic waters throughout the year. Hurtigruten's goal is to reinforce its global position, differentiated from the rest of the cruise industry by authentic and active experiences on both land and sea.

New ground-breaking expedition ships

On 30 June 2016, Hurtigruten AS and Kleven Yards signed a contract for the construction and delivery of two new hybrid-powered expedition ships, MS Roald Amundsen and MS Fridtjof Nansen. The construction will be completed in 2019. The ships will be 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 will 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.

Differentiation and strategy

Hurtigruten's primary strategy is profitable growth throughout its businesses. This will be achieved through increasing capacity through construction of new vessels, operational initiatives to realise its substantial potential, expand and renew its customer base, and strengthen the product range.

Hurtigruten believes its product portfolio differs significantly from product portfolios offered by other cruise operators. It has been purposefully designed to reach a customer segment whose wishes are not met by other operators. Rather than following the traditional cruise model of floating hotels and ships as the destination, Hurtigruten offers its guests the opportunity to get closer to nature in beautiful and remote areas in order to experience local wildlife, culture and activities – with a minimal footprint.

Hurtigruten appeals to guests who prefer to be close to nature and who value the experience of authenticity and sustainability. Operating smaller, custom-built vessels, Hurtigruten's ships are easier to manoeuvre and their crew and staff are very familiar with Norwegian, Arctic and Antarctic waters, which are among the most challenging in the world. In the Expedition Cruises segment, the day-to-day itineraries and programmes are adjusted based on weather and local conditions, ensuring optimal sightings of nature and wildlife, cultural events in a number of ports of call and other experiences that make each Hurtigruten voyage unique and memorable. Hurtigruten allows guests to experience being a part of the destination – rather than simply viewing it from the ship.

Hurtigruten has continued to improve the culinary concept on board through Norway's Coastal Kitchen. The concept of locally sourced produce – often loaded on board only hours before being served in the restaurants – has been a major success. This has been very well received among guests, as reflected by an increase in revenue and very high guest satisfaction ratings.

Described by the New York Times as "one of Norway's treasured national symbols", Hurtigruten's brand has been developed over its 125-year history. It forms part of the country's cultural heritage, strengthening Hurtigruten's legitimacy with customers seeking authentic Norwegian experiences. It has a high level of recognition in key travel markets, such as the Nordic countries and Germany. Based on this strong recognised brand and the authenticity of a product tailored for the adventurous, Hurtigruten believes that a voyage with a major cruise operator is not a relevant alternative for its guests. Hurtigruten's competitive position is supported by substantial barriers to establishment in the market for adventure and nature-based tourism, particularly in the expedition cruise segment. Substantial investments have been made across its fleet of 14 expedition vessels, custom built to deliver the unique Hurtigruten product. Any newcomer wishing to offer expedition and nature-based travel services in Hurtigruten's market will need to invest heavily before it will be able compete with Hurtigruten.

Hurtigruten is regularly recognised as a strong performer in the industry, through Industry awards such as the "Best Expedition Cruise Line" at the 2017, 2018 & 2019Travvy awards, "Best Adventure Cruise Line" in Cruise Critic Editor's Picks in 2017 Mangellan Award Gold for "Best overall Eco friendly "green" Cruise ships" in 2018 and was deemed Germany's "Brand of the year (travel)" for 2017 &2018. This year's Cruise Critic UK Cruisers' Choice Awards for smaller ships Hurtigruten's MS Spitsbergen won the best cruise ship cabins award winning over reviewers with its top-notch service and beautiful cabins.

Hurtigruten is experiencing increasing global media attention, across all markets – including outside Norway and the Nordics, where the company has a strong standing.

Hurtigruten's standing and reputation was acknowledged in the Apeland and Reputation Institute's recognised reputation survey RepTrak 2017. Scoring 86 out of a total of 100 points, one of the highest scores ever achieved in the survey by any company, regardless of industry, Hurtigruten was recognised as Norway's second most reputable company, and by far the highest-ranking company within the travel industry.

Hurtigruten Norwegian Coast

Hurtigruten's service along the Norwegian coast offers a premium experience to its guests, with a very high – and steadily growing – level of customer satisfaction.

Hurtigruten aims to further develop and strengthen its position globally. It still has substantial development potential, which will be realised through a continued commitment to:

- Building Hurtigruten as a strong global brand within exploration travel, as a company that offers unique destinations and a small-scale authentic experience with Hurtigruten Expedition Teams on board.
- Strong differentiation – Hurtigruten offers the original voyage along the Norwegian coast and is the world leader in exploration travel.
- Market development – Enhanced customer insights, targeting new segments, expanding in emerging markets such as China and Australia, improving e-commerce and distribution channels, and more.
- Product development – Unique, active experiences, an even wider portfolio of voyages of varying duration, pre-and-post cruise offerings, and continued development of seasonal concepts.
- More efficient business processes, with an emphasis on on-line capabilities and anticipation of trends.

As one of Norway's foremost tourist products, Hurtigruten is a driving force for developing Norwegian tourism and marketing the country internationally. Annually, Hurtigruten has a marketing budget of approximately MNOK 240. This equals one third of Norway's international marketing investment and is more than the Norwegian authorities invest through Innovation Norway. At the same time, the company has been collaborating with airlines and other industry players to improve flight connections for key departure ports in order to exploit the growth in the short-break market and to make Hurtigruten's products more accessible.

Along the Norwegian coast, Hurtigruten collaborates with over 60 different excursion providers, offering unique seasonally-adapted activities and experiences at all levels to all guests every day of the year. The fast-growing portfolio of excursions is unique both in its size and variety, and none of our competitors currently offer such a range to their guests. Excursions have been a prioritised area for Hurtigruten over many years and will continue as an important part of its differentiation strategy, including the continuous development of excursions operated by Hurtigruten. In 2017, guests can choose from around 100 activities along the Norwegian coast. This is a noticeable increase from 2012 (42 options).

Expedition cruising in polar waters

A further growth in capacity in expedition cruises – especially in Arctic and Antarctic waters – will be one of the main sources of growth for Hurtigruten's business in the coming years.

MS Roald Amundsen and MS Fridtjof Nansen is a crucial part of Hurtigruten's strategy of further expansion in the expedition cruise segment. The new ships will operate at new Hurtigruten destinations, such as full Northwest Passage crossings, Alaska and the Caribbean, in addition to Antarctica and Hurtigruten's key Arctic destinations. Throughout the summer of 2019, the two hybrid sister ships will operate custom-made voyages along the Norwegian coast, homeporting in Hamburg (Germany) and Amsterdam (Netherlands), respectively.

Hurtigruten has more than doubled the capacity allocated to Antarctica by positioning MS Midnatsol in the area from the 2016 Antarctica season – with the ship alternating with MS Spitsbergen on the Norwegian coastal route. This increase in capacity in Antarctica capacity provides Hurtigruten with flexibility and an opportunity to anticipate expected market changes that will occur with MS Roald Amundsen and MS Fridtjof Nansen, to be introduced in the coming years. With further expansion of the fleet, this flexibility will be strengthened. In 2021 MS Midnattsol, MS

Finnmarken and MS Trollfjord will be allocated to this segment after undergoing a full refurbishment and this will further cement our global leadership in the Expedition Cruising category.

Based on an extensive and varied product range, Hurtigruten's position as world leader in exploration travel will continue to be developed towards an active, broad-minded and affluent international public with a wide age range. Altogether, Hurtigruten offers around 250 different excursions on its expedition voyages globally throughout the year. Some excursions are provided by the ship's onboard Expedition Teams, others are operated through third-party companies.

Further work on Expedition Cruises products, both on Svalbard and within the existing and future expedition vessel fleet, will be characterised by the following:

- Continued development of the existing product portfolio, the development of new experiences on board and ashore, and continuous assessment of new destinations.
- Constant evaluation of capacity requirements, pricing and competitive developments in the segment.
- Knowledge building and increased commitment along the whole value chain through the development of logistics, destinations and excursions.
- A focused marketing commitment, strategic brand building and a strengthening of the sales organisation.
- A systematic effort to get coverage in global top-tier media and bloggers, by organising press trips on selected destinations.
- Hurtigruten's land-based activities in Svalbard, with three hotels, an equipment shop and excursions, will be further developed through its wholly-owned Spitsbergen subsidiary.
- Hurtigruten Svalbard owns and operates the Radisson Blu Polar Hotel, the Spitsbergen Hotel ("Funken") and the Coal Miners' Cabins.
- In 2017, Hurtigruten invested MNOK 200 in expanding and upgrading the hotels and the Arctic operations on Svalbard. In February 2018, Funken Lodge opened with 88 brand-new rooms, new bar and lounge areas, a new reception and a refurbished Funktionærmessen gourmet restaurant and In February 2019 the Radisson Blu opened after a full refurbishment of the public areas including a new restaurant and pub concept.
- This investment underlines Hurtigruten's ambitions for year-round expedition-based experiences for individual guests, as well as for groups of travellers. The land-based products in Svalbard will be better integrated with the rest of Hurtigruten's product portfolio in terms of development, marketing and sales.

Key risk and uncertainty factors

Construction risk

The Group's inability to deploy new ships and carry out ship repairs, maintenance and refurbishments on terms and within timeframes that are favourable or consistent with the Group's expectations could result in revenue losses and unforeseen costs.

The deployment of new ships and the repair, maintenance and refurbishment of the Group's ships are complex processes and involve risks similar to those encountered in other large and sophisticated construction, repair, maintenance and refurbishment projects. The Group could experience delays and cost overruns in completing such work. The delays can result in lost revenues as well as lost on-board revenues associated with cancelled bookings.

Other events, such as work stoppages and other labour actions, insolvencies, "force majeure" events or other financial difficulties experienced at the shipyards and among the subcontractors and suppliers that build, repair, maintain or refurbish the Group's ships could prevent or delay the completion of the refurbishment, repair and maintenance of the Group's ships. These events could adversely affect the Group's operations, including causing delays or cancellations of the Group's trips or unscheduled or prolonged dry-docks and repairs.

The consolidation of ownership of certain cruise shipyards, capacity reductions at shipyards or insolvencies could reduce competition and result in increased prices for new builds and repairs. The Group typically uses shipyards in close proximity to its routes, in particular for the Group's Hurtigruten Norwegian Coast segment, which limits its options for choosing shipyards.

Currency risk

The Group operates internationally and is exposed to currency risk in multiple currencies, in particular, EUR, USD and GBP. Currency risk arises from future ticket sales as well as recognised assets or liabilities. In addition, the cost of bunker oil is quoted in USD. Currency risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency which is not the entity's functional currency.

Interest-rate risk

The Group's interest-rate risk is associated with current and non-current borrowings. Loans subject to a variable interest rate present a risk to the Group's overall cash flow. Fixed interest rates expose the Group to fair value interest-rate risk.

The Group's exposure to variable interest-rate risk is limited in 2018 and the Group has no specific hedging strategy to reduce variable interest-rate risk.

Credit risk

The Group has no significant concentration of credit risk. Sales to end users are settled in cash or with recognised credit cards and are paid in full prior to the travel date. Sales to external agents are made either through prepayment/credit cards or through invoicing. The Group has routines to ensure that credit is only extended to agents that have a satisfactory credit rating. Individual risk exposure limits are set based on internal and external assessments of credit ratings.

The counterparties to the derivative contracts and cash transactions are limited to financial institutions with high credit ratings. The Group has routines that limit exposure to credit risk relating to individual financial institutions.

Liquidity risk

Liquidity risk management includes maintaining a sufficient level of liquid assets geared to operational and investment plans and ensuring the availability of sufficient funding from committed credit facilities. The Group has a group account that ensures that part of the Group's unrestricted liquidity is available to the parent company, and which also optimises availability and flexibility in liquidity management. The Group's finance function has overall responsibility for managing the Group's liquidity risk. Rolling liquidity forecasts are prepared in order to ensure that the Group has sufficient liquidity reserves to satisfy its obligations and financial loan covenants. In February 2018 the group refinanced their main debt when the Group entered into a Senior Secured Credit Facility of EUR 575 million and a Revolving Credit Facility of EUR 85 million, securing a long term liquidity source.

Developments in the cruise industry and macro-economic conditions

A large part of Hurtigruten's consolidated revenues derive from international guests seeking unique nature-based and active experiences along the Norwegian coast and on the expedition ships. Generally speaking, the global cruise industry has substantial exposure to fluctuations in the world economy, which also applies to Hurtigruten as a niche provider in the world market. A number of Hurtigruten's markets have experienced economic uncertainty in recent years. This has had consequences for Hurtigruten because of key markets like Germany, the UK and the USA suffering from reduced purchasing power, including for holidays and travel. At the same time, visits by foreign cruise ships to Scandinavia in general and Norway and its west coast in particular, are showing a marked increase. Adventure tourism is one of – if not *the* – fastest-growing global tourist trend, and a market in which there is great potential for the unique Hurtigruten product. The adventure traveller segment does not appear to be age, gender or geography specific. People of all kinds, all over the world, want to explore while traveling.

A flexible, commercial and cost-effectively organised company is therefore essential for meeting such competition, as well as for tapping into a substantially unutilised potential. Hurtigruten will continue its efforts to make real, active and nature-based travel products more easily accessible and on sale earlier, through new channels, to new markets and customer segments. Clearly differentiating Hurtigruten's unique and authentic product in the global cruise and tourism market will be essential.

Hurtigruten is paying careful attention to the macro-economic environment, and additional measures have been taken in all key markets.

The EU Sulphur Directive came into force in January 2015 and involves stricter sulphur limits in fuel for ships in the EU. In SECA (SOx Emission Control Areas), the new limits have been set at 0.10%, which implies that operators in this area must either run on marine diesel/marine gas oil, LNG or install scrubbers that clean exhaust emissions (or apply alternative methods in order to achieve the same effect). The European SECA area includes the Baltic Sea, the English Channel and large parts of the North Sea, bordered in the north by the 62nd parallel. Hurtigruten's itinerary on the Norwegian coast, relevant to 11 ships in the fleet, has a total distance of 1,388 nautical miles (nm). 170 nm of the itinerary is south of the 62nd parallel. Hurtigruten complies with the EU Sulphur Directive, operating on marine special distillates (MSD) north of the 62nd parallel, and on marine gas oil (MGO) when entering the SECA area. Hurtigruten's Expedition Cruises vessel MS Fram operates on MGO only. As of 1 January 2017, Hurtigruten AS decided that it will only purchase an MSD with a maximum content of 500 PPM Sulphur.

The Sulphur Directive will potentially impact the competitive situation on the Norwegian coast. The financial benefits of burning low-priced heavy oil only will be reduced. However, the effect is difficult to quantify, as long as double fuel tank systems are still an option.

EFTA Surveillance Authority State Aid Investigation

The ESA opened a formal investigation into the coastal agreement in December 2015. The ESA has investigated whether or not the agreement provides over-compensation and cross-subsidisation in breach of EEA rules.

On 29 March 2017, the ESA published its conclusions and approved the compensation granted by Norway to Hurtigruten for operating a coastal ferry route between Bergen and Kirkenes from 2012 to 2019.

Financial performance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretation Committee (IFRIC), as endorsed by the European Union.

Consolidated results

Total operating revenues for Hurtigruten Group Consolidated accounts came to NOK 5,428 million in 2018 (2017: NOK 4,923 million), an increase of 10% from last year. The growth was experienced in all segments, Hurtigruten Norwegian coast, Expedition Cruises and Spitsbergen.

Due to increased production, utilisation and yield, in particular in the Norwegian Coastal segment, consolidated EBITDA in 2018 increased by 30% to NOK 1,074 million, from last year's EBITDA of NOK 826 million.

Net financial expenses amounted to NOK 623 million (2017: NOK 854 million). The reduction in financial expenses in 2018 was primarily due to the substantial adverse effects of NOK value against the EUR in 2017 in addition to reduced effective interest rates in 2018 due to the refinancing of Group borrowings in February 2018 . The Group's financing is largely denominated in EUR, and the depreciation of NOK against the EUR in 2017 resulted in NOK 444 million in unrealised foreign exchange losses vs. NOK 160 million in 2018. The unrealized exchange rate losses has no liquidity effect.

The consolidated pre-tax profit for the year was NOK 54 million (2017: loss of NOK 507 million). Due to recognition of deferred tax on tax loss carry forward, the net profit after tax in 2018 was NOK 454 million vs. a net loss of NOK 532 million in 2017. The reason for recognition is due changed taxation regime within Norway and we therefore have a large likelihood of utilization of the tax loss carry forward.

Cash flow and financial position

Cash and cash equivalents in the cash flow statement totalled NOK 385 million at 31 December (2017: NOK 338 million), not including restricted cash.

Net cash flow from operating activities amounted to NOK 968 million (2017: NOK 939 million), reflecting the underlying positive operations.

Net cash flow used in investment activities was NOK 1,339 million (2017: NOK 708 million) including capital expenditures on maintenance and refurbishments of the ships, as well as prepayments on the newbuilds.

Net cash flow from financing activities was NOK 438 million (2017: NOK -150 million), consisting of net proceeds from the refinancing of the Group borrowings in 2018, in addition to interest and financing expenses during the year.

Consolidated non-current assets totalled NOK 8,585 million at 31 December (2017: NOK 7,266 million), an increase from 2017 primarily due to ships under construction and the recognition of previously unrecognized deferred tax asset related to tax loss carry forwards.

Total current assets was NOK 1,175 million (2017: NOK 1,001 million), which consists mostly of cash and cash equivalent but also trade and other receivables.

Total non-current liabilities were NOK 7,265 million (2017: 809 million). The substantial increase is due to reclassification of the issued bond of EUR 455 million and the Revolving Credit Facility of NOK 774 million from long-term to short-term borrowings in 2017, as the bond and the RCF were refinanced in February 2018, when the Group entered into a Senior Secured Credit Facility of EUR 575 million and a Revolving Credit Facility of EUR 85 million. The refinancing entails 3-year prolonged debt maturity, an increase in available liquidity and substantially reduced interest costs going forward. Net interest-bearing debt increased to NOK 6,383 million at 31 December 2018 from NOK 5,344 million in 2017, mainly due to the refinancing of borrowings in 2018.

Consolidated equity at 31 December was NOK 700 million (2017: NOK 455 million). The equity ratio was 7.2% (2017: 5.5%).
Taking into consideration the future prospects of expected growth in operations and revenues, it is the Board's opinion that the financial position of the Group is sound.

In the opinion of the Board of Directors, the consolidated financial statements provide a true and fair view of the Group's financial performance during 2018, and financial position at 31 December 2018. The Board confirms that the consolidated financial statements and the financial statements of the parent company have been prepared based on the going concern assumption, and that it is appropriate to make that assumption.

The net loss for the parent company Hurtigruten Group AS in 2018 was NOK 268 million, which is proposed to be covered by other equity.

Product areas

Hurtigruten operates three main product areas: Hurtigruten Norwegian coast, Expedition Cruises and Spitsbergen. Activities which do not fall naturally into these three areas are grouped in other business.

Hurtigruten Norwegian coast

The Hurtigruten Norwegian coast product area is the largest activity in the group, accounting for around 78% of its consolidated operating revenues in 2018. This product area embraces 11 ships sailing between Bergen and Kirkenes, calling at a total of 34 ports along this route.

Hurtigruten's ships achieved an overall regularity of 97.8% in 2018, on target for the year. Altogether, 516 of a total of 23,640 port calls were cancelled in 2018, due to both technical cancellations and when weather conditions prompted the cancellation of relevant port calls for safety reasons.

Demand for the coastal product has increased and the winter season in particular, which historically had low occupancy, has seen substantial interest in the market. Capacity utilisation for 2018 increased by 6 percentage points to 84%. Gross ticket revenues increased at the same time, resulting in an operating revenue for 2018 of NOK 4,212 million, an increase of 9.9% over last year.

Norwegian Coast segment EBITDA was NOK 888 million for 2018 (2017: NOK 696 million), the positive development a result of increased utilisation and yield and focus on cost controls throughout the year.

Expedition Cruises

The Expedition Cruises product accounted for 17% of the consolidated operating revenues in 2018. The product comprises the vessels MS Fram, MS Nordstjernen, MS Spitsbergen and MS Midnatsol, where the latter two vessels have been alternating between Hurtigruten Norwegian Coast and Expedition Cruises product areas. MS Nordstjernen operated in the north of Norway in the winter/spring and Svalbard in the spring/summer season.

MS Fram cruised in the Antarctic, Canada, Spitsbergen and Greenland in 2018, and in September sailed Hurtigruten's first cruise through the North-West passage. The Fram cruises has shown a positive pricing trend and there is demand for the differentiated smaller-ship products. MS Midnatsol cruised in the Antarctic during the winter season, alternating in the spring with MS Spitsbergen sailing around Spitsbergen during the summer.

Operating revenues amounted to NOK 936 million (2017: NOK 811 million). Capacity utilisation increased to 72% from 68% in 2017, reflecting the increased demand in the segment. Segment EBITDA was NOK 140 million (2017: NOK 85 million).

Spitsbergen

This product includes the Group's activities in Svalbard, including year-round hotel operation with three venues, restaurants, snowmobile hire, retailing and an extensive portfolio of experience products, such as short day trips on skis, dog sledding, snowmobile trips, boat or hiking excursions, and longer expeditions in the archipelago.

There is increased demand for the destination and in 2018 two of the hotels, Funken and Polar hotel underwent substantial refurbishments ,upgrading the guest experience of the destination. However, as the hotels were closed during the renovation period, the number of guest nights in 2018 were reduced compared to last year.
Operating revenues in 2018 were NOK 295 million (2017: NOK 292 million), while EBITDA was NOK 45 million (2017: NOK 44 million).

Research and development activities

The Group conducts no research and development activities other than adaptation of Information and Communications Technology.

Health, safety and the environment

Highest priority

It is Hurtigruten's principle that a safe operation is one of the cornerstones in the process of developing in the desired direction. Hurtigruten has a robust Management System which provides operational guidelines to employees on board and ashore. The business and Hurtigruten's profitability depend on being in control of the safe operation of the ships. In 2018 there were significantly lower number of missed port calls due to technical issues compared to the same period last year.

Hurtigruten's safety policy, revised in 2014, incorporates zero tolerance for accidents and serious incidents – including serious personal injuries and loss of human life. It is, and will remain, a safe company to travel with for guests and a safe and secure workplace for employees. The safety policy will be revised to encompass the organization.

Hurtigruten's Management System is focusing on being proactive, including optimal planning of all operations. Risk management is a fundamental part of the planning process to identify any risks which may occur. Any such risks shall be addressed, and the corrective and preventive measures shall be identified to ensure the risk is at an acceptable level. The reporting of any non-conformities is a main part of improving operations. It enables Hurtigruten to monitor and follow up on any deviations which may occur during operation with regards to Health, Safety and the Environment and it is an integral part of the "continuous improvement process".

The Company did not suffer any serious personal injuries in 2018. A few minor injuries were reported during the year, such as cuts and bruises. 77 first-aid cases were reported, in which the employee in question continued to work after receiving first-aid treatment, this is a 40% reduction from last year. 24 cases were reported in which the employee in question was unable to work for one or more days following the injury. Hurtigruten is analysing these reports to identify effective preventive measures to ensure these incidents are reduced. There has been a reduction in lost-time incidents by crew in 2018. The Company has focused on the reporting of minor incidents by crew, which resulted in further reports in 2018.

There was no serious incident in the marine safety in 2018.

Hurtigruten has| focus to improve the reporting schemes for the controlled discharge of grey water and unwanted substances to the marine environment.

The 11 Hurtigruten ships sails just under one million nautical miles annually along the Norwegian coast and make more than 23,000 port calls. Hurtigruten's vision of zero tolerance is ambitious but attainable. Hurtigruten works continuously to ensure that proactive improvement processes are being addressed. Through such activities as the identification and registration of near misses, unsafe acts and unsafe conditions, Hurtigruten aims to prevent and avoid any incidents.

Responsible operations

Hurtigruten is the world leader in exploration travel, and the world's largest expedition cruise company. This comes with a responsibility. With a mission focused on innovation, technology and sustainability – we have embedded the UN Sustainable Development Goals into all aspects of Hurtigruten´s operations.

Being a world leader in exploration travel comes with a responsibility. Sustainability lies at the core of every part of the Hurtigruten operation and experience.

Hurtigruten's environmental policy sets a clear goal of minimising the impact on the natural environment. Like all other transport and tourist activities, several of Hurtigruten's operations have a direct influence on the natural environment through its vessels' fuel consumption. Hurtigruten is conscious of its responsibility for safe operation and environmental protection and works continuously to enhance its environmental performance through improvements to both technical and operational solutions.

The scope of Hurtigruten's business and its consumption of fossil fuels are affected by the substantial production requirements in the public procurement contract for transport services with the Ministry of Transport and Communications for the Bergen–Kirkenes coastal service. Daily departures year-round and 11 ships in constant operation generate substantial fuel consumption and the consequent discharge of greenhouse gases such as carbon dioxide (CO2) and nitrogen oxides (NOx). The choice of fuel is therefore a critical element in efforts to reduce the risk of emission. Hurtigruten has chosen to not use Heavy Fuel Oil (HFO) on any of its ships and is advocating a ban on HFO in the entire Arctic region and along the Norwegian coast. For the coastal route, Hurtigruten has opted to use marine gas oil (MGO) south of 62 degrees north because of entering the IMO Emission Control Area, and low-sulphur marine special distillates (MSD 500 ppm) north of 62 degrees north These are among the most environment-friendly grades of fuel in the business and exceed the requirements set for voyages in the most vulnerable areas served by Hurtigruten. The higher price of these environmental fuels is offset by their significant positive environmental properties compared to heavier grades of fuel.

<u>Average greenhouse gas emissions in 2018 (2017):</u>
CO2: 218 kg/nm (223 kg/nm)
NOx: 4.0 kg/nm (4.1 kg/nm)
SO2: 0.004 kg/nm (0.004 kg/nm)

Hurtigruten continuously pursues improvement processes to reduce its environmental impact and seeks to apply measures which yield genuine environmental gains. Throughout 2018, Hurtigruten has been working on new methods in its maritime activities to further reduce emissions of the greenhouse gases SO2, CO2 and NOx. Several fuel reducing initiatives contributed to reach the lowest ever average fuel consumption per nautical mile (with today's fleet fleet) with 77.3 l/nm (79.5 in 2017).

Hurtigruten is also affiliated to the Industrial Fund for Nitrogen Oxides, where the overall goal is a general reduction in NOx emissions by Norwegian industry and commerce. Through this fund, Hurtigruten has applied for support for more than 30 NOx-reducing projects during the last years. A number of measures have been implemented and completed. The total annual environmental benefit of the measures is a reduction in emissions of around 680 tonnes of NOx and 19,000 tonnes of CO2. Fuel consumption is also reduced by around 5,950 tonnes as a result of these measures. Several equivalent projects are being developed by Hurtigruten.
In 2018 Hurtigruten started the preparations for technical upgrades on our six 90-class vessels, converting them to LNG/battery hybrids. A key feature has been ensuring that vessels are compatible with climate-neutral advanced biogas, paving the way for low emissions service. These are ground-breaking projects, demanding significant research and development prior to docking. The conversion will reduce the CO2 emissions from these vessels by 25 per cent, while the NOx emissions will reduce by approx. 90 per cent.

Shore power connection is an important environmental initiative, both for Hurtigruten and the ports of call.
Hurtigruten is an active ambassador for shore-based power in Norwegian ports, and has been a key voice in calling for a national shore-based power strategy, as part of our collaboration with the environmental organisation Bellona. In 2018, we were proud to be able to start testing shore-based power in the port of Bergen. This was a major milestone in our long-term goal of increasing the use of renewable energy, and making the transition to electric power from traditional fuels when docked at port. Two of our vessels, MS Kong Harald and MS Spitsbergen are ready to start using shore-based electricity, and three more vessels are ready to undertake the final technical installations during 2019. The rest of the coastal fleet will follow as soon as possible. Bergen was the first port to offer shore power for Hurtigruten ships, and during 2018 we connected our prepared vessels to shore power for the first time.

The shore power facility in the port of Bergen, where the Hurtigruten ships berth for eight hours daily during winter and 5.5 hours during summer, will reduce CO2 emissions annually by almost 130 tonnes per ship. Annual reduction of NOx is estimated at approximately 2.5 tonnes. Hurtigruten eagerly awaits shore power connections being provided at other ports along the Norwegian coast.

Hurtigruten's Expedition Cruises activities in Greenland, Svalbard and Antarctica are subject to guidelines from the International Association of Antarctica Tour Operators (IAATO) and the Association of Arctic Expedition Cruise Operators (AECO). Hurtigruten plays an active role in both these organisations to champion a safe and environmentally-conscious tourism industry in these unique and vulnerable areas.

The introduction of MS Roald Amundsen and MS Fridtjof Nansen – the world's first hybrid-powered expedition ships – will further strengthen Hurtigruten's environmental performance, but are also documenting our commitment to fuel technology innovation and sustainable operations.

Organisation

The company employed 2272 full-time equivalents at 31 December 2018. 1,599 were carried out by permanent employees – including subsidiaries, of which 417 of the full-time equivalents were carried out in our offices in Hamburg, London, Seattle, Tallinn, Paris, Hong Kong and Svalbard. Temporary employees accounted for 673 full-time equivalents.

Hurtigruten is an expertise-based company and training plays a key role. Hurtigruten had 183 apprentices on its ships at 31 December 2018, making it one of the largest apprentice companies in the maritime sector of the Confederation of Norwegian Enterprise (NHO).

Hurtigruten takes its vital role in the education of Norwegian seafarers seriously. Hurtigruten strongly emphasises professional expertise in the workforce, but also local knowledge in its recruitment processes. Our crew members are mainly recruited from along the Norwegian coast and the various ports at which the 11 ships call. Through this, Hurtigruten contributes to maintaining local and regional employment, combined with objectives such as ensuring knowledge, local expertise and flexible shift arrangements for its employees.

The MS Fram, MS Midnatsol/MS Spitsbergen Expedition Cruise ships also offer trainee positions in the expedition teams to newly-qualified nature guides from selected institutions. Our expedition teams are some of the most experienced in the industry. Their members have formal skills as scientists and are experts about the locations to be visited and the local wildlife. Hurtigruten requires all expedition personnel for the Antarctic to take and pass the IAATO field staff online assessment once a year.

Working environment

Hurtigruten is an inclusive workplace company, where we actively aim to reduce total sick leave throughout the organisation. Average sickness absence in 2018 was 5.6% for seagoing personnel and 2.2% for land-based personnel.

Hurtigruten will continue its intensive efforts to keep sick leave as low as possible.

Equal opportunities and discrimination

Hurtigruten aspires to be an attractive employer for people from different backgrounds, regardless of ethnicity, gender, religion or age. Diversity is a desired and positive part of the corporate culture, which strengthens Hurtigruten's ability to operate under varying conditions and operating parameters. Any kind of discrimination is incompatible with Hurtigruten's code of ethics.

51 different nationalities are represented in Hurtigruten and female employees account for 43% of the workforce.

For our seagoing personnel, female employees account for 37% of Hurtigruten's permanent seagoing workforce and are mostly employed in the hotel department. Of the senior officers on board – master, first officer, hotel manager, chief engineer and first engineer – 80% are male. Hurtigruten works continuously to create a better balance in seagoing management posts.

Three of the seven members of the corporate management team are women.

Corporate social responsibility (CSR)

For 125 years, Hurtigruten has explored some of the world's most pristine, vulnerable and awe-inspiring waters. Hurtigruten's guests have found themselves immersed in unique experiences with wildlife and nature and have been introduced to communities and cultures at the destinations Hurtigruten explores. For Hurtigruten, it is important that the guests of tomorrow can enjoy the same meaningful travel experiences as the guests of today. Therefore, Hurtigruten sees it as essential to both minimise the impact of expedition cruising on the environment and maximise the positive contribution to local communities.

Sustainable and responsible behaviour and operations are vital for Hurtigruten. Trust and good relations with partners and stakeholders are crucial for optimum operation and profitability. By virtue of Hurtigruten's position in Norwegian tourism, as well as its extensive business activities and social significance, Hurtigruten both encourages and requires the same level of commitment from its partners and stakeholders. Hurtigruten aims to raise and set standards for the whole industry to follow, as we enter a new era of expedition cruising and adventure travel driven by sustainability.

Our business and operations directly and indirectly touch on many of the 17 UN Sustainable Development Goals. Our sustainability ambitions are directly linked to goals 9, 11, 12, 13 and 14. This is where we believe we can have the most positive impact, for society as a whole and for our business, both now and in the future.

In addition, we have chosen four goals that represent our very foundation, our licence to operate. These are goals 4, 5, 8 and 16. They represent the values that sit at the core of our business and are embedded in our governance systems.

Hurtigruten Group AS – Group

As a result of the strong focus and sustainability we have implemented a lot of measures over the resent years:

- We are building the first ever hybrid-powered expedition cruise ships.
- As the first major travel company in the world to do so - have removed single-use plastic from all our ships and hotels.
- We invite our guests to explore the planet on a safer, greener and more advanced expedition fleet.
- We aim to educate guests and create ambassadors for every destination on every voyage through actively engaging guests in the culture, ecosystems and the consequences of climate change - wherever we explore.

Hurtigruten is dedicated to enhancing local communities through cooperation and trade. Our guests are explorers and appreciate quality experiences, learning, and understanding as a viable path to all-year activity and sustainable growth. We know that protecting and adding long-term value to the waters we sail in, and to the destinations we visit, is not just the right thing to do—it is necessary.

By participating in excursions and sourcing ingredients from local suppliers, Hurtigruten contributes to the livelihoods and welfare of small coastal societies. Hurtigruten respects and supports indigenous communities, values culture and traditions, and maintains a very close cooperation with the communities that make an immense effort to welcome our guests—wherever we visit.

In 2014, Hurtigruten implemented a comprehensive local food concept, called Norway's Coastal Kitchen. Based on locally produced ingredients and products, all menus are designed from the areas in which the ships sail. Fresh ingredients, such as fish, meat or vegetables are delivered, as far as possible, directly on board each ship when it docks in the nearest port. This reduces transport distance significantly by utilising the Hurtigruten port structure actively, and enhances the travel experience for our guests. The initiative has been extremely well received among our guests and the Norwegian Coastal Kitchen concept has been further developed in 2018.

Exploring some of the most spectacular destinations on our planet—and observing the unique wildlife—is an important part of every Hurtigruten voyage. And with that, comes an obligation to explore respectfully. Any impact should be minor and transitory only. Hurtigruten and our guests will not leave visible or lasting signs from a visit. Observing wild animals is done at a distance so as not to alter natural behaviour, and with the utmost respect for their welfare and habitat.

Hurtigruten is taking the lead in the fight against the exploitation and degradation of sites, nature, and local communities by unsustainable over tourism. We are advocating strict rules and regulations, and we are imposing them on ourselves to prove it can be done.

Hurtigruten works continuously to increase the number of guests, both local travellers and tourists. Enhancing capacity utilisation for the ships is an important measure, not only for Hurtigruten's profitability but also for the environment.

As part of the effort to raise awareness the Hurtigruten Foundation was established to address the opportunities and challenges in the areas Hurtigruten explores, to financially support locally-initiated projects and to encourage people to volunteer in worthwhile causes. Twice a year, the Board of the Hurtigruten Foundation grants funds to local and global projects involving initiatives in the areas in which Hurtigruten operates. The deadline for applying for funds is 1 November and 1 May each year.

Share capital and shareholders

Hurtigruten Group AS had one (1) shareholder at 31 December 2018 – Silk Midco AS, and a total paid in equity of NOK 1 826 778 000 spread over 30 shares with a nominal value of NOK 3 000 each, and share premium of 1 826 688 000. Other equity was negative NOK 1 057 million.

The shares have equal rights.

Outlook

Hurtigruten has experienced a strong positive underlying booking trend through of 2018 and into 2019. There is strong demand for the increased capacity offered under the Expedition Cruises segment in both Antarctica and the Arctic. Demand has also increased for the Coastal cruise product across all market segments at higher yields compared to 2018. Especially the increase in demand of our winter cruise product is very high and we see this continuing into 2019 and 2020.

Pre-bookings for 2019 and 2020 are materially higher compared to the same time last year and are driven by significant investments in our commercial team, product-improvement initiatives, including refurbishments, and additional capacity in the Expedition Cruises segment. 2019 bookings are very strong for both segments with NOK 3,525 million in gross ticket revenue including charters booked as of 30 March 2019, compared to NOK 3,041 million last year – an increase of 16%.

Gross revenue booked for Norwegian Coast is up NOK 126 million (+5.4%) for 2018 compared to last year, with an increase in bookings for the first and fourth quarter of 13%

Expedition Cruises has booked NOK 358 million more than the same period last year, up by 49%. Growth in the Expedition Cruises segment is largely due to new itineraries due to the launch of the vessel MS Roald Amundsen.

Marine operations have performed well in 2018 with a record low level lower number of missed port calls due to technical issues. This is expected to continue.

Customer feedback continues to be at a high level, strengthening Hurtigruten’s brand position and ability to attract new customers. Hurtigruten aims to be positively different to counter competition from international cruise operators in Scandinavia and along the Norwegian coast, offering a truly unique experience to its customers.

Oslo, 29 April 2019
Board of Directors of Hurtigruten Group AS

Trygve Hegnar
Chair

Petter Stordalen
Director

Jonathan Barlow Rosen
Director

Matthew John Lenczner
Director

Hurtigruten Group AS

Consolidated Financial Statements

2018

CONSOLIDATED INCOME STATEMENT

(in NOK 1,000)	*Note*	**2018**	**2017**
Operating revenues	*22*	**5,428,434**	4,922,550
Cost of goods sold	*23*	**(1,483,420)**	(1,316,505)
Payroll costs	*24, 25*	**(1,206,479)**	(1,159,050)
Depreciation, amortisation and impairment losses	*7,8*	**(397,623)**	(480,543)
Other operating costs	*26*	**(1,757,384)**	(1,570,098)
Other (losses) / gains – net	*27*	**92,634**	(50,586)
Operating profit/(loss)		**676,162**	345,768
Finance income	*28*	**59,798**	91,946
Finance expenses	*28*	**(682,479)**	(945,918)
Finance expenses - net		**(622,681)**	(853,973)
Share of profit/(loss) of associates	*9*	**596**	1,246
Profit/(loss) before income tax		**54,077**	(506,959)
Income tax expense	*17*	**399,719**	(25,110)
Profit/(loss) for the year		**453,796**	(532,069)
Profit/(loss) for the year attributable to			
Owners of Hurtigruten Group AS		**453,796**	(532,069)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in NOK 1,000)	*Note*	**2018**	**2017**
Profit/(loss) for the year		**453,796**	(532,069)
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss in subsequent periods:			
Change in fair value of equity investments recognized in OCI	*10, 15*	**(28,015)**	-
Actuarial gain/loss on retirement benefit obligations	*15*	**(3,827)**	(2,554)
Tax	*17*	**659**	-
Sum		**(31,183)**	(2,554)
Items that will be reclassified to profit or loss in subsequent periods:			
Cash flow hedges	*15*	**(209,244)**	39,345
Tax	*17*	**35,794**	-
Currency translation differences	*15*	**(4,729)**	21,872
Sum		**(178,179)**	61,217
Total other comprehensive income, net of tax		**(209,362)**	58,663
Total comprehensive income for the year		**244,434**	(473,406)
Total comprehensive income for the year attributable to			
Owners of Hurtigruten Group AS		**244,434**	(473,406)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in NOK 1,000)	*Note*	**2018**	2017
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**4,528,117**	4,301,649
Intangible assets	*8*	**2,653,228**	2,664,560
Investments in associates	*9*	**4,995**	4,880
Deferred income tax assets	*17*	**670,153**	198,837
Investments in other companies	*10*	**27,526**	53,139
Derivative financial instruments	*10*	**-**	30,494
Other financial assets, non-current	*10, 11*	**700,980**	12,794
Total non-current assets		**8,584,999**	7,266,352
CURRENT ASSETS			
Inventories	*12*	**185,390**	148,179
Trade and other receivables	*11*	**428,353**	393,590
Derivative financial instruments	*10*	**-**	19,533
Cash and cash equivalents	*13*	**561,576**	439,206
Total current assets		**1,175,318**	1,000,508
Total assets		**9,760,318**	8,266,860

(in NOK 1,000)	Note	2018	2017
EQUITY			
Equity attribute to owners of the parent			
Share capital	14	**90**	90
Share premium and other paid-in capital	14	**1,827,556**	1,827,556
Other equity not recognized in the income statement	15	**(154,254)**	55,108
Retained earnings		**(973,342)**	(1,427,137)
Total equity		**700,050**	455,616
LIABILITIES			
Non-current liabilities			
Borrowings	16	**6,909,219**	486,556
Deposits from customers, non-current	22	**103,555**	133,328
Deferred income tax liabilities	17	**79,130**	74,562
Retirement benefit obligations	18	**112,220**	110,353
Derivative financial instruments	10	**57,351**	-
Provisions for other liabilities and charges	19	**4,290**	4,452
Total non-current liabilities		**7,265,765**	809,251
Current liabilities			
Trade and other liabilities	21	**850,372**	1,031,949
Deposits from customers, current	22	**708,425**	619,598
Current income tax liabilities	17	**28,842**	21,274
Borrowings	16	**35,118**	5,297,020
Derivative financial instruments	10	**140,310**	13,247
Provision for other liabilities and charges	19	**31,435**	18,904
Total current liabilities		**1,794,502**	7,001,992
Total equity and liabilities		**9,760,318**	8,266,859

Oslo, 29 April 2019

Trygve Hegnar
Chairman

Petter Stordalen
Director

Jonathan Barlow Rosen
Director

Matthew John Lenczner
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in NOK 1,000)	*Note*	Share capital including treasury shares	Share premium	Other equity not recognised in the income statement	Retained earnings	Total Equity
Balance at 1 January 2017		90	1,827,556	(3,555)	(824,119)	**999,972**
Correction, prior period errors					(70,950)	**(70,950)**
Balance at 1 January 2017		90	1,827,556	(3,555)	(895,069)	**929,022**
Profit/(loss) for the year		-	-	-	(532,069)	**(532,069)**
Other comprehensive income						
Currency translation differences	*15*	-	-	21,872	-	**21,872**
Cash flow hedges, net of tax	*15*	-	-	39,345	-	**39,345**
Actuarial gain/loss on retirement benefit obligations, net of tax	*15*	-	-	(2,554)	-	**(2,554)**
Other comprehensive income		-	-	58,663	-	**58,663**
Total comprehensive income		-	-	58,663	(532,069)	**(473,406)**
Balance at 31 December 2017		90	1,827,556	55,108	(1,427,137)	**455,616**
Balance at 1 January 2018		90	1,827,556	55,108	(1,427,137)	**455,616**
Profit/(loss) for the year		-	-	-	453,796	**453,796**
Other comprehensive income						
Currency translation differences	*15*	-	-	(4,729)	-	**(4,729)**
Cash flow hedges, net of tax	*15*	-	-	(173,450)	-	**(173,450)**
Change in fair value of equity investments recognized in OCI	*15*	-	-	(28,015)	-	**(28,015)**
Actuarial gain/loss on retirement benefit obligations, net of tax	*15*	-	-	(3,168)	-	**(3,168)**
Other comprehensive income		-	-	(209,362)	-	**(209,362)**
Total comprehensive income		-	-	(209,362)	453,796	**244,434**
Balance at 31 December 2018		90	1,827,556	(154,254)	(973,342)	**700,050**

We have discovered that the historical information needed to calculate both payments and the accounting liabilities for the defined contribution plan and the defined benefit plan for employees in Hurtigruten Sjø have been incorrect for the years back to 2006, but because of the volume of employees affected, the accounting effect have been difficult to estimate accurately. As a result, a project was initiated in order to update the information, a project which is still ongoing. Using updated information for a major part of the population, new pension liabilities have now been estimated. Per IAS 8, the effect of the increased liabilities has been corrected retrospectively, therefore the opening balances of liabilities and equity for 2017 have been corrected. Liabilities are increased with MNOK 91, deferred tax assets are increased with MNOK 20 and retained earnings are reduced with MNOK 71.

CONSOLIDATED CASH FLOW STATEMENT

(in NOK 1,000)	*Note*	**2018**	2017
Cash flows from operating activities			
Profit/(loss) before income tax		**54,077**	(506,959)
Adjustments for:			
Depreciation, amortisation and impairment losses	*7,8*	**397,623**	480,543
Foreign exchange gains/losses	*28*	**135,187**	353,193
Unrealised gains/losses derivatives		**(9,764)**	40,992
Dividends received		**-**	(1,232)
Interest expenses		**520,878**	506,977
Share of profit and loss of associates		**(596)**	(1,246)
Impairment on financial investments		**(391)**	-
Difference between expensed pension and payments	*18*	**(2,024)**	(4,085)
Change in working capital:			
Inventories	*12*	**(37,209)**	(18,334)
Trade and other receivables	*11*	**(40,927)**	(2,437)
Trade and other payables	*21*	**(72,768)**	(14,458)
Deposits from customers	*22*	**48,855**	132,020
Income tax paid	*17*	**(24,350)**	(26,099)
Net cash flows from (used in) operating activities		**968,590**	938,877
Cash flows from investing activities			
Purchase of property, plant, equipment (PPE)	*7*	**(213,378)**	(220,144)
Proceeds from sale of property, plant, equipment (PPE)		**870**	610
Purchases of intangible assets	*8*	**(69,087)**	(40,764)
Loans to associates and other companies, net		**(683,539)**	12,833
Advance payment of property, plant and equipment (PPE)	*7*	**(288,514)**	(359,855)
Purchase and proceeds from sale of shares		**(45)**	(49,970)
Settlement of financial instruments		**(9,725)**	(26,093)
Dividends received		**500**	1,232
Change in restricted funds	*13*	**(76,313)**	(26,168)
Net cash flows from (used in) investing activities		**(1,339,232)**	(708,319)
Cash flows from financing activities			
Proceeds from borrowings	*16*	**1,077,415**	316,725
Repayment of borrowings	*16*	**(105,403)**	(91,202)
Interest paid		**(533,629)**	(375,322)
Net cash flows from (used in) financing activities		**438,383**	(149,799)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**67,741**	80,758
Cash and cash equivalents at 1 January		**337,978**	217,419
Foreign exchange gains/(losses) on cash, cash equivalenets and bank overdrafts		**(21,135)**	39,801
Cash and cash equivalents at 31 December	*13*	**384,583**	337,978
Restricted cash	*13*	**176,992**	101,227
Cash and cash equivalents in statement of financial position	*13*	**561,576**	439,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

The consolidated financial statements of Hurtigruten Group AS (the Group) consists of Hurtigruten Group AS and its subsidiaries. The main group activities are conducted in the subsidiary Hurtigruten AS, which is a private limited liability company and as of 31 December 2018 was registered and domiciled in Norway and headquartered at Fredrik Langes gate 14, Tromsø. The Group has offices in Kirkenes and Oslo, wholly-owned foreign sales companies in Hamburg, London, Paris, Hong Kong and Seattle, a reservations centre in Tallinn as well as activities in Longyearbyen. Hurtigruten Group AS changed name from Silk Bidco AS on 19 February 2019.

Hurtigruten is the world's leading expedition cruise and adventure travel company, with a fleet of 14 expedition cruise vessels and two new tailor-made expedition cruise vessels do be delivered in 2019. Hurtigruten opens a unique gateway to experiences in the Arctic, Antarctica and along the Norwegian coast to travellers from all over the world. The Group's operating segments are organised into the following three product areas: Norwegian Coast, Expedition Cruises and Spitsbergen.

Hurtigruten Norwegian Coast is the largest segment with 11 ships providing expedition cruises along the Norwegian coast between Bergen and Kirkenes making 33 northbound and 32 southbound port calls on an 11-day round trip. The segment's customers are predominantly international leisure travellers.

Expedition Cruises is the second largest segment using four vessels (MS Fram, MS Spitsbergen, MS Midnatsol and MS Nordstjernen) offering unique expedition cruises primarily in polar waters. The Expedition cruises segment will be strengthened from 2019 and onward with two new purpose-built polar cruise ships, The MS Roald Amundsen and the MS Fridtjof Nansen and from 2021 the Expedition Cruises segment will be Hurtigruten's largest segment when three of the largest vessels from the Hurtigruten Norwegian Coast segment will be transferred to the Expedition Cruises segment.

The Spitsbergen segment comprises year-round hotel and restaurant activities as well as Arctic experience tourism in Svalbard. Hurtigruten Svalbard operates three hotels (two of them recently refurbished) and an equipment store.

Activities that do not naturally fall within these three segments are bundled in Other business. These operating segments are reported in the same way as internal reporting to the Board of Directors and Group management.

The Group's presentation currency is Norwegian Kroner.

The consolidated financial statements were approved by the company's Board of Directors on 29 April 2019.

The following companies are included in the consolidated financial statements

	Registered office	Ownership/voting share
Owned by Hurtigruten Group AS (parent company)		
Hurtigruten AS	Tromsø, Norway	100 %
Hurtigruten Explorer AS	Tromsø, Norway	100 %
Owned by Hurtigruten AS		
HRG Eiendom AS	Tromsø, Norway	100 %
Hurtigruten Estonia OÜ	Tallinn, Estonia	100 %
Hurtigruten GmbH	Hamburg, Germany	100 %
Hurtigruten Inc.	Seattle, USA	100 %
Norwegian Coastal Voyage Ltd	London, UK	100 %
Hurtigruten Pluss AS	Tromsø, Norway	100 %
Hurtigruten SAS	Paris, France	100 %
Hurtigruten Sjø AS	Kirkenes, Norway	100 %
Hurtigruten Svalbard AS	Longyearbyen, Svalbard, Norway	100 %
Explorer II AS [1)]	Tromsø, Norway	100 %
Hurtigruten Cruise AS	Tromsø, Norway	100 %
Owned by Norwegian Coastal Voyage Ltd		
Hurtigruten Ltd	London, UK	100 %
Hurtigruten Asia Pacific	Hong Kong	100 %
Owned by Hurtigruten Explorer AS		
Explorer I AS [1)]	Tromsø, Norway	100 %

1) SPE (Special Purpose Entity)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are described below. Unless otherwise stated in the description, these policies have been consistently applied to all periods presented.

2.1 BASIC POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretation Committee (IFRIC), as endorsed by the European Union. The consolidated financial statements have been prepared under the historical cost convention, modified to include

- revaluation to fair value of certain financial assets and financial derivatives
- revaluation to fair value of defined benefit plan assets
- present value calculation of defined benefit liabilities

- use of the equity method on investments in associated companies

The preparation of financial statements in accordance with IFRS requires the use of estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Areas that involve a high degree of such judgments, or are highly complex, and areas in which assumptions and estimates are of material importance for the consolidated financial statements are described in more detail in Note 3.

The Group's consolidated financial statements have been prepared according to uniform accounting policies for similar transactions and events under similar conditions.

2.2 CONSOLIDATION POLICIES

The consolidated financial statements include the financial statements of the parent company and its subsidiaries from 1 January 2018 to 31 December 2018, including comparable numbers for the previous year.

A) SUBSIDIARIES AND CONSOLIDATION

Subsidiaries constitute all companies (including structured companies) over which the Group exercises control. Control over an entity arises when the Group is exposed to variability in the return from the entity and has the ability to impact this return by virtue of its influence over the entity. Subsidiaries are consolidated from the time a controlling influence is established and until the controlling influence ceases to exist.

All intra-Group balances, transactions and unrealised gains and losses on transactions between Group companies are eliminated.

B) ASSOCIATED COMPANIES

Associates comprise all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) SEGMENT REPORTING

An operating segment is a component of the business:

i) that engages in business activities of which the company receives operating revenues and incurs costs;

ii) whose operating results are regularly reviewed by the company's ultimate decision-maker to determine which resources should be allocated to the separate segments.

The Group has three operating segments: Norwegian Coast, Expedition Cruises (previously known as "Explorer") and Spitsbergen (non-cruise operations on the isles of Svalbard). Activities that do not naturally fall within these segments are bundled in Other business.

B) TRANSLATION OF FOREIGN CURRENCIES

(I) FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements of the individual entities in the Group are measured in the currency used in the economic area in which the entity primarily operates (the functional currency). The consolidated financial statements are presented in Norwegian kroner (NOK), which is both the parent company's functional currency and the Group's presentation currency.

(II) TRANSACTIONS AND BALANCE SHEET ITEMS

Foreign currency transactions are translated into the functional currency using the transaction rate. Realised and unrealised foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of exchange rates of monetary assets and liabilities denominated in foreign currencies at the balance sheet date are recognised in the income statement. If the currency position is considered a cash flow hedge, gains and losses are recognised as other comprehensive income until the hedged transaction is completed, after which the currency position is transferred to the result on ordinary activities. Foreign exchange gains and losses on loans, cash and cash equivalents are presented (net) in the income statement as finance income or expenses.

(III) GROUP COMPANIES

The income statement and balance sheets of Group entities whose functional currency differs from the presentation currency are translated in the following manner:

- The balance sheet is translated at the currency rate in force at the balance sheet date
- The income statement is translated at the transaction date currency rate. Monthly average rates are used as an approximation of the transaction rate.
- Translation differences are recognised in other comprehensive income and specified separately in equity as a separate item.

C) REVENUE RECOGNITION

Revenue from the sale of goods and services is recognised at fair value, net of VAT, returns and discounts.

In order to account for revenue, the following criteria first have to be met. All parties to the contract must have approved the agreement and be committed to perform in accordance with the agreement. Furthermore, the parties must be able to identify both the payment terms and the deliverables according to the contract. And the collection of the entitled payment must be probable considering only the customer's ability and intention to pay that amount of consideration when it is due.

Revenue is recognised when the customer achieves control over the sold product or service, and thus has the opportunity to determine the use of, and can receive the benefits deriving from, the product or the service. Sales are recognised when revenue can be reliably measured, it is probable that the economic benefits associated with the transaction will flow to the Group and specific criteria related to the various forms of sale that are listed below are met.

Revenue is recognised in the income statement as follows:

(I) REVENUE FROM SALE OF SERVICES AND TRAVEL

Sales of services are recognised in the accounting period when the service is rendered and/or delivered to the customer. For ship voyages, revenue is recognised over the days the passenger is on board. For voyages currently en route on the reporting date, revenues are accrued based on the number of days the voyage lasts before the end of the accounting period. Revenue recognition is performed based on reports from the booking system, providing detailed information regarding the sailings. Tickets, meals and excursions are primarily pre-sold before the journey commences, but for travellers along the Norwegian coast, it is also possible to purchase tickets in the port right before the ship sails. Onboard sales of food, beverages, shop and excursions accounts for approximately nine percent of the total revenue. Travellers pay their journey up-front, and the Group accounts for these payments as deposits from customers (liabilities). See note 22 for a reconciliation of changes in this liability.

Revenue from freight of cargo along the Norwegian coast is recognised based on monthly invoicing of available cargo space, as the customer has rented all the cargo space and pays a daily hire regardless of whether the space is used or not.

(II) REVENUE FROM SALE OF GOODS

The Group's sales of goods primarily relate to sales of food, souvenirs and other retail products onboard the ships. Sales are recognised in income when the customer has received and paid for the goods. Payment for retail transactions is usually made in the form of cash or by credit card.

(III) PUBLIC PROCUREMENT

The Group has a State Service Obligation with the Ministry of Transport and Communications to operate the Bergen–Kirkenes coastal route.

Revenue received from public procurement is recognised in the income statement on a continuous basis over the year based on existing contracts, and bases on monthly invoices. This contract is the result of a public tender, in which the company has a fixed contract-sum for planned (annual) production. There are specific conditions and calculation methods for the indexation of the contract sum. Any changes beyond the planned production are compensated/deducted utilising agreed-upon rates set out in the agreements and recognised in the periods in which they occur.

(IV) INCREMENTAL COSTS

Incremental costs of obtaining a contract are those costs incurred to obtain a contract with a customer that would not have incurred if the contract had not been obtained, for example, a sales commission. The Group incur commissions to several sales commissioners, selling tickets to Hurtigruten cruises on our behalf. When the agencies are invoiced, the invoices are net of commissions, and both the revenue and the commission cost is recognised in the income statement at the time of the travel. For commissions to agents who invoice on a monthly basis or subsequently after the journey, the Group will have to make an accrual. The expenses are presented as Cost of Goods sold in the Income Statement.

(V) CANCELLATIONS, GUARANTEES ETC

The Group has, as a provider of package travels, the same responsibilities as other actors in the business, following the EU Directive 2015/2302 on Package Travel, as set forth in our terms and conditions for travellers: "Subject to these booking conditions, if we or our suppliers perform or arrange your contracted holiday arrangements negligently, taking into consideration all relevant factors, we will pay you reasonable compensation".

No provision for guarantees has been accounted for in the statement of financial position as at 31 December 2018.

D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment primarily comprise ships (Hurtigruten ships), land and buildings (hotels, offices and workshops). Property, plant and equipment are recognised at cost less depreciation and any impairments. Acquisition cost comprises costs directly associated with the acquisition of the asset.

Periodic maintenance is recognised in the balance sheet and expensed over the period until the next periodic maintenance. Ongoing maintenance for all ship types is expensed continuously during the period in which the work is performed.

Land is not depreciated. Other operating assets are depreciated on a straight-line basis to the estimated residual value, over the asset's expected useful life. Expected useful life is determined based on historical data and based on benchmark economic useful life in the industry. Residual value is calculated based on estimated sales values for operating assets at the end of their expected useful life. Expected useful life is:

Ships and ship-components	12–30 years
Buildings	25 – 100 years
Other	3–10 years

The useful life and residual value of operating assets are assessed on every balance sheet date and amended as necessary. When material components of operating assets have different useful lives, these operating assets are recognised as their various components. These components are depreciated separately over each component's useful life. At the end of each accounting period, an assessment of whether there are any indications that operating assets may be impaired, and in the event that such indications exist, the asset's recoverable amount is estimated. When the book value of an operating asset is higher than the estimated recoverable amount, it is written down to the recoverable amount.

Gains and losses on disposals are recognised in the income statement under "Other (losses)/gains – net", as the difference between the sales price and the book value.

The cost of ships under construction include progress payments for the construction of new ships, as well as design and engineering fees, capitalised interest, construction oversight costs and various owner supplied items.

E) INTANGIBLE ASSETS

(I) GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets in the acquired subsidiary at the date of acquisition. Goodwill arising on the acquisition of subsidiaries is classified as an intangible asset.

Goodwill is allocated to the cash-generating unit or groups of cash-generating units that are expected to benefit from the acquisition at the time of acquisition (section F).

Goodwill is not amortised but is tested annually for impairment.

(II) TRADEMARK

Trademarks acquired in a business combination are recognised at fair value at the acquisition date. The trademark Hurtigruten has an indefinite useful life and is tested annually for impairment.

(III) OTHER INTANGIBLE ASSETS

Other intangible assets are largely directly associated with development costs for computer systems recognised in the balance sheet at cost, if the criteria for recognition in the balance sheet are met. Expenses recognised in the balance sheet as custom-developed computer systems largely comprise payroll costs and hired-in consultants in connection with the development.

The criteria for recognising custom-developed intangible assets in the balance sheet are:

- It is technically feasible to complete the development of the software so that it will be available for use.
- Management intends to complete the development of the software and use it.
- The intangible asset will in fact be used after its completion.
- It is probable that the intangible asset will create future economic benefits.
- Adequate technical, financial and other resources are available for the company to be able to complete the development and to use the completed intangible asset.
- Development costs for the asset can be reliably measured

Intangible assets are considered to have a limited life span and are amortised over their expected useful life. Assessments are made at the end of each accounting period to find any indications of impairment of intangible assets. If there are indications of impairment, the intangible asset's recoverable amount is estimated and compared to its carrying amount, and in the event that the carrying amount is above the recoverable amount, the intangible asset is written down to its recoverable amount. Other development expenditures that do not meet the criteria for recognition in the balance sheet are expensed as they are incurred. Contracts acquired in business combinations are recognised at fair value at the acquisition date and are amortized over the contract's useful life.

F) IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets with indefinite useful life and goodwill are not amortised but are tested annually or more frequently if there are indications of impairment. Depreciated property, plant and equipment and amortised intangible assets are assessed for impairment when there is any indication that the book value may not be recoverable.

An impairment loss is recognised for the amount by which the asset's book value exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. In assessing impairments, non-current assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each reporting date the possibility of reversing previous impairment of non-financial assets (except goodwill) is assessed.

G) FINANCIAL ASSETS

(I) CLASSIFICATION

The Group classifies financial assets in the following three categories, depending on the management's object of acquiring the asset, and the characteristics of the asset:

1) *Financial assets measured at amortised cost*
   Primarily loans and receivables with fixed payments of principal and interest, where the financial instrument is not traded, but held to collect the contractual cashflow. Loans and receivables are carried in successive periods at amortised cost, using the effective interest method. Loans and receivables with maturities less than 12 months are classified as current assets. Instruments with more than 12 months maturity are classified as non-current assets.

2) *Financial assets measured at fair value through other comprehensive income*
   The Group uses derivatives to hedge exposure against foreign currency risk and bunker oil prices.

Some of these derivatives are designated as hedging instruments by management, and the formal hedging requirements regarding the relationship between the hedged item and the hedging instrument and the accompanying hedging documentation is prepared at the inception of the hedge. The portion of the gain or loss on such hedging instruments that is determined to be an effective hedge is recognised in other comprehensive income.

Investments in equity instruments where the management has made an irrevocable election to present subsequent changes in the fair value in other comprehensive income and where the investment is not held for trading, is also classified into this group.

3) *Financial assets measured at fair value through profit or loss*
All other financial assets should be measured at fair value through profit or loss. For the Group, this primarily consist of derivatives that are not designated as hedges, or the portion of the gain or loss on hedging instruments that is determined to be an ineffective hedge. Assets in this category are classified as current assets or liabilities.

(II) RECOGNITION AND MEASUREMENT

Regular purchases and sales of financial assets are recognised and derecognised using trade date accounting, which means using the date the Group commits itself to purchase or sell the asset. Unconditional receivables and payables are recognised as assets or liabilities when the entity becomes a party to the contract and has a legal right to receive or a legal obligation to pay cash. Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement. Planned future transactions, no matter how likely, are not assets and liabilities because the entity has not become a party to a contract.

All financial assets that are not recognised at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial assets recognized at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Subsequent measurement depends on the classification as referred to under Section G, point I.

Financial assets are derecognised when the rights to receive cash flows from the investment expire or when these rights have been transferred and the Group has substantially transferred all risks and rewards of ownership.

Gains or losses from changes in fair value of assets classified as “financial assets at fair value through profit or loss”, including interest income and dividends, are included in the income statement under financial items in the period in which they arise. Dividends from financial assets at fair value through profit or loss are included in finance income when the Group’s right to receive payments is established.

H) OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are only offset, and the net amount reported in the balance sheet, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

I) IMPAIRMENT OF FINANCIAL ASSETS

At the end of each reporting period, for all financial assets measured at amortised cost except customer receivables, the Group assesses whether the credit risk on the financial instruments has increased significantly since initial recognition, by using available reasonable and supportable forward-looking information. If and when contractual payments are more than 30 days past due, the credit risk is always considered to have increased significantly. For financial instruments where the credit risk is considered to have increased significantly, an amount equal to the lifetime expected credit losses is recognised for loss allowance. For financial instruments where the credit risk has not increased since initial recognition, an amount equal to 12-months expected credit losses is recognised for loss allowance. The change in recognised impairment losses since the last reporting period is recognised in profit or loss.

Impairment testing of customer receivables is described in section k) below.

J) DERIVATIVES AND HEDGING

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value on an ongoing basis. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group classifies derivatives that are part of a hedging instrument as either:

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair-value hedge) or
(ii) hedges of variable cash flows with a particular risk associated with a recognised asset, liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Such assessments are documented both at hedge inception and on an ongoing basis.

The fair value of derivatives used for hedging purposes are presented in Note 10C. Changes in the equity item from hedging are presented in Note 15.

Cash flow hedging
The effective portion of changes in the fair value of derivatives that are designated and qualify as hedging instruments in cash flow hedges is recognised in other comprehensive income. Losses and profits on the ineffective portion are recognised in the income statement.

Hedge gains or losses recognised in other comprehensive income and accumulated in equity are recycled over profit and loss in the period during which the hedged item affects the income statement (for example, when the forecasted sales transaction is taking place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recycled over profit and loss when the forecasted transaction is recognised in the income statement. If a hedged transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement as a reclassification adjustment.

K) TRADE RECEIVABLES

Trade receivables are amounts due from customers for merchandise or services sold on credit in the ordinary course of business. If settlement is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are classified as non-current assets.

Trade receivables are measured at amortised cost, which normally is equal to the original invoice amount, as the interest element using the effective interest method normally is insignificant and therefore disregarded.

For customer receivables, an amount equal to the lifetime expected credit losses is recognised for loss allowance.

L) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank deposits and other short-term liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities in the balance sheet. Cash and cash equivalents are defined differently in the balance sheet and cash flow presentation. Restricted bank deposits are included in the balance sheet presentation but not in the cash flow statement. The difference is reconciled below the cash flow statement.

M) TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are classified as non-current liabilities.

Trade payables are valued at fair value on first-time recognition in the balance sheet. Subsequently, trade payables are measured at amortised cost using the effective interest method. The interest element is disregarded if it is immaterial.

N) BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequently, borrowings are recognised at amortised cost using the effective interest method. The difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings as part of the effective interest.

Borrowings are classified as current liabilities unless there is an unconditional right to defer payment of the liability for at least 12 months after the reporting date. Repayments due within one year are therefore classified as current liabilities.

O) BORROWING COSTS

Borrowing costs directly attributable to the acquisition of operating assets are recognised in the balance sheet until the asset is ready for its intended use. Other borrowing costs are expensed on an ongoing basis. In the cash flow statement, interest paid is classified as part of the financing activities.

P) CURRENT AND DEFERRED INCOME TAXES

Income tax expense comprises income taxes payable and deferred income tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In such case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax is calculated in accordance with the tax laws and regulations enacted or substantively enacted at the balance sheet date in the countries in which the company’s subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax laws are subject to interpretation. Based on management’s assessment, a provision is made for expected tax payments when necessary.

Deferred tax is calculated on all temporary differences between the tax values and consolidated financial values of assets and liabilities. Deferred income tax is determined using tax rates and tax laws which have been enacted or substantially enacted by the balance sheet date and which are expected to apply when the deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the tax-reducing temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Group, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are recognised net to the extent that they relate to income taxes levied by the same taxation authority, and there is a desire and ability to realise the assets and settle the liabilities simultaneously.

Q) PENSION LIABILITIES, BONUS SCHEMES AND OTHER EMPLOYEE REMUNERATION SCHEMES

(I) PENSION LIABILITIES

The Group's companies operate various pension schemes. The schemes are generally funded through payments to life insurance companies. The Group operates both defined contribution and defined benefit plans.

The liability recognised in the balance sheet connected with the defined benefit schemes is the present value of the defined benefits at the balance sheet date less the fair value of the pension assets. The pension liability is calculated annually by an independent actuary using the projected unit credit method. The gross liability is discounted to present value applying the interest rate on high-quality corporate bonds issued in the currency in which the liability will be paid, and with approximately the same terms as the payment horizon of the liability.

The cost of pension entitlements for the period are recognised in payroll costs. This expense includes an increase in the pension liability due to earnings from previous years, changes, curtailments and settlements.

Past service costs arising from the amendments of plan benefits are immediately recognised in the income statement.

The net interest expense is calculated by applying the discount rate to the net pension liability and the fair value of the pension assets. This cost is recognised in payroll costs in the income statement.

Remeasurement gains and losses arising from changes in actuarial assumptions are recognised in equity through other comprehensive income in the period in which they arise and will not be reclassified to profit or loss in subsequent periods.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as payroll costs in the same period as the employees have rendered services entitling them to the contributions. Prepaid contributions are recognised as a financial asset to the extent that a cash refund or a reduction in the future payments are available.

(II) PROFIT-SHARING AND BONUS SCHEMES

The group recognises a liability and an expense for bonuses and profit-sharing plans at the time the specific criteria for performing the payment are fulfilled. The accrual is including social security tax.

(III) SHARE-VALUE-BASED REMUNERATION

The group have share-based remuneration schemes in which the company receives services from employees as consideration for a share-based payment, (see Note 20).

The fair value at grant date, is amortised over the vesting period.

Share-based remuneration plans are settled either with cash or a private placing of shares.

(IV) TERMINATION BENEFITS

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

R) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that the Group will have to make a payment or forfeit an asset in order to settle the obligation and the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination benefits. Provisions are not recognised for future operating losses; however, provisions for unprofitable contracts are recognised.

S) LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When the Group has substantially assumed all the risks and rewards of ownership of the underlying lease object, leases are classified as finance leases and the lease object and lease liability are recognised in the balance sheet.

Accounting for leases will change following implementation of IFRS 16 "Leases" with effect for financial reporting after 1 January 2019, see section 2.4.

T) DIVIDENDS

Dividend distribution to owners of the parent is recognised as a liability in the Group's financial statements when the dividends are approved by the General Meeting.

U) GOVERNMENT GRANTS

The Group receives material grants in the form of grants for trainee schemes and net salary subsidies. These grants are recognised net (as a cost reduction) together with the other payroll costs (see note 24).

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current year, the Group has applied the following new accounting standards that were effective for accounting periods beginning on or after 1 January 2018 and which are relevant for Hurtigruten Group:

IFRS 9 Financial Instruments has replaced IAS 39 Financial Instruments: Recognition and Measurements. The standard has introduced new requirements for the classification, measurement and accounting treatment of financial assets and liabilities, as well as hedge accounting. In accordance with IFRS 9, financial assets are divided into three categories: fair value through other comprehensive income, fair value through profit or loss and amortised cost. The measurement category is established based on the method used for the first-time recognition of the asset. Classification is contingent on the entity's business model for management of its financial instruments and the nature of the cash flows for the individual instrument.

Impairments attributable to credit risk are now recognised based on expected losses rather than the previous model where losses must already have been incurred.

The standard essentially continues the requirements of IAS 39 for financial liabilities. The greatest change applies to cases where the fair value option has been utilised for a financial liability, but this is not relevant for the Group as this option has not been used.

IFRS 9 has simplified the requirements for hedge accounting by tying hedging efficiency more closely to management's risk management and providing greater scope for assessment. The requirements for hedging documentation are continued but the notes disclosure requirements are increased somewhat.

Implementation of IFRS 9 has not affected the financial statements of the Group materially. Work processes have been slightly changed and there are some enhanced notes regarding hedge accounting.

IFRS 15, Revenues from Contracts with Customers has established a new five-step model that applies to revenue arising from contracts with customers. Furthermore, the standard requires the customer contract to be split into individual performance obligations where these are multiple. A performance obligation can be a product or a service, and as recognition of these can be different, they should be separated. Revenue is recognised when a customer achieves control over a product or service, and thus has the opportunity to determine the use of, and can receive the benefits deriving from, the product or the service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated interpretations.

Implementation of IFRS 15 has not affected the financial statements of the Group materially, however the notes disclosures regarding revenue have been altered, reflecting the new and increased requirements of the new standard.

Standards, amendments and interpretations to existing standards that have not entered into force and which the Group has not early adopted:

IFRS 16 Leases, establishes significant new accounting policies for lessees. IFRS 16 eliminates the current distinction between operating and finance leases as is required by IAS 17 Leases, and instead introduces a single lessee accounting model. When applying the new model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and recognise depreciation of lease assets separately from interest on lease liabilities in the income statement. Depreciation and interest expenses will replace the rental expenses. For the Group this implies that current operating leases that satisfy the criteria will be recognised with assets and liabilities. Effective date is 1 January 2019.

The Group will adopt IFRS 16 on 1 January 2019. IFRS 16 requires adoption either on a retrospective basis or on the modified retrospective basis. Using the retrospective basis, the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and comparatives will be restated. Lease liabilities for all material leases, except short term leases (duration of 12 months or less) have been measured as the present value of the remaining lease payments, discounted using either the borrowing rate implicit in the lease, or by using the incremental borrowing rate at the date of initial application. Leases of assets of low value (purchase price less than approximately NOK 50,000) are regarded as immaterial and is disregarded for this purpose. The difference between the value of the lease liabilities and the right-of-use assets will be recorded as an adjustment to the opening balance of retained earnings. The following implementation effects have been calculated:

(in NOK 1,000)	Right-of-use asset	Lease commitment, short term	Lease commitment, long term	Effect on retained earnings, implementation date
Apartments	18,994	2,261	17,435	-702
Office machinery	11,708	4,811	7,027	-130
Office Premises	83,000	16,212	70,777	-3,989
Other machinery	734	374	369	-9
Ship	256,785	56,394	206,319	-5,929
Totals	**371,221**	**80,052**	**301,927**	**-10,759**

For the financial year 2018 (comparative figures in the 2019 financial statements), we estimate the effects on the income statement as follows:

(in NOK 1,000)	Amortisation of right-of-use asset	Interest expense	Rent expenses	Net P&L effect
Apartments	2,710	697	-3,188	-219
Office machinery	4,958	585	-5,396	-146
Office Premises	19,804	3,943	-23,107	-641
Other machinery	551	44	-583	-13
Ship	60,245	14,110	-70,505	-3,851
Totals	**88,269**	**19,378**	**-102,777**	**-4,870**

The following effects are expected in the statement of financial position as per 31 December 2018:

(in NOK 1,000)	Right-of-use asset	Lease commitment, short term	Lease commitment, long term	Effect on retained earnings
Apartments	18,912	2,660	17,172	-921
Office machinery	6,750	4,559	2,468	-277
Office Premises	89,413	21,960	72,082	-4,629
Other machinery	2,624	854	1,792	-22
Ship	196,540	59,843	146,476	-9,780
Totals	**314,238**	**89,876**	**239,991**	**-15,628**

For the financial year 2019, we estimate the effects on the income statement as follows:

(in NOK 1,000)	Amortisation of right-of-use asset	Interest expense	Rent expenses	Net P&L effect
Apartments	2,802	631	-3,291	-142
Office machinery	4,467	323	-4,882	92
Office Premises	21,945	3,578	-25,538	15
Other machinery	875	85	-939	-21
Ship	60,245	10,662	-70,505	-402
Totals	**90,334**	**15,280**	**-105,155**	**-459**

NOTE 3 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgments are reviewed on an ongoing basis and are based on experience, consultation with experts, trend analyses and several other factors, including forecast future events that are deemed probable under current circumstances.

3.1 KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions about the future. Thus, by their very nature, the accounting estimates that are made because of the above processes will rarely fully correspond with the outcome.

Estimates and assumptions that have a significant risk of causing a material adjustment to the book values of assets and liabilities within the next financial year are outlined below.

(A) ESTIMATED IMPAIRMENT OF GOODWILL AND TRADEMARK

The Group performs annual tests to assess potential impairment of goodwill and trademark, cf. Section 2.3 point e. The estimated recoverable amount is determined using the present value of budgeted cash flows for the cash-generating units. These calculations require the use of estimates (Note 8) for the required rate of return for the period, cash flows and the growth factor of the cash flows.

The Group does not apply a general growth factor beyond expected inflation for cash flows when testing goodwill for impairment. The total required rate of return used to discount cash flows is calculated as a weighted average return on equity and the required rate of return on interest-bearing debt. This calculation utilizes an estimate of the risk-free interest rate, risk premium, beta and the liquidity premium.

(B) SHIPS

Useful economic lifetime

The level of depreciation depends on the estimated economic lifetime of the ships. These estimates are based on history and experience relating to the Group's vessels. The estimates are reviewed at regular intervals. A change in the estimate will affect depreciation in future periods.

Estimated impairment of ships

Where there are indications of such, the Group tests whether ships have suffered any impairment, see Section 2.3 point d. The book value of the ships is included in the annual impairment test of goodwill and trademark.

(C) DEFERRED INCOME TAX ASSETS

The recognition of deferred income tax assets is based mainly on the utilization of tax loss carry forwards against future taxable income in the Group. The assessment is made based on management's estimates of future profits in the Group and includes an assessment of the Group's future strategy, economic developments in the markets in which the Group operates, future tax regimes and the Group's ability to deliver forecast synergies. In preparing the financial statements, management has found the future taxable income to be sufficient to utilise the recognised deferred income tax assets. Please refer to Note 17 for more information on deferred income tax assets recognised in the balance sheet.

(D) FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The fair value of financial instruments not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques and information from the contract counterparty. The

Group uses its judgment to select a variety of methods and to make assumptions based mainly on market conditions existing at each balance sheet date. Please refer to Note 10 for further information.

(E) PENSION ASSUMPTIONS

The Group has both defined contribution and defined benefit pension schemes. Measurement of pension costs and pension obligations for defined benefit plans involves the application of a number of assumptions and estimates, including the discount rate, future salary levels, expected employee turnover rate, the return on plan assets, annual pension increases, expected adjustments to G (the National Insurance Scheme basic amount) and demographic factors.

The Group has pension obligations in Norway and Germany. The discount rate used to calculate pension obligations in Norway is based on 15-year corporate covered bonds, with an additional provision to adjust for applicable risk and maturity relevant for the pension obligations. Covered bonds are primarily issued by credit institutions to listed Norwegian commercial and savings banks and are secured against loans directly owned by the credit institution. The Group has applied economic assumptions in line with the recommendation of the Norwegian Accounting Standards Board. For obligations in Germany, the discount rate is determined based on the interest rates on high quality corporate bonds denominated in the currency in which the benefits will be paid, with terms to maturity approximating to the term of the related pension obligation.

We have discovered that the historical information needed to calculate both payments and the accounting liabilities for the defined contribution plan and the defined benefit plan for employees in Hurtigruten Sjø have been incorrect for the years back to 2006, but because of the volume of employees affected, the accounting effect have been difficult to estimate accurately. A project has been initiated in order to update the information, a project which is still ongoing. Using updated information for parts of the population and extrapolation, adjusted pension liabilities have been estimated.

Changes in pension assumptions will affect the pension obligations and pension cost for the period. Pension obligations are significantly affected by changes in the discount rate, life expectancy and expected salary and pension adjustments. Please refer to Note 18 for more information about pensions.

(F) INCOME TAX

Income tax is calculated based on results in the individual Group companies. The Group is subject to income taxes in several jurisdictions. Calculation of the period’s tax expense and distribution of tax payable and deferred income tax for the period requires a discretionary assessment of complex tax regulations in several countries. Consequently, uncertainty attaches to the final tax liability for many transactions and calculations. Where there is a discrepancy between the final tax outcome and the amounts that were initially recognised, this discrepancy will affect the recognised tax expense and provision for deferred income tax assets and liabilities in the period in which such determination is made. Please refer to Note 17 for more information about income tax.

NOTE 4 FINANCIAL RISK MANAGEMENT

The following discussion concerning financial risk management relates to the policies adopted and applicable to the financial year 2018. The Group uses financial instruments such as bank loans and bond loans. In addition, the Group utilises financial instruments such as trade receivables, trade payables, etc., that are directly related to day-to-day operations. The Group has also utilised certain financial derivatives for hedging purposes.

4.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency, bunker price, fair-value interest rate and variable interest rate risk), credit risk and liquidity risk. The Group's overarching risk management goal is to increase predictability for the Group's operations and to minimise the impact of fluctuations in macro conditions on the Group's results and financial position.

The Group has defined overarching principles for risk management which encompass guidelines for specific areas such as currency, interest rate, bunker price, credit risk and the use of financial derivatives. The Board of Directors approves the Group's risk management strategy and reviews it annually. The CFO function is responsible, in consultation with the CEO, for conducting ongoing tactical risk management in line with the approved strategy, including exposure analyses and reporting.

(A) MARKET RISK

(I) CURRENCY RISK

The Group operates internationally and is exposed to currency risk in multiple currencies, in particular EUR, USD and GBP. Currency risk arises from future ticket sales as well as recognised assets or liabilities. In addition, the bunker oil cost is quoted in USD. Currency risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency which is not the entity's functional currency.

The price of oil, and thus bunker fuel, is internationally traded in USD, while the Group purchases bunker fuel in NOK. The risk can therefore be split into a currency element and a product element. The currency element is partially aligned with the Group's cash flow exposure in USD, and the product risk is hedged separately.

In 2015, Hurtigruten Group AS issued a bond with a face value of EUR 455 million, with a tenure of 7 years. This Senior Secured Bond Facility was terminated in February 2018. A Senior Facility Term Loan of EUR 575 million and EUR 85 million Senior Secured Revolving Credit Facility were established to replace the EUR 455 million Bond Facility and repay the outstanding EUR 85 million Senior Secured Revolving Credit Facility. The new facility has a tenure of 7 years. A full utilization of the Term Loan until maturity is assumed and no repayment of any facility unless so required per documentation. The new EUR 85 million Senior Secured Revolving Facility was undrawn at closing in February. In November 2018 the Senior Facility Term Loan of EUR 575 million was increased with EUR 80 million. As of 31 December 2018, the outstanding principal is EUR 655 million. The purpose of increasing the facility was to repay the NOK 400 million bond (financing purchases of MS Nordlys and MS Richard With) and for general corporate purposes including further upgrade of the fleet. The RCF was undrawn at 31 December 2018. The Group pays semi-annual interests on the Senior Facility Term Loan which represent a currency risk. The semi-annual payment of interest is partially hedged through the Group's net revenue in euro.

The Group has some investments in foreign subsidiaries whose net assets are exposed to currency translation risk.

The table below shows the Group's sensitivity to potential changes in the exchange rate for NOK against relevant currencies in relation to the exchange rate as of 31 December, with all other variables held constant. The potential sensitivity effect below will impact the finance income/expense, but not operating profit/loss in the consolidated statement of profit and loss. Changes mainly relate to foreign exchange gains/losses on translation of financial derivatives, borrowings, trade and other receivables, trade and other payables and cash and cash equivalents and other investments.

(in NOK million)	Impact on net profit/loss after tax **2018**	Impact on equity **2018**
Change EUR/NOK 5%	-349.0	-327.3
Change USD/NOK 5%	-2.8	-0.4
Change GBP/NOK 5%	-4.2	16.4

The calculations assume that the NOK depreciates by 5% against the relevant currencies. With an equivalent appreciation of the NOK, the amounts would have an equal and opposite value. The effect on equity is different to the effect on profit/loss, due to the fact that bunker derivatives are recognised as hedges, with related changes in value being recognised in other comprehensive income.

(II) PRICE RISK

The Group 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 Group 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 Passenger Cruise Nights (PCN) 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.

The table below shows the Group's sensitivity to potential price increases of bunker fuel, with all other variables held constant.

(in NOK million)	Impact on net profit/loss after tax **2018**	Impact on equity **2018**
Change bunker price +20% on contracts from 2018, expiring in the period 2019-2021	-	133.0

These calculations are based on the average hedged bunker oil volume and indicate how an increase of 20 % in bunker oil prices would impact the financial instruments valuation, which is hedging our exposure to bunker oil prices, and ultimately on the 2018 financial statements. The effect on equity is different to the effect on the income statement as these forward hedges fulfil the requirements for hedge accounting, and unrealised changes in value are recognised in other comprehensive income. Hedge efficiency is measured quarterly based on retrospective and prospective tests using the dollar offset methodology and regression analysis.

The purchase of physical bunker oil would be affected in the opposite way and accounted for as a variation on operating expense.

(III) CASH FLOW AND FAIR-VALUE INTEREST RATE RISK

The Group's interest rate risk is associated with current and non-current borrowings. Loans subject to a variable interest rate present a risk to the Group's overall cash flow. Fixed interest rates expose the Group to fair-value interest rate risk. Most of the Group's interest-bearing debt has variable interest rate. The Group has no specific hedging strategy to reduce variable interest rate risk.

(in NOK million)	Impact on net profit/loss after tax **2018**	Impact on equity **2018**
Change in interest rate level with +50 basis points	-25.4	-25.4

(B) CREDIT RISK

The Group has no significant concentration of credit risk. Sales to end users are settled in cash or with recognised credit cards. Sales to external agents are made either through prepayment/credit cards or through invoicing. The Group has routines to ensure that credit is only extended to agents with a satisfactory credit rating. Individual risk exposure limits are set based on internal and external assessments of credit ratings.

The counterparties to the derivative contracts and cash transactions are limited to financial institutions with high credit ratings. The Group has routines that limit exposure to credit risk relating to individual financial institutions.

(C) LIQUIDITY RISK

Liquidity risk management includes maintaining a sufficient level of liquid assets geared to operational and investment plans and ensuring the availability of sufficient funding from committed credit facilities. The Group has a group cash-pool that ensures that part of the Group's unrestricted liquidity is available to the parent company, and which also optimises availability and flexibility in liquidity management. The Group's finance function has overall responsibility for managing the Group's liquidity risk. Rolling liquidity forecasts are prepared so as to ensure that the Group has sufficient liquidity reserves to satisfy the Group's obligations and financial loan covenants.

The table below provides an indicative debt repayment schedule over the coming 5-year period. The table excludes the new-build vessels financing that is expected to be drawn upon the vessels' delivery in March 2019 and fourth quarter of 2019 but includes interest, as the main financing runs without instalments until maturity, but interest is paid semi-annually.

(in NOK 1,000)	2019 **Less than one year**	2020-2021 **Year two and three**	2022-2023 **Year four and five**	2024--> **More than five years**
31. December 2018				
Borrowings	35,118	77,219	94,280	6,871,900
Estimated interest expenses on Bank loans	245,262	487,071	478,150	300,561
Total indebtedness repayment	**35,118**	**77,219**	**94,280**	**6,871,900**
Total impact on liquidity	**280,379**	**564,290**	**572,430**	**7,172,461**

On 30th June 2016, the Group entered into shipbuilding agreements with Kleven Verft AS, Norway, for the delivery of two newbuild explorer vessels. These contracts have impacted and are expected to impact liquidity in the following manner:

(in NOK million)	2016	2017	2018	2019F	Total
Capital expenditure					
Vessel 1 - MS Amundsen	65.8	137.8	-	1,373.5	**1,577.1**
Vessel 2 - MS Nansen	-	130.1	146.2	1,307.6	**1,583.9**
Ship financing, 80 % on delivery	-	-	-	(2,586.6)	**(2,586.6)**
CapEx - net cash from operations	**65.8**	**267.8**	**146.2**	**94.5**	**574.4**

Debt financing, which represent 80 % of the vessels' cost, shall be drawn upon delivery of the vessels and have a neutral impact on liquidity. Thus, the debt financing payment is presented with negative numbers in the table above.

Collection of sales prepayments for these vessels' sailings have started and mitigate the liquidity impact.

4.2 HEDGE ACCOUNTING

Up and until 2018, while complying to IAS 39, the bunker oil derivatives mitigating the fuel price risk were designated as hedging instruments for accounting purposes, and the gain or loss on the portion of the instrument which is determined to be an effective hedge has been recognised in other comprehensive income. During 2018, the hedging chapters in IFRS 9 are effective and are implemented. Furthermore, all previously engaged bunker oil hedging instruments had maturity during 2018. New bunker oil financial instruments have been closed regarding future fuel purchases.

The Group has chosen to designate a hedging relationship between these hedging instrument and the forecasted bunker oil purchases. During 2018, Hurtigruten Group has entered into 6 commodity forward swaps with Goldman Sachs and DnB Markets. These contracts have different strike prices (from 634 to 747 $/MT) and different expiry dates through the years 2019-2021. The contracts hedge forecasted future bunker oil purchase transactions. At the time the contracts were initiated, approximately 100 % of the forecasted oil consumption in 2019 and 50 % of the forecasted consumption in 2020 and 2021 are covered by the contracts. At year-end 2018, a total of 142,350 MT bunker fuel volume is hedged at an average price, incl. credit margin, of USD 656/MT during 2019-2021.

The forward swaps have monthly settlements, and the Group will be compensated if the market price of bunker oil is above the strike, and similarly have to make a payment to the counter-party if the market price is below strike. Hedge effectiveness is the extent to which changes in the cash flows of the hedging instrument offset changes in the cash flows of the hedged item. As there is a one-to-one relationship between the risk of price-fluctuations in bunker oil (hedged item) and the effect from the forward swaps, the forward swaps are effectively locking the purchase price of the bunker oil purchased, provided that the quantity purchased is equal to or larger than the quantity covered by the swap.

Hedge ineffectiveness is the extent to which the changes in the fair value or the cash flows of the hedging instrument are greater or less than those on the hedged item. As long as the purchased and consumed bunker oil quantities are greater than those included in the forward swaps, the hedge is effective. If the quantities included in the hedge is higher than the purchased and consumed bunker oil, then the excess quantities represent an ineffective hedge, and those effects should be recognised as other financial instruments, with valuation gains/losses recorded in profit/loss. This is not expected to occur, as the strategy is to hedge 50% - 100 % of forecasted purchases, and not above. No hedge ineffectiveness has been identified during 2018.

The movement in the cash-flow hedge reserve recognised in other comprehensive income is as follows:

(in NOK 1,000)	**2018**	2017
Opening balance	**46,545**	7,200
Reclassified into profit / loss	**-46,545**	-7,200
Change in fair value of hedging instruments	**-126,905**	46,545
Closing balance	**-126,905**	46,545

The carrying value of the hedging instruments is as follows:

(in NOK 1,000)	**2018**	2017
Non-current assets	**-**	30,494
Current assets	**-**	19,533
Non-current liabilities	**-57,351**	-
Current liabilities	**-105,347**	-
Net value	**-162,699**	50,028

4.3 THE COMPANY'S ASSET MANAGEMENT

The Group's objective for asset management is to ensure the ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital, including compliance with covenants in the loan agreements.

NOTE 5 CONTINGENCIES

As of 31 December 2018, the Group had contingent liabilities relating to bank guarantees and other guarantees, in addition to other matters in the course of ordinary operations. No significant liabilities are expected to arise with respect to contingencies with the exception of the provisions that have already been provided for in the financial statements (Note 19).

MEMBERSHIP OF THE NOX FUND

Hurtigruten AS is a member of the Confederation of Norwegian Enterprise's (NHO) NOx Fund. The main objective of the Environmental Agreement concerning reductions of NOx and the NHO's NOx Fund is to reduce emissions of nitrogen oxide. The Fund is a joint venture to which affiliated businesses can apply for support for emission-reducing measures. Payment to the Fund replaces the nitrogen oxide tax for affiliated businesses.

The Environmental Agreement for 2011–2017 was signed on 14 December 2010 by 15 industry organisations and the Ministry of the Environment and was approved by EFTA's Monitoring Body (ESA) on 19 May 2011. The Fund has reported that the targets for 2011-2016 were met. On 24 May 2017, an extension to the NOx Agreement for the period 2018-2025 was signed between the business organisations and the Norwegian Authorities. The extension was approved by ESA on 22nd February 2018.

The Norwegian Environment Agency monitors whether individual reduction targets have been achieved. Deviations of more than 3 % of emission targets trigger a collective fine, under which businesses must pay the nitrogen oxide tax for the pro rata share of the target that has not been met. However, businesses will never pay more than the official government rate for nitrogen oxide tax.

NOK 22.5 million in nitrogen dioxide tax was recognised in Hurtigruten Group's consolidated financial statements for 2018 compared to NOK 16.4 million in 2017.

CONSTRUCTION LOAN GUARANTEE

Hurtigruten Group AS is guarantor (unsecured guarantee) for the construction loans drawn by Kleven Yard AS ("Kleven") in connection with the building of the ships MS Roald Amundsen and MS Fridtjof Nansen. The maximum guaranteed amount from Hurtigruten Group AS equals 20 % of amounts outstanding for construction of each of the vessels. As at 31 December 2018, NOK 997.5 million is drawn for the construction of MS Roald Amundsen, and NOK 585.9 million is drawn for the construction of MS Fridtjof Nansen. Total exposure for Hurtigruten Group AS amounts to NOK 316.7 million in case of default on Klevens behalf.

NOTE 6 SEGMENT INFORMATION

(A) PRIMARY REPORTING FORMAT – OPERATING SEGMENTS (PRODUCT AREAS)

The operating segments are identified based on the same reporting that Group management and the board apply to their evaluations of performance and profitability at a strategic level. The company's ultimate decision-maker, which are responsible for allocation of resources to and assessment of earnings generated by the operating segments, is defined as the Board and Group management. The classification is broken down into the product areas Hurtigruten Norwegian Coast, Expedition cruises, and Spitsbergen. Activities that do not naturally fall within these three segments are bundled in Other business.

(in NOK 1,000)	Hurtigruten Norwegian Coast 2018	2017	Expedition Cruises 2018	2017	Spitsbergen 2018	2017
Operating revenues	**3,512,784**	3,159,211	**935,996**	811,497	**295,028**	292,411
Contractual revenues	**698,919**	674,234	**-**	-	**-**	-
Total operating revenues (Note 22)	**4,211,703**	3,833,445	**935,996**	811,497	**295,028**	292,411
Cost of goods sold	**(1,046,117)**	(954,000)	**(326,300)**	(253,616)	**(121,631)**	(120,893)
Crew costs, ship	**(662,221)**	(639,278)	**(101,672)**	(99,830)	**-**	-
Other operating cruise costs	**(977,705)**	(839,303)	**(248,800)**	(202,965)	**(15,611)**	(27,433)
Personnel costs, non-ship	**(299,741)**	(279,396)	**(55,402)**	(59,127)	**(87,443)**	(81,419)
Selling, general and admin expens.	**(416,347)**	(399,402)	**(77,462)**	(85,790)	**(25,404)**	(18,674)
Other (losses)/gains – net	**78,559**	(25,841)	**13,810**	(24,959)	**217**	214
Operating profit/(loss) before depreciation, amortisation and impairment losses (EBITDA)	**888,131**	696,226	**140,170**	85,210	**45,156**	44,206
Depreciation and impairment losses	**(293,826)**	(401,791)	**(81,424)**	(60,883)	**(22,373)**	(17,844)
Operating profit/(loss)	**594,306**	294,435	**58,746**	24,327	**22,783**	26,362

(in NOK 1,000)	Other business and eliminations 2018	2017	Hurtigruten Group 2018	2017
Operating revenues	**(14,293)**	(14,803)	**4,729,515**	4,248,316
Contractual revenues	**-**	-	**698,919**	674,234
Total operating revenues (Note 22)	**(14,293)**	(14,803)	**5,428,434**	4,922,550
Cost of goods sold	**10,628**	12,003	**(1,483,420)**	(1,316,505)
Crew costs, ship	**-**	-	**(763,893)**	(739,108)
Other operating cruise costs	**2,769**	2,375	**(1,239,347)**	(1,067,326)
Personnel costs, non-ship	**-**	-	**(442,586)**	(419,942)
Selling, general and admin expens.	**1,175**	1,094	**(518,037)**	(502,772)
Other (losses)/gains – net	**48**	-	**92,634**	(50,586)
Operating profit/(loss) before depreciation, amortisation and impairment losses (EBITDA)	**328**	670	**1,073,785**	826,311
Depreciation and impairment losses	**-**	(25)	**(397,623)**	(480,543)
Operating profit/(loss)	**328**	645	**676,162**	345,768

The reporting of segment assets and liabilities is not part of the internal management reporting in the Group. Material assets and liabilities are monitored at Group level, and individual key figures (e.g. trade receivables) are valued in the individual legal companies. Segment assets and liabilities are therefore not presented.

HURTIGRUTEN NORWEGIAN COAST

Hurtigruten Norwegian Coast is the Group's largest segment. Through this segment, the Group offers voyages along the Norwegian coast to an adventure-seeking international customer base. The segment offers a number of shore-based activities for its cruise passengers, including dog sledding, kayaking, inflatable boat adventures, local food tours, Lapland cultural tours, visits to land-based sites, mountain hiking and snowmobile excursions, skiing and whale safaris. 11 of the Group's ships provide services along the Norwegian coast under this segment (with MS Midnatsol and MS Spitsbergen alternating between the Hurtigruten Norwegian Coast and Expedition cruises segments), making 33 northbound and 32 southbound daily departures from ports located between Bergen in the south and Kirkenes in the north. It also offers freight and local passenger transport services along the coast, for which it receives a fixed fee from the Norwegian government each year under the Coastal Service Contract.

EXPEDITION CRUISES

The Expedition cruises segment is the Group's second largest and fastest growing segment, through which the Group offers exploration-based adventure cruises to the Arctic (including Svalbard, Greenland, Iceland, Canada and the Northwest Passage) and the Antarctic together with sailings to the Amazon river and Atlantic Islands. As part of the Group's Expedition cruises segment, customers are offered a wide array of excursions and expeditions designed to provide them with an unforgettable experience. The Group's purpose-built fleet includes three ice-class ships, MS Fram, MS Midnatsol and MS Spitsbergen. MS Midnatsol and MS Spitsbergen alternate between the Hurtigruten Norwegian Coast and the Expedition cruises segments and the Group leases and operates MS Nordstjernen around Svalbard during the summer months and as the basecamp for ski-cruises on the Norwegian Coast in March and April. The Group has also ordered two new-builds, MS Roald Amundsen and MS Fridtjof Nansen, which will operate as part of the Expedition cruises segment and are scheduled to be delivered in second and fourth quarter of 2019, respectively. These new-builds are optimal for adventure cruises, with size and technical specifications permitting the Group to sail adventure itineraries in the Arctic and Antarctic and flexibility to sail other adventure itineraries or in the Norwegian Coast segment. A third new-build has also been ordered, with expected delivery in 2021.

SPITSBERGEN

The Spitsbergen segment comprises year-round hotel and restaurant activities as well as Arctic experience tourism on Svalbard, a Norwegian archipelago in the Arctic ocean. Through this land-based segment, the Group operates three hotels with a total of 258 rooms and an equipment store and offers activities such as kayaking, dog sledding, snowmobile hire, cross country skiing and observation of local fauna (including polar bears, walruses, seals and arctic birds)

OTHER BUSINESS

The area includes a minor portfolio of properties and smaller activities that cannot naturally be classified in the other areas.

ELIMINATIONS

Eliminations primarily consist of sales from Hurtigruten Svalbard AS (Spitsbergen segment) to Hurtigruten AS (Expedition cruises segment).

(B) SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

Operating revenues have been separated into geographical segments by which market the sales office is located. Some markets serve customers situated in other countries. In the table below, onboard sales, cargo freight revenue, contractual revenue and revenue from the Spitsbergen segment have all been allocated to the Nordic market.

2018

(in NOK 1,000)	Ticket revenue	Flights, hotel and trans-portation	Presold food, beverages, shop and excursions	Contractual revenue	Other revenue	Total operating revenue
Nordic market / onboard sales / Spitsbergen segment	471,489	43,343	115,332	698,919	828,116	**2,157,198**
Germany	865,057	275,200	310,711	-	12,096	**1,463,065**
France	140,892	37,683	47,411	-	16,467	**242,453**
United Kingdom	297,637	83,866	121,476	-	3,462	**506,440**
Rest of Europe	323,964	18,069	94,734	-	1,612	**438,379**
United States and Canada	269,554	37,232	77,479	-	6,671	**390,936**
Asia / Pacific	176,940	21,839	30,632	-	551	**229,963**
Totals	**2,545,533**	**517,231**	**797,776**	**698,919**	**868,975**	**5,428,434**

2017

(in NOK 1,000)	Ticket revenue	Flights, hotel and trans-portation	Presold food, beverages, shop and excursions	Contractual revenue	Other revenue	Total operating revenue
Nordic market / onboard sales / Spitsbergen segment	483,394	36,744	106,922	674,234	769,845	**2,071,139**
Germany	789,314	250,586	255,548	-	46,916	**1,342,364**
France	127,033	34,718	39,836	-	17,811	**219,398**
United Kingdom	228,278	68,080	88,362	-	12,404	**397,124**
Rest of Europe	288,531	16,999	82,611	-	2,574	**390,715**
United States and Canada	232,672	34,183	60,235	-	5,119	**332,209**
Asia / Pacific	136,309	7,781	23,423	-	2,088	**169,602**
Totals	**2,285,531**	**449,090**	**656,937**	**674,234**	**856,758**	**4,922,550**

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

(in NOK 1,000)	Land and buildings	Ships	Prepayments Ships under contruction	Other property, plant and equipment	Total
Acquisition cost					
As at 1 January 2017	173,057	4,421,888	-	72,950	**4,667,894**
Additions	36,817	265,850	359,855	16,332	**678,854**
Disposals	(40)	(5,465)	-	-	**(5,505)**
As at 31 December 2017	**209,834**	**4,682,273**	**359,855**	**89,282**	**5,341,244**
As at 1 January 2018	209,834	4,682,273	359,855	89,282	**5,341,244**
Additions	36,373	191,298	288,514	20,372	**536,557**
Disposals	(312)	(8)	-	(6,013)	**(6,333)**
Currency translation differences	-	-	7,827	363	**8,190**
As at 31 December 2018	**245,895**	**4,873,563**	**656,196**	**104,004**	**5,879,658**
Accumulated depreciation and impairment					
As at 1 January 2017	(11,746)	(644,436)	-	(21,072)	**(677,254)**
Depreciation	(6,066)	(346,879)	-	(9,397)	**(362,342)**
As at 31 December 2017	**(17,812)**	**(991,315)**	**-**	**(30,469)**	**(1,039,595)**
As at 1 January 2018	(17,812)	(991,315)	-	(30,469)	**(1,039,596)**
Depreciation	(9,815)	(289,938)	-	(16,596)	**(316,349)**
Depreciation disposals	-	-	-	5,456	**5,456**
Impairment losses	-	(854)	-	-	**(854)**
Currency translation differences	-	-	-	(197)	**(197)**
As at 31 December 2018	**(27,627)**	**(1,282,107)**	**-**	**(41,806)**	**(1,351,541)**
Book value 31 December 2017	**192,022**	**3,690,958**	**359,855**	**58,813**	**4,301,649**
Book value of financially leased assets, included above	-	576,156	-	-	**576,156**
Book value 31 December 2018	**218,268**	**3,591,455**	**656,196**	**62,197**	**4,528,117**
Book value of financially leased assets, included above	-	557,662	-	-	**557,662**
Useful economic lifetime	25 - 40 years	12 - 30 years	N/A	5 - 10 years	

Land and buildings primarily comprise the hotel properties at the Group's operations in Svalbard.

In 2018, the Group operated 14 cruise ships, whereof one ship (MS Nordstjernen) was operated under an operating lease. The Group reviews the long-lived assets for impairment whenever events or circumstances indicate potential impairment. No such events or circumstances were present in 2018 or 2017.
The vessels MS Richard With and MS Nordlys were operated under Financial lease agreements up until November 2017.

The cost of ships under construction include progress payments for the construction of two new ships (MS Amundsen and MS Nansen), as well as design and engineering fees, capitalised interest, construction oversight costs and various owner supplied items. The Group accounts for ship improvement costs by capitalising those costs believed to add value to its ships and which have a useful life greater than one year and depreciate those improvements over its estimated useful life.

Capitalised interest amounted to NOK 16.0 million in 2018 (NOK 16.4 million in 2017). The interest capitalisation rate is based on the weighted average interest rates applicable to borrowings within the Group during each period. During 2018, the average capitalisation rate was 3.8 %.

NOTE 8 INTANGIBLE ASSETS

(in NOK 1,000)	Goodwill	Trademark	Other intangible assets	Total
Acquisition cost				
As at 1 January 2017	1,945,558	450,000	1,132,963	**3,528,521**
Additions	-	-	40,763	**40,763**
As at 31 December 2017	**1,945,558**	**450,000**	**1,173,726**	**3,569,284**
As at 1 January 2018	1,945,558	450,000	1,173,726	**3,569,284**
Additions	-	-	69,087	**69,087**
As at 31 December 2018	**1,945,558**	**450,000**	**1,242,813**	**3,638,371**
Accumulated depreciation and impairment				
As at 1 January 2017	-	-	(786,523)	**(786,523)**
Depreciation	-	-	(118,201)	**(118,201)**
As at 31 December 2017	**-**	**-**	**(904,724)**	**(904,724)**
As at 1 January 2018	-	-	(904,724)	**(904,724)**
Depreciation	-	-	(80,420)	**(80,420)**
As at 31 December 2018	**-**	**-**	**(985,143)**	**(985,143)**
Book value 31 December 2017	**1,945,558**	**450,000**	**269,002**	**2,664,560**
Book value 31 December 2018	**1,945,558**	**450,000**	**257,670**	**2,653,228**
Useful economic lifetime	N/A	N/A	3 - 10 years	

In 2014, Hurtigruten Group AS acquired 100 % of the outstanding shares of Hurtigruten AS. As a result of the acquisition, Goodwill of NOK 1 919 million and an excess value of NOK 590 million related to contracts and trademarks were recognised.

Other intangible assets primarily comprise of capitalised development expenses related to ICT systems (booking, inventories, etc.) with a limited lifespan. The assets are amortised on a straight-line basis over 3–10 years. Amortisation is presented under amortisation in the income statements.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Goodwill relates to the following cash-generating units:

(In NOK 1,000)	2018	2017
Norwegian Coast	**1,579,111**	1,579,111
Expedition cruises	**306,667**	306,667
Spitsbergen Travel	**59,780**	59,780
Sum	**1,945,558**	1,945,558

The recoverable amount of a cash-generating unit is calculated on the basis of budgets and liquidity forecasts for the units approved by management.

Assumptions applied when calculating the recoverable amount:

	Norwegian Coast	Expedition cruises	Spitsbergen
Growth rate from 2023	2 %	2 %	2 %
Discount rate after tax	12.0 %	13.6 %	9.9 %

The recoverable amount has been calculated based on budgeted EBITDA for 2019. The forecast period is five years. Subsequently the terminal value is used. Expected future cash flows are based on budgeted EBITDA for 2019 deducted for capex, tax effects of depreciation and changes in net working capital (NWC). For the period 2020 to 2023, EBITDA is based on forecasts that represent management's best estimate of the range of economic conditions that will exist over the period, including expectations regarding occupancy rate, fuel prices and salary development. For the period beyond 2023, cash flow is estimated by extrapolating the projections based on the forecasts, using a steady growth rate of 2 % for subsequent years, equal to assumptions in inflation.

The Group does not apply a general growth factor beyond expected inflation for cash flows when testing goodwill for impairment. The total required rate of return used to discount cash flows is calculated as a weighted average return on equity and the required rate of return on interest-bearing debt. This calculation utilises an estimate of the risk-free interest rate, risk premium, beta and the liquidity premium.

The impairment testing proves that there is a significant headroom before impairment losses will be recognised in all three segments.

Impact of possible changes in key assumptions in the Norwegian Coast segment

If the budgeted EBITDA margin used in the impairment test for the Coastal segment had been reduced by 3 %-points, combined with a 2 %-points lower revenue growth, the Group would have had to recognise an impairment against the carrying amount of Intangible assets of MNOK 205.

Likewise, if the long-term growth had been reduced by 1 %-points combined with a 2 %-points higher WACC calculation, the Group would have to recognise an impairment of MNOK 239.

Impact of possible changes in key assumptions in the Explorer segment

If the budgeted EBITDA margin used in the impairment test for the Explorer segment had been reduced by 3 %-points, combined with a 2 %-points lower revenue growth, the Group would have had to recognise an impairment against the carrying amount of Intangible assets of MNOK 104.

Likewise, if the long-term growth had been reduced by 1 %-points combined with a 2 %-points higher WACC calculation, the Group would have to recognise an impairment of MNOK 290.

Impact of possible changes in key assumptions in the Spitsbergen segment

If the budgeted EBITDA margin used in the impairment test for the Spitsbergen segment had been reduced by 3 % - points combined with a 2 %-points lower revenue growth, the Group would have had to recognise an impairment against the carrying amount of Intangible assets of MNOK 90.

Likewise, if the long-term growth had been reduced by 1 %-points combined with a 2 %-points higher WACC calculation, the Group would have to recognise an impairment of MNOK 40.

NOTE 9 INVESTMENTS IN ASSOCIATES

This table presents the associates and joint ventures of the Group as at 31 December 2018 which are material to the Group. Green Dog Svalbard AS has share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interest is the same as the proportion of voting rights held. Associates are accounted for using the equity method.

31 DECEMBER 2018

Company	**Green Dog Svalbard AS**
Registered office	Longyearbyen, Svalbard
Shareholding	50.0 %
Acquisition cost	50
Accumulated share of profits, 1 January 2018	6,830
Accumulated equity distributions, 1 January 2018	(2,000)
Carrying value, 1 January 2018	**4,880**
Share of profit after tax	596
Dividend distributions	(500)
Items recorded against other comprehensive income	19
Carrying value, 31 December 2018	**4,995**

31 DECEMBER 2017

Company	**Green Dog Svalbard AS**
Registered office	Longyearbyen, Svalbard
Shareholding	50.0 %
Acquisition cost	50
Accumulated share of profits, 1 January 2017	5,584
Accumulated equity distributions, 1 January 2017	(1,500)
Carrying value, 1 January 2017	**4,134**
Share of profit after tax	1,246
Dividend distributions	(500)
Carrying value, 31 December 2017	**4,880**

Green Dog Svalbard AS offers dog-related activities on Svalbard. These include dog sledding, overnight trips with teams of dogs and similar.

NOTE 10A FINANCIAL INSTRUMENTS BY CATEGORY

The following categories have been used for subsequent measurement of financial assets and liabilities:

AS AT 31 DECEMBER 2018

(in NOK 1,000)	Loans and receivables	Assets at fair value through profit and loss	Assets at fair value through OCI	Derivatives used for hedging	Total
Assets as per balance sheet					
Long-term receivables (note 11)	700,980	-	-	-	**700,980**
Investments in other companies	-	3,199	24,327	-	**27,526**
Trade receivables and other receivables (note 11)	234,741	-	-	-	**234,741**
Cash at bank, cash on hand and market-based investments (note 13)	560,410	1,165	-	-	**561,576**
Total	**1,496,132**	**4,365**	**24,327**	**-**	**1,524,823**

(in NOK 1,000)	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet				
Borrowings (note 16)	-	-	6,944,337	**6,944,337**
Derivatives (note 10C)	34,963	162,699	-	**197,662**
Accounts payable and other short term payables (note 21)	-	-	306,316	**306,316**
Total	**34,963**	**162,699**	**7,250,653**	**7,448,315**

(in NOK 1,000)	Carrying value	Fair value
Assets as per balance sheet		
Long-term receivables (note 11)	700,980	700,980
Investments in other companies	27,526	27,526
Trade receivables and other receivables (note 11)	234,741	234,741
Cash at bank, cash on hand and market-based investments (note 13)	561,576	561,576
Total	**1,524,823**	**1,524,823**
Liabilities as per balance sheet		
Borrowings (note 16)	6,944,337	7,078,517
Derivatives (note 10C)	197,662	197,662
Accounts payable and other short term payables (note 21)	306,316	306,316
Total	**7,448,315**	**7,582,495**

The fair value of current receivables and payables has been assessed and does not differ materially from the carrying amount.

AS AT 31 DECEMBER 2017

(in NOK 1,000)	Loans and receivables	Assets at fair value through profit and loss	Assets at fair value through OCI	Derivatives used for hedging	Total
Assets as per balance sheet					
Long-term receivables (note 11)	12,794	-	-	-	**12,794**
Investments in other companies	-	3,169	49,970	-	**53,139**
Trade receivables and other receivables (note 11)	210,923	-	-	-	**210,923**
Derivatives (note 10C)	-	-	-	50,028	**50,028**
Cash at bank, cash on hand and market-based investments (note 13)	438,053	1,153	-	-	**439,206**
Total	**661,770**	**4,321**	**49,970**	**50,028**	**766,089**

(in NOK 1,000)	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet				
Borrowings (note 16)	-	-	5,783,576	**5,783,576**
Derivatives (note 10C)	-	13,247	-	**13,247**
Accounts payable and other short term payables (note 21)	-	-	494,296	**494,296**
Total	**-**	**13,247**	**6,277,872**	**6,291,118**

(in NOK 1,000)	Carrying value	Fair value
Assets as per balance sheet		
Long-term receivables (note 11)	12,794	12,794
Investments in other companies	53,139	53,139
Trade receivables and other receivables (note 11)	210,923	210,923
Derivatives (note 10C)	50,028	50,028
Cash at bank, cash on hand and market-based investments (note 13)	439,206	439,206
Total	**766,089**	**766,089**
Liabilities as per balance sheet		
Borrowings (note 16)	5,783,576	6,079,348
Derivatives (note 10C)	13,247	13,247
Accounts payable and other short term payables (note 21)	494,296	494,296
Total	**6,291,118**	**6,586,891**

CLASSIFICATION BY IFRS FAIR VALUE HIERARCHY

The Group uses the following hierarchy to classify assets and liabilities, based on the valuation methods used to measure and disclose their fair value:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets and liabilities.

- Level 2: Other techniques in which all of the parameters that have a significant impact on measuring fair value are either directly or indirectly observable. This is primarily relevant for our derivatives, where the price normally is set by the counterpart (a financial institution).
- Level 3: Valuation techniques that use parameters that significantly affect the valuation, but which are not observable.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS PER 31 DECEMBER 2018

(in NOK 1,000)	Level 1	Level 2	Level 3	Total
Assets				
Investments in other companies	-	-	27,526	**27,526**
Cash and cash equivalents (note 13)	1,165	-	-	**1,165**
Total	**1,165**	**-**	**27,526**	**28,692**
Liabilities				
Derivatives (note 10C)	-	197,662	-	**197,662**
Total	**-**	**197,662**	**-**	**197,662**

There were no transfers between levels 1, 2 or 3 in 2018.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS PER 31 DECEMBER 2017

(in NOK 1,000)	Level 1	Level 2	Level 3	Total
Assets				
Investments in other companies	-	-	53,139	**53,139**
Derivatives (note 10C)	-	50,028	-	**50,028**
Cash and cash equivalents (note 13)	1,153	-	-	**1,153**
Total	**1,153**	**50,028**	**53,139**	**104,319**
Liabilities				
Derivatives (note 10C)	-	13,247	-	**13,247**
Total	**-**	**13,247**	**-**	**13,247**

There were no transfers between levels 1, 2 or 3 in 2017.

RECONCILIATION OF MOVEMENT IN LEVEL 3 FINANCIAL INSTRUMENTS

(in NOK 1,000)	2018	2017
Opening balance	**53,139**	3,000
Purchases	**2,763**	50,206
Sales	**(1,233)**	(25)
Gains / losses recognised in profit/loss	**872**	(43)
Gains / losses recognised in other comprehensive income (note 15)	**(28,015)**	-
Closing balance	**27,526**	53,139

During 2018, all the shares in Kirberg Shipping AS was sold to Silk Topco AS (the parent company) for NOK 349 thousand. Silk Topco AS has also purchased the rest of the shares and Kirberg Shipping AS has become a consolidated subsidiary in Silk Topco Group.

SPECIFICATION OF INVESTMENTS IN OTHER COMPANIES

Balance at 31 December 2018

(in NOK 1,000)	Ownership share	Carrying value
Myklebust Verft Invest AS	15.90 %	24,327
Other minor investments	-	3,199
Totals		**27,526**

Balance at 31 December 2017

(in NOK 1,000)	Ownership share	Carrying value
Myklebust Verft Invest AS	15.90 %	49,970
Other minor investments	-	3,169
Totals		**53,139**

NOTE 10B CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

(in NOK 1,000)	**2018**	2017
Counterparties without external credit ratings:	**234,741**	210,923
Total trade receivables and other receivables	**234,741**	210,923
Cash bank and short-term bank deposits		
Rating A (S&P)	**555,243**	432,518
Counterparties without external credit ratings:	**721**	723
Total bank deposits	**555,964**	433,241
Cash on hand	**4,446**	4,812
Total cash and short-term bank deposits	**560,410**	438,053
Market based investments		
Money market fund (SICAV-France)	**1,165**	1,153
Total market based investments	**1,165**	1,153
Derivatives		
Rating AA (S&P)	**-**	50,028
Total derivatives (note 10C)	**-**	50,028

NOTE 10C FAIR VALUE OF DERIVATIVES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. If the derivative is not classified as a hedging instrument, subsequent re-measurements are recognised in profit or loss.

The Group has two different types of derivatives as of 31 December 2018:

- Bunker oil derivatives used in cash flow hedge in order to hedge the future market risk of bunker oil purchases.
- NOK/EUR currency option agreements (purchased put and sold call), used as an economic hedge to obtain loan commitments in EUR, in which this financing will be used to settle a future liability in NOK.

2018

(in NOK 1,000)	**Assets**	**Liabilities**
Classification of derivatives		
Forward bunker oil contracts - cash flow hedge	-	162,699
NOK/EUR currency options	-	34,963
Total fair value of derivatives	**-**	**197,662**
Short term	-	140,310
Long term	-	57,351

2017

(in NOK 1,000)	**Assets**	**Liabilities**
Classification of derivatives		
Forward bunker oil contracts - cash flow hedge	50,028	-
NOK/EUR currency options	-	13,247
Total fair value of derivatives	**50,028**	**13,247**
Short term	19,533	13,247
Long term	30,494	-

A hedging instrument is classified as long term if the major part of the instrument is settled in a period longer than 12 months from the balance sheet date. There are no recognised prospective inefficiencies regarding the hedging instruments.

FORWARD BUNKER OIL CONTRACTS

The hedged, highly probable purchase transactions of bunker oil are expected to occur at various dates over the next 36 months. The forward contracts mature monthly. Forward bunker oil contracts satisfy the requirements for hedge accounting under IFRS and changes in the fair value are recognised on an ongoing basis in other comprehensive income. Gains or losses on oil derivatives recognised in other comprehensive income as of 31 December 2018, will be recognised in the income statement in the same accounting periods that the hedged transactions affect the profit or loss. Realised gains and losses are recognised in Other (losses)/gains. In 2018 a net profit of NOK 74.2 million (2017: loss of NOK 20.6 million) was recognised in Other (losses)/gains.

NOK/EUR CURRENCY OPTIONS

The Group has a currency hedge in relation to the delivery of the two newbuild vessels MS Amundsen and MS Nansen in 2019. Proceeds from committed future financing in EUR will be used to settle future liabilities in NOK. Two currency options, which both have the same contractual amount in EUR, are used to obtain an economic hedge of the risk that currency fluctuations between NOK/EUR, could lead to a reduced NOK amount when proceeds from the future financing in EUR, are exchanged into NOK. At inception, the net fair value of the two options was zero.

The loan commitment does not qualify as a hedge object, and hedge accounting is therefore not applied. The currency options expire during 2019 on delivery on the two vessels.

NOTE 11 RECEIVABLES AND OTHER INVESTMENTS

(in NOK 1,000)	**2018**	2017
Trade receivables	**94,698**	88,111
Less provision for impairment of trade receivables	**(4,159)**	(3,757)
Trade receivables – net	**90,539**	84,353
Prepaid expenses	**193,612**	182,666
Claims	**-**	14,009
Other current receivables, group companies	**12,172**	551
Net wages claims	**49,901**	32,483
Other miscellaneous receivables	**82,130**	79,528
Other receivables	**337,814**	309,237
Total current trade and other receivables (Note 10A)	**428,353**	393,590
Non-current receivables, group companies	**698,870**	-
Other non-current receivables (Note 10A)	**2,110**	12,794
Total other receivables, non-current	**700,980**	12,794

For specification of receivables from related parties, please see Note 29.

AGEING OF OVERDUE TRADE RECEIVABLES

(in NOK 1,000)	**2018**	2017
Up to three months	**16,507**	15,490
Three to six months	**539**	1,733
Over six months	**3,737**	7,252
Total ageing of overdue trade receivables	**20,783**	24,475

PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

(in NOK 1,000)	**2018**	2017
Provision for impairment of receivables as of 1 January	**3,758**	9,139
Provision for impairment of receivables during the year	**1,249**	4,736
Receivables written off during the year	**(552)**	(6,803)
Reversal of unused amounts	**(298)**	(3,315)
Currency translation effects	**2**	1
Provision for impairment of receivables as of 31 December	**4,159**	3,758

The Group has no significant concentration of credit risk. Sales to end users are settled in cash or with recognised credit cards and are paid in full prior to the travel date. Trade receivables primarily comprise sales to external agents through invoicing. The Group has routines to ensure that trade credit and prepayment of expenses are only extended to agents and vendors that have a satisfactory credit rating. Individual risk exposure limits are set based on internal and external assessments of credit ratings.

NOTE 12 INVENTORIES

Inventories comprise the following types of goods

(In NOK 1,000)	**2018**	2017
Goods purchased for resale	154,611	116,630
Spare parts	4,949	6,530
Bunkers and lubrication oil	25,830	25,019
Total inventories	**185,390**	148,179

The inventories were measured at lowest of cost and fair value in accordance with the FIFO principle.

NOTE 13 CASH AND CASH EQUIVALENTS

(in NOK 1,000)	**2018**	2017
Cash at bank and on hand (Note 10A)	560,410	438,053
Market-based investments [1] (Note 10A)	1,165	1,153
Cash at bank, cash on hand and market-based investments	**561,576**	439,206
Restricted bank deposits [2]	(176,992)	(101,227)
Total cash and cash equivalents in the cash flow statement	**384,583**	337,979

1) Funds owned by a foreign subsidiary.

2) Restricted bank deposits primarily comprise tax withholding funds, pledged bank deposits, issued bond loans in an escrow account and guarantees to limited partnerships.

NOTE 14 SHARE CAPITAL AND PREMIUM

(in NOK 1,000 unless otherwise indicated)	Number of ordinary shares	Nominal value	Nominal value of ordinary shares	Share premium and other paid-in capital	**Total**
As of 31 December 2017	30	3	90	1,827,556	**1,827,646**
As of 31 December 2018	30	3	90	1,827,556	**1,827,646**

All ordinary shares have equal rights

SHAREHOLDER INFORMATION AS AT 31 DECEMBER 2018

	Number of shares	**Shareholding (%)**
Silk Midco AS	30	100.0 %

SHARES IN ULTIMATE PARENT HELD BY ELECTED OFFICERS IN HURTIGRUTEN AS OF 31 DECEMBER 2018

Board of Directors	
Trygve Hegnar, Chair, through Persicopus AS	4.9 %
Petter Anker Stordalen, Director, through Strawberry Equities AS	11.6 %
Jonathan Barlow, Director	0.0 %
Matthew Lenczner, Director	0.0 %
Management	
Daniel A. Skjeldam, CEO, through Hornsund Invest AS	0.9 %
Asta Lassesen, CCO, through A. Y. Invest AS	0.4 %
Anne Marit Bjørnflaten, SVP, Corporate Communications, through Bjørnflaten Invest AS	0.1 %
Thomas Westergaard, SVP, Hotel Operations & Product Development, through Stay Tuned Invest AS	0.2 %
Marit Finnanger, SVP, People and Org. Development through Mfortitude AS	0.1 %
Torleif Ernstsen, CFO, through Rypestrand Sjøbad AS	0.1 %

SHAREHOLDER INFORMATION AS AT 31 DECEMBER 2017

	Number of shares	**Shareholding (%)**
Silk Midco AS	30	100.0 %

SHARES IN ULTIMATE PARENT HELD BY ELECTED OFFICERS IN HURTIGRUTEN AS OF 31 DECEMBER 2017

Board of Directors	
Trygve Hegnar, Chair, through Persicopus AS	4.9 %
Petter Anker Stordalen, Director, through Strawberry Equities AS	11.6 %
Jonathan Barlow, Director	0.0 %
Matthew Lenczner, Director	0.0 %
Management	
Daniel A. Skjeldam, CEO, through Hornsund Invest AS	0.9 %
Asta Lassesen, CCO, through A. Y. Invest AS	0.4 %
Anne Marit Bjørnflaten, SVP, Corporate Communications, through Bjørnflaten Invest AS	0.1 %
Thomas Westergaard, SVP, Hotel Operations & Product Development, through Stay Tuned Invest AS	0.2 %
Marit Finnanger, SVP, People and Org. Development through Mfortitude AS	0.1 %
Torleif Ernstsen, CFO, through Rypestrand Sjøbad AS	0.1 %
Robert Grefstad, SVP, ICT, through Trebor Invest AS	0.1 %

The company's auditor does not own any shares in Hurtigruten Group AS or Silk Topco AS (ultimate parent).

DIVIDEND PER SHARE

No dividend is proposed for the fiscal years 2018 or 2017.

NOTE 15 OTHER EQUITY NOT IN PROFIT OR LOSS

(in NOK 1,000)	**Cash flow hedge derivatives**	**Actuarial gain/loss**	**Fair value changes, equity investments recognized in OCI**	**Translation differences**	**Sum**
Carrying value as of 1 January 2017	**7,200**	**4,677**	**-**	**(15,432)**	**(3,555)**
Cash flow hedges, net of tax	39,345				**39,345**
Actuarial gain/loss on retirement benefit obligations, net of tax		(2,554)			**(2,554)**
Currency translation differences				21,872	**21,872**
Carrying value as of 31 December 2017	**46,545**	**2,123**	**-**	**6,440**	**55,108**
Cash flow hedges, net of tax	(173,450)				**(173,450)**
Actuarial gain/loss on retirement benefit obligations, net of tax		(3,168)			**(3,168)**
Change in fair value of equity investments recognized in OCI			(28,015)		**(28,015)**
Currency translation differences				(4,729)	**(4,729)**
Carrying value as of 31 December 2018	**(126,905)**	**(1,045)**	**(28,015)**	**1,711**	**(154,254)**

NOTE 16 BORROWINGS

NOMINAL VALUE AT 31 DECEMBER 2018

(in NOK 1,000)	Nominal value	Unamortized transaction costs	Book value
Collateralized borrowings	6,597,735	(134,180)	6,463,555
Lease financing	479,879	-	479,879
Other borrowings	902	-	902
Total	**7,078,517**	**(134,180)**	**6,944,337**

NOMINAL VALUE AT 31 DECEMBER 2017

(in NOK 1,000)	Nominal value	Unamortized transaction costs	Book value
Bond	4,477,337	(92,242)	4,385,095
Revolving Credit Facility	773,688	-	773,688
Lease financing	518,302	-	518,302
Other borrowings	79,702	-	79,702
Collateralized borrowings	26,789	-	26,789
Total	**5,875,818**	**(92,242)**	**5,783,576**

CLASSIFICATION OF BORROWINGS

(in NOK 1,000)	**2018**	2017
Non-current Borrowings		
Collateralized borrowings	**6,458,642**	-
Lease financing	**449,675**	473,109
Other borrowings	**902**	13,447
Total	**6,909,219**	486,556
Current Borrowings		
Bond	**-**	4,385,095
Collateralized borrowings	**4,913**	26,789
Revolving Credit Facility	**-**	773,688
Lease financing	**30,204**	45,193
Other borrowings	**-**	66,255
Total	**35,118**	5,297,020
Total borrowings	**6,944,337**	5,783,576

The bond and the revolving credit facility are secured with the Group's assets.

(in NOK 1,000)	**2018**	2017
Book value of collateralized assets	**4,094,971**	4,645,367

RECONCILIATION OF MOVEMENT IN BORROWINGS

(in NOK 1,000)	**2018**	2017
Total borrowings 1 January	**5,783,576**	5,161,323
Cash flows		
New financing	**1,225,792**	317,070
Repayments	**(105,403)**	(91,202)
Borrowing costs	**(148,741)**	(8,000)
Non-cash flow		
Amortisation	**108,537**	58,415
Currency translation effects	**94,939**	402,503
Other	**(14,362)**	(56,533)
Total borrowings 31 December	**6,944,337**	5,783,576

MATURITY PROFILE OF NOMINAL BORROWINGS

(in NOK 1,000)	**2018**	2017
Less than one year [1)]	**35,118**	5,389,262
Between 1 and 2 years	**79,586**	66,224
Between 3 and 5 years	**91,913**	73,502
More than 5 years	**6,871,900**	346,830
Total	**7,078,517**	5,875,818

1) In February 2018, the Group entered into a Senior Secured Credit Facility of EUR 575 million and a Revolving Credit Facility of EUR 85 million. The existing Senior Secured Bond of EUR 455 million and the revolving Credit facility of EUR 85 million were terminated. Hence, the bond and revolving credit facility were classified as current borrowings in the Group’s financial statements as at 31 December 2017.

BORROWINGS SPECIFIED BY CURRENCY

(in 1,000)	**2018**	2017
NOK	**84,868**	671,115
EUR	**699,963**	528,917

RECONCILIATION BETWEEN TOTAL OF FUTURE MINIMUM LEASE PAYMENTS AND PRESENT VALUE:

(in NOK 1,000)	Present value	Future minimum lease payments
Within a year	53,994	55,512
Later than one year but no later than 5 years	188,387	222,046
Later than 5 years	167,314	249,802
Total	**409,696**	**527,359**

The Group entered into a Memorandum of Agreement on 30 June 2016 with Jiaye International Ship Lease Co. Limited for the sale and lease-back of the vessel MS Spitsbergen. The leasing period is 12 years and expires on 30 June 2028. The agreed sale price was EUR 55 million, recognised as a finance lease agreement in the Group's financial statements (also see note 7). There is no contingent rent included in the lease. The Group has an obligation to purchase the vessel for an agreed price of 11 million euros at the end of the leasing period.

FAIR VALUE CALCULATIONS

The carrying amounts and the fair values of the borrowings are as follows:

	Carrying value		Fair value	
(in NOK 1,000)	**2018**	2017	**2018**	2017
Bond	-	4,385,095	-	4,540,130
Collateralized borrowings	**6,463,555**	26,789	**6,597,735**	26,789
Revolving Credit Facility	-	773,688	-	773,688
Lease financing	**479,879**	518,302	**479,879**	518,302
Other borrowings	**902**	79,702	**902**	79,702
Total	**6,944,337**	5,783,576	**7,078,517**	5,938,611

The fair value of current borrowings approximates their carrying value, as the impact of discounting is not significant. The financing is mainly floating interest rate borrowings, so the main difference between carrying value and fair value is the capitalised expenses recognised and being amortised in accordance with the effective interest method.

The Group's main source of financing is a Term Loan B with EURIBOR floating interest + margin. The facility has a face value of EUR 655 million. The loan was issued in February 2018 (EUR 575 million) and increased in November 2018 (EUR 80 million) to repay an outstanding NOK bond and for general corporate purposes (incl. further investments in the fleet).

As of 31 December 2018, the Group has an undrawn Revolving Credit Facility of EUR 85 million which is undrawn.

On 7 February 2017, the Group entered into a loan agreement with the majority shareholder Silk Holding S.a.r.l in the amount of EUR 12 million with a rolling tenure. The interest is compounded quarterly and payable upon loan redemption. On 14 September 2017, the Group repaid EUR 5,5 million, and the net loan balance at 31 December 2017 was EUR 6,5 million. The remaining EUR 6,5 million was repaid in full on 14 August 2018.

Covenants

<u>Term Loan B</u>

There are no financial maintenance covenants.

Revolving credit facility

For the benefit of the Lenders under the Revolving Facility only (in that capacity only), the Group shall ensure that the Consolidated Senior Secured Leverage Ratio is not greater than 7.7:1, provided that Base Currency Amount of all outstanding Revolving Loans borrowed by members of the Group is greater than 40 per cent of the Total Revolving Facility Commitments at that time.

Limitations on indebtedness

The Group can only incur new debt provided that it (1) meets a Fixed Charge Coverage Ratio (the ratio of Consolidated EBITDA to Consolidated Financial Interest Expense) or (2) fits into a specified exception to the ratio test. Non-Guarantor Restricted Subsidiaries are not permitted to incur indebtedness exceeding EUR 50.0 million. Debt incurrence is only measured at the time debt is incurred. As a result, no violation occurs if, at a date subsequent to the incurrence, the Group or its Restricted Subsidiaries would not meet the incurrence ratios.

Incremental facilities

With the amount of any other term loan Incremental Facilities, the Accordion Amount (being an amount equal to 100% of Consolidated EBITDA plus the amount which does not cause (i) in respect of Senior Secured Indebtedness, the Consolidated Senior Secured Leverage Ratio to exceed 5.0:1.0, and (ii) in respect of any indebtedness that is not Senior Subordinated Indebtedness, the Fixed Charge Coverage Ratio to be less than 2.0 to 1.0.

NOTE 17 INCOME TAX

INCOME TAX EXPENSE

The income tax expense for the year can be broken down as follows:

(in NOK 1,000)	**2018**	2017
Income tax payable, current year	**30,520**	35,234
Income tax payable, adjustments regarding previous years	**(28)**	521
Change in deferred tax, current year	**(452,132)**	(10,645)
Change in deferred tax, tax rate changes and adjustments regarding previous years	**21,921**	-
Total income tax expense	**(399,719)**	25,110

Tonnage tax is calculated based on the ship's tonnage and not income and is therefore classified as an operating expense.

(in NOK 1,000)	**2018**	2017
Tonnage tax payable related to the shipping company tax schemes	**10**	9

RECONCILIATION OF INCOME TAX EXPENSE TO PROFIT / LOSS BEFORE TAX

The tax on the Group‘s profit or loss before tax deviates from the amount that would have applied if the statutory tax rate in Norway had been used. The difference can be explained as follows:

(in NOK 1,000)	**2018**	2017
Profit/(loss) before tax from operations	**54,077**	(506,959)
Expected income taxes at statutory tax rate in Norway (23 %)	**12,438**	(121,670)
Shipping company tax schemes - NO Tax Act only (+/-)	**2,451**	9,928
Non-taxable income (-)	**(640)**	(15,536)
Gifts, representation and other non-deductable expenses (+)	**3,668**	2,841
Effect from difference in tax rate from nominal tax rate in Norway (+/-)	**2,770**	(6,788)
Effect from change in tax rate and tax provisions from previous years	**21,893**	4,946
Effect from change in valuation allowance, tax losses	**(435,913)**	159,664
Share of profit from associates (equity method) (+/-)	**(137)**	(199)
Other permanent differences (+/-)	**(6,249)**	(8,075)
Income tax expense	**(399,719)**	25,110
Weighted average tax rate	-739.2 %	-5.0 %

INCOME TAX EXPENSE FOR ITEMS RECOGNISED IN OTHER COMPREHENSIVE INCOME

(in NOK 1,000)	**2018**			2017		
	Before tax	**Tax effect**	**After tax**	Before tax	Tax effect	After tax
Actuarial gains/losses, pensions	**(3,827)**	**659**	**(3,168)**	(2,554)	-	(2,554)
Cash flow hedging	**(209,244)**	**35,794**	**(173,450)**	39,345	-	39,345
Change in fair value of equity investments	**(28,015)**	**-**	**(28,015)**	-	-	-
Currency translation differences	**(4,729)**	**-**	**(4,729)**	21,872	-	21,872
Other comprehensive income	**(245,815)**	**36,452**	**(209,363)**	58,663	-	58,663

DEFERRED INCOME TAX ASSETS (+) AND LIABILITIES (-)

Deferred income tax assets and liabilities are recognised on a net basis if the differences that are reversible can be offset.

2018

(in NOK 1 000)	**Opening balance**	**Tax expense**	**Recognised in other compr. income**	**Acqusitions and disposals**	**Foreign currency translation effects**	**Closing balance**
Non-current items						
Intangible and fixed assets	(560,095)	33,194	-	-	-	(526,901)
Leasing	6,751	5,216	-	-	-	11,967
Pensions	(4,690)	(566)	659	-	84	(4,513)
Other non-current items	-	(29,520)	-	-	-	(29,520)
Totals	**(558,034)**	**8,324**	**659**	**-**	**84**	**(548,968)**
Current items						
Derivatives	(7,659)	15,351	35,794	-	-	43,486
Provisions	823	6,867	-	-	-	7,691
Other current items	767	284	-	-	-	1,051
Totals	**(6,069)**	**22,502**	**35,794**	**-**	**-**	**52,227**
Tax loss carry forwards	973,730	(32,347)	-	-	1,460	942,843
Interest carry forwards	134,507	(4,181)	-	-	-	130,326
Valuation allowance	(459,881)	435,913	-	-	(1,460)	(25,428)
Total def. tax asset / (liability)	**84,252**	**430,211**	**36,452**	**-**	**84**	**551,000**
Carr. value of def. tax asset	198,837					670,153
Carr. value of def. tax liabilities	74,562					79,130
Net	**84,252**					**551,000**

2017

(in NOK 1 000)	Opening balance	Tax expense	Recognised in other compr. income	Acqusitions and disposals	Foreign currency translation effects	Closing balance
Non-current items						
Intangible and fixed assets	(606,399)	46,304	-	-	-	(560,095)
Leasing	5,832	919	-	-	-	6,751
Pensions	(3,810)	(264)	-	-	(616)	(4,690)
Totals	**(604,377)**	**46,959**	**-**	**-**	**(616)**	**(558,034)**
Current items						
Derivatives	-	(7,659)	-	-	-	(7,659)
Provisions	739	84	-	-	-	823
Other current items	781	(15)	-	-	-	767
Totals	**1,520**	**(7,589)**	**-**	**-**	**-**	**(6,069)**
Tax loss carry forwards	810,960	162,770	-	-	-	973,730
Interest carry forwards	88,888	45,619	-	-	-	134,507
Valuation allowance	(222,768)	(237,114)	-	-	-	(459,881)
Total def. tax asset / (liability)	**74,223**	**10,645**	**-**	**-**	**(616)**	**84,252**

The deferred income tax assets relating to tax loss carry-forwards are recognised in the statement of financial position to the extent that the Group can utilise the tax loss carry-forward against future taxable income. Also see note 30 regarding events after the balance sheet date.

RECONCILIATION OF MOVEMENT IN TAXES PAYABLE

(in NOK 1 000)	**2018**	2017
Current income tax payables, opening balance	**21,274**	11,303
New provision, income tax payable (+)	**30,493**	35,755
Taxes paid (-)	**(24,350)**	(26,099)
Currency translation effects	**1,425**	315
Current income tax payables, closing balance	**28,842**	21,274

NOTE 18 PENSIONS

The Group operates both defined contribution and defined benefit pension schemes. For the defined contribution plans the cost is equal to the contributions to the employee's pension savings during the period. Future pensions are dependent on the size of the contributions and the return on the pension plans.

The Group has defined benefit plans in Norway and Germany. For the Norwegian defined benefit plans, the employer is responsible for paying an agreed pension to the employee based on his/her final salary. Future defined benefits are mainly dependent on the number of contribution years, salary level upon reaching retirement age and the size of National Insurance benefits. These obligations are covered through an insurance company. In addition to the pension obligations that are covered through insurance schemes, the company has unfunded pension obligations that are funded from operations, primarily for former key management personnel. Pension fund assets managed by insurance companies are regulated by local legislation and practice. The relationship between the company and the insurance company is regulated by applicable legislation. The boards of the insurance companies are responsible for managing the plans, including making investment decisions and determining premium levels. An agreed fixed sum per month is paid as a pension for the German pension plan, from which most beneficiaries receive the same agreed amount, while three former directors receive a considerably higher payment. The German plan is organised as a CTA (contractual trust arrangement), in which the plan assets are earmarked for the pension fund, but the company's management determines how the assets are to be invested.

The new Contractual Early Retirement (AFP) Scheme Act adopted by the Norwegian Parliament in 2010 entailed the derecognition and recognition in the income statement of provisions related to the old contractual early retirement scheme. Provisions were set aside to cover the assumed underfunding of the old contractual early retirement scheme. The new AFP early retirement scheme is based on a tri-parties collaboration between employer, employee organisations and the government. The government covers one-third of the pension expenses for the early retirement scheme, while affiliated enterprises cover the remaining two-thirds. The scheme is recognised as a defined benefit multi-entity plan in the financial statements. This means that each individual company shall account for its proportional share of the scheme's pension obligations, plan assets and pension costs. Until reliable and consistent information is available for allocation, the new contractual early retirement scheme will be accounted for as a defined contribution plan. This is consistent with the Ministry of Finance's conclusion concerning the new AFP early retirement plan published in connection with the presentation of the Norwegian State Budget on 14 October 2013. The only members of the scheme are the Hurtigruten Pluss permanent employees, of whom there were 190 as of 31 December 2018. AFP is earned at the rate of 0.314% of pensionable income up to 7.1 G for every year worked between the ages of 13 and 62. In 2018 the contribution amount is a fixed percentage of salary, 5 % of salary between 1 and 7.1 G and 10 % of salary between 7.1 and 12 G. A total of NOK 2 million was paid into the scheme in 2018.

The established pension plans cover 1,776 Group employees and 238 pensioners. The pension costs for the period illustrate the agreed future pension entitlements earned by employees in the financial year.

FINANCIAL ASSUMPTIONS

	2018	2017
Norway		
Discount rate	**2.60 %**	2.30 %
Expected annual wage adjustment	**2.75 %**	2.50 %
Expected annual pension adjustment	**0.80 %**	0.50 %
Expected annual National Insurance basic amount (G) adjustment	**2.50 %**	2.25 %
Table book used for estimating liabilities	**K2013**	K2013
Table book used for estimating disabilities	**IR02**	IR02
Germany		
Discount rate	**1.60 %**	1.50 %
Expected annual wage adjustment	**N/A**	N/A
Expected annual pension adjustment	**1.90 %**	1.90 %
Expected annual National Insurance basic amount (G) adjustment	**N/A**	N/A
Average expected years of service until retirement age	**12.9 years**	12.9 years

PENSION COSTS RECOGNISED IN THE STATEMENT OF PROFIT AND LOSS

(in NOK 1,000)	2018	2017
Present value of accrued pension entitlements for the year	**8,821**	7,462
Defined contribution plan	**51,079**	52,401
Interest expenses (income)	**1,010**	1,031
Payroll tax	**3,357**	3,886
Total pension costs included in payroll costs (Note 23)	**64,266**	64,780

SPECIFICATION OF NET PLAN ASSETS/OBLIGATIONS

(in NOK 1,000)	2018	2017
Present value of funded pension obligation	**271 744**	271 956
Present value of unfunded pension obligations	**22 362**	20 245
Total pension obligation 31 December	**294 106**	292 201
Estimated fair value of plan assets as of 31 December	**181 886**	181 848
Net pension obligations at 31 December	**112 220**	110 353

CHANGE IN THE DEFINED BENEFIT PENSION OBLIGATIONS DURING THE YEAR

(in NOK 1,000)	**2018**	2017
Pension obligations as of 1 January	**292 201**	281 417
Present value of accrued pension entitlements for the year	**8 168**	7 012
Interest expenses	**4 621**	4 841
Effect of recalculation:		
Changes in financial assumptions	**15 506**	16 009
Changes in demographic assumptions	**407**	-
Estimate deviations	**(12 618)**	(6 285)
Currency translation differences – obligations	**561**	3 576
Pension benefits paid	**(14 704)**	(14 368)
Change in payroll tax on net pension obligations	**(35)**	-
Pension obligations as of 31 December	**294 106**	292 202

CHANGE IN THE FAIR VALUE OF THE PLAN ASSETS

(in NOK 1,000)	**2018**	2017
Fair value as of 1 January	**181,848**	169,533
Return on plan assets	**3,002**	3,439
Actual return on assets re interest income recognised in income statement	**(561)**	6,395
Employer contributions	**7,671**	9,077
Currency translation differences – assets	**493**	3,440
Pension benefits paid	**(10,566)**	(10,036)
Fair value as of 31 December	**181,887**	181,848

COMPOSITION OF PENSION FUND ASSETS

	2018	2017
Shares	**9.6 %**	8.0 %
Current bonds	**9.4 %**	10.1 %
Money market	**32.6 %**	34.8 %
Non-current bonds	**23.0 %**	23.2 %
Property	**6.8 %**	7.4 %
Other	**18.6 %**	16.5 %
Total	**100.0 %**	100.0 %
Actual return on plan assets Norway	**1.78 %**	4.80 %
Actual return on plan assets Germany	**0.00 %**	0.10 %

THE GEOGRAPHICAL ALLOCATION OF THE OBLIGATIONS AND PLAN ASSETS FOR THE DEFINED BENEFIT PLANS IS AS FOLLOWS:

	2018			2017		
(in NOK 1,000)	**Norway**	**Germany**	**Total**	Norway	Germany	Total
Present value of obligations	**241 850**	**52 256**	**294 106**	239 207	52 994	292 201
Fair value of plan assets	**136 466**	**45 421**	**181 886**	136 920	44 928	181 848
Net pension obligations (assets)	**105 385**	**6 835**	**112 220**	102 287	8 067	110 354

RISK

The Group is exposed to several risks through the defined benefit pension schemes, the most significant of which are as follows.

Investment volatility

The pension obligations are calculated using a discount rate based on the interest rate on bonds. If the investment in the pension fund assets provides a lower return than the bond interest rate, this gives rise to a deficit. All the plans comprise shares that are expected to give a higher return than interest on bonds over the long term, but which may, however, result in increased volatility and risk over the short term. As the pension plans' obligations mature, the target will be to reduce the share of risky investments to better match the obligations.

Changes in interest rates on bonds

A reduction in interest rates on bonds would increase the pension plans' obligations. However, this would be partially offset by an increase in the return on the investments in bonds.

Inflation risk

The defined benefit pension plans' obligations are exposed to inflation risk. An increase in inflation could result in higher obligations. The key assets of the pension plans are either unaffected by inflation (fixed-interest bonds) or loosely correlated with inflation (shares). A rise in inflation could therefore increase deficits in the plans.

Life expectancy

The payment obligation only applies to the remaining life expectancy of the plan beneficiaries. A rise in life expectancy would increase the plans' obligations. This is particularly important for the Norwegian plan, in which the adjustment for inflation results in higher sensitivity to changes in life expectancy. A new mortality table, K2013, was introduced in 2013 to reflect the rising average life expectancy of the Norwegian population. The effect of the above is shown in changes in demographic assumptions under recalculations of the change in the pension obligation.

ASSET MANAGEMENT

A basic intention of asset management of plans organised through pension insurance companies is to secure cover of the non-current obligations by delivering a competitive annual return at least equal to the guaranteed interest rate. Asset management is based on a long-term arrangement of investment portfolios, tailored to the company's long-term obligations. Norwegian legislation imposes restrictions on concentration risk in the investment of all plan assets. The investments are made in collective portfolios with cautious, moderate risk. The assets in the German plan are currently invested in a listed fund that is managed by a professional asset manager. The fund follows a multi-asset strategy with a conservative risk profile. The composition of the fund is regularly changed to accommodate optimal returns and risk management. At the reporting date 50% of the assets were invested in shares in various markets. Consequently, these shares are exposed to risk attaching to the performance of global equity markets. While company management cannot influence the fund's investments, it may at any time elect to exit fund investments.

(in NOK 1,000)	**2019**	2018
The company's expected contributions to funded plans in the next year	**30,413**	7,626

The amount for 2019 includes payments regarding previous' years (see Statement of changes in equity). The average weighted term of the pension obligation is 24 years.

EXPECTED MATURITY DATE OF PENSION SCHEMES AS OF 31 DECEMBER 2018

(in NOK 1,000)	**< 1 year**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Defined benefit pension	14,842	27,358	44,967	165,557	252,724

The Group has established mandatory occupational pension plans in the companies where this is required. These plans satisfy the requirements stipulated in the Norwegian Mandatory Occupational Pension Act.

TABLE OF THE HISTORICAL PRESENT VALUES OF PENSION OBLIGATIONS AND ASSETS AS OF 31 DECEMBER

(in NOK 1,000)	**2018**	2017	2016
Present value of defined benefit pension obligations	**294 106**	292 201	281 416
Fair value of plan assets	**181 886**	181 847	169 532
Deficit/(surplus)	**112 220**	110 354	111 884

SENSITIVITY ANALYSIS FOR CHANGES IN THE ASSUMPTIONS

	Norway Discount rate		Germany Discount rate	
	+ 1 per cent	– 1 per cent	+ 1 per cent	– 1 per cent
Increase (+) reduction (–) in the net pension costs for the period	(1,380)	1,570	(48)	67
Increase (+) reduction (–) in the net pension obligations as of 31 December	(2,642)	3,101	(5,958)	7,408

	Pension adjustment		Pension adjustment	
	+ 1 per cent	– 1 per cent	+ 1 per cent	– 1 per cent
Increase (+) reduction (–) in the net pension costs for the period	6,171	(4,561)	32	(27)
Increase (+) reduction (–) in the net pension obligations as of 31 December	5,520	(3,422)	6,261	(5,353)

	Change in the annual salary growth	
	+ 1 per cent	– 1 per cent
Increase (+) reduction (–) in the net pension costs for the period	(3,488)	4,740
Increase (+) reduction (–) in the net pension obligations as of 31 December	(2,981)	3,754

	Change in National Insurance basic amount (G) adjustment	
	+ 1 per cent	– 1 per cent
Increase (+) reduction (–) in the net pension costs for the period	492	(304)
Increase (+) reduction (–) in the net pension obligations as of 31 December	1,331	(848)

The sensitivity analysis above is based on a change in one of the assumptions, with all other assumptions remaining unchanged. In practice this would not happen as more than one assumption could vary simultaneously. The sensitivity calculation is performed applying the same method as the actuarial calculation used to determine the pension obligation in the statement of financial position.

The method and the assumptions in the sensitivity analysis have not been changed compared with the previous year. The Group has only one open defined benefit plan under which beneficiaries have entitlements.

Consequently, this is the only plan affected by changes in annual salary growth and adjustments to G.

NOTE 19 PROVISIONS

(in NOK 1,000)	Bonuses	Management incentive plan	Other	Total
Book value as of 1 january 2017	9,406	5,186	4,631	**19,223**
Provisions for the year	8,351	5,368	-	**13,719**
Utilisation of provisions from the prior year	(9,406)	-	(179)	**(9,585)**
Currency translation effects	-	-	-	**-**
Book value as of 31 December 2017	**8,351**	**10,554**	**4,452**	**23,357**
Provisions for the year	13,199	18,236	4	**31,439**
Utilisation of provisions from the prior year	(8,351)	(10,553)	(167)	**(19,071)**
Currency translation effects	-	-	-	**-**
Book value as of 31 December 2018	**13,199**	**18,237**	**4,289**	**35,725**

CLASSIFICATION IN THE STATEMENT OF FINANCIAL POSITION

(in NOK 1,000)	**2018**	2017
Non-current liabilities	**4,289**	4,452
Current liabilities	**31,436**	18,905

BONUSES

A performance-related bonus was introduced for Hurtigruten AS management from 2013. The bonus scheme includes the CEO and certain personnel in Group management. A provision of NOK 13.2 million has been recognised for this bonus agreement for 2018 (NOK 8.4 million in 2017).

MANAGEMENT INCENTIVE PLANS

Hurtigruten management has entered into an incentive plan to purchase shares in the parent company of the Silk Topco Group, Silk Topco AS. For further information regarding the Management incentive plan, see Note 20.

OTHER

A line-by-line recognition has been carried out with respect to an investment contribution received, including a possible repayment obligation. Revenue recognition of the investment contribution occurs in conjunction with depreciation and amortisation of the associated asset. NOK 167,000 was recognised as a reduction in depreciation during the year 2018 (NOK 179,000 in 2017).

OPERATING LEASE COMMITMENTS – GROUP COMPANY AS LESSEE

The Group leases offices in Tromsø and in Oslo, in addition to some other offices. These leases have varying payment dates, price adjustment clauses and renewal rights. The Group also leases machinery and transport equipment.

NON-CANCELLABLE OPERATING LEASES

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

(in NOK 1,000)	**2018**	2017
Within a year	**105,156**	98,088
Later than one year but no later than 5 years	**250,058**	315,563
Later than 5 years	**20,496**	30,093

NOTE 20 SHARE-BASED PAYMENT

Hurtigruten executive management has entered into an agreement with the ultimate parent company, Silk Topco AS. The executive managers have purchased shares in Silk Topco AS at the same price that Silk Topco AS paid for the shares in Hurtigruten ASA in 2014 through its subsidiary Hurtigruten Group AS. The agreement also contains an incentive scheme that gives management a right to bonus shares in different pre-defined exit scenarios. Silk Topco AS may settle the bonus shares either with cash or with a private placing at no cost to the management.

The incentive scheme has two market-based vesting conditions:

- The internal rate of return at the time of the sale, calculated from the time of the share-purchase, must be more than 8%
- The exit value must be at least 150% of the aggregated invested amount

The number of bonus shares depends on the aggregated exit value and can give a range of bonus shares from 0.38 per share up to 12 times per share. Management's investment at 31 December 2018 was NOK 41.7 million (NOK 41.7 at 31 December 2017).

When estimating the fair value of the incentive scheme at grant date, the main factors influencing the fair value that had to be estimated by management were as follows:

- The probability of different exit values that then give different levels of bonus shares,
- The expected time to exit
- Discount rate.

The agreement was signed on 23. June 2015.

Expected life of the agreement:	5 years
Fair value at initial recognition:	NOK 17.3 million
Expected time to exit:	5 years*
Annual amortisation:	NOK 4.5 million
Amortised amount as of 31.12.2018:	NOK 18.2 million
Amortised amount as of 31.12.2017:	NOK 10.6 million

As of 31. December 2018, the provision for employer's contribution related to the management incentive programme was NOK 13.1 million (NOK 14.2 at 31 December 2017).

* As of 31. December 2017 the best estimate of expected time to exit was 5 years and is still assessed to be a reasonable expectation.

NOTE 21 TRADE AND OTHER CURRENT PAYABLES

(In NOK 1,000)	**2018**	2017
Trade payables	**232,381**	375,229
Public duties payable	**73,171**	72,472
Accrued expenses	**402,779**	411,028
Other current liabilities	**142,040**	173,220
Total trade and other current payables	**850,372**	1,031,949

See Note 29 for information on trade payables and other current payables due to related parties.

NOTE 22 OPERATING REVENUES

REVENUE BY CATEGORY

(in NOK 1,000)	**2018**	2017
Ticket revenue	**2,545,533**	2,285,531
Revenue from flights, hotel & transportation	**517,231**	449,090
Presold food, beverages and excursions	**797,776**	656,937
Onboard sales of food, beverages, shop and excursions	**504,882**	417,280
Other passenger revenue	**81,015**	107,022
Cargo-freight revenue	**54,283**	53,415
Contractual revenues	**698,919**	674,234
Other operating revenue	**228,796**	279,040
Total operating revenues	**5,428,434**	4,922,550

Contractual revenues relating to the Bergen-Kirkenes coastal service is based on the existing agreement with the Norwegian government through the Ministry of Transport and Communications. The agreement applies to the Bergen-Kirkenes route for the period 1 January 2012 through 31 December 2020. From 1 January 2021 the agreement applies to 7 ships, a reduction from 11 ships which applies in the current agreement.

RECONCILIATION OF MOVEMENT IN DEPOSITS FROM CUSTOMERS:

(in NOK 1,000)	**2018**	2017
Deposits from customers, opening balance	**752,926**	620,905
New sales	**805,795**	531,655
Recognised in revenue	**(757,175)**	(420,908)
Currency translation effects	**10,434**	21,273
Deposits from customers, closing balance	**811,980**	752,926

DEPOSITS FROM CUSTOMERS ARE EXPECTED TO BE RECOGNISED IN INCOME AS FOLLOWS:

(in NOK 1,000)	**2018**	2017
During the first six months	**497,930**	451,226
Between seven and twelwe months	**210,495**	168,372
During the second year	**102,666**	131,266
During the third year or later	**889**	2,062
Total deposits from customers	**811,980**	752,926

NOTE 23 COST OF GOODS SOLD

(In NOK 1,000)	**2018**	2017
Commissions	**486,731**	383,360
CoGS regarding flights, hotel and transportation	**423,814**	367,798
CoGS regarding food, beverages, shops and excursions	**467,004**	423,345
Other CoGS	**105,872**	142,003
Total payroll costs	**1,483,420**	1,316,505

NOTE 24 PAYROLL COSTS

(In NOK 1,000)	**2018**	2017
Wages and salaries	**1,021,783**	930,561
Payroll tax	**47,032**	90,285
Pension costs (Note 18)	**64,266**	64,780
Other benefits (Note 20)	**73,397**	73,424
Total payroll costs	**1,206,479**	1,159,050
Average number of full-time equivalents	**2,272**	2,198

The reduction in payroll tax is due to changed rules for employees in the transport sector, effective from 1 January 2018.

Seamen hired by Hurtigruten are included in the “Net Wages” – scheme, where the Norwegian government reimburses to shipping companies an amount corresponding to the sum of the income tax paid, social security contributions and employer's national insurance contributions for crew within the scheme. The government grant is recorded as a reduction in payroll costs. During 2018, the Group has recognised NOK 139.6 million in government grants through this arrangement (NOK 165.0 million in 2017).

The Norwegian government reimburses parts of the salary to new seamen apprentices. The government grant is recorded as a reduction in payroll costs. During 2018, the Group has recognised NOK 10.0 million in government grants through this arrangement (NOK 9.6 million in 2017).

NOTE 25A REMUNERATION OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

TOTAL COMPENSATION YEAR 2018

BOARD OF DIRECTORS

(in NOK 1,000)	Position	Salary	Pension cost	Other	Fees	Total remuneration
Trygve Hegnar	Chair	-	-	-	**326**	**326**
Petter Anker Stordalen	Director	-	-	-	**137**	**137**
Jonathan Barlow	Director	-	-	-	-	-
Matthew Lenczner	Director	-	-	-	-	-
Total					**462**	**462**

EXECUTIVE MANAGEMENT

(in NOK 1,000)	Position	Salary	Pension cost	Other [1]	Fees	Total remuneration
Daniel Skjeldam	Chief Executive Officer	6,074	851	5,109	-	**12,034**
Torleif Ernstsen	Chief Financial Officer	2,772	286	1,304	-	**4,363**
Asta Lassesen	Chief Commercial Officer	3,033	321	1,385	-	**4,739**
Thomas Westergaard	Operations	1,898	142	791	-	**2,831**
Anne-Marit Bjørnflaten	SVP Communications	1,519	77	490	-	**2,086**
Marit Finnanger	Organisational	1,873	142	402	-	**2,417**
Ole-Marius Moe-	(From November 5th 2018)	320	24	1	-	**346**
Robert Grefstad	(Until November 5th 2018)	1,358	682	281	-	**2,321**
Tor Geir Engebretsen[2]	Officer/SVP Maritime				4,157	**4,157**
Total		**18,847**	**2,526**	**9,765**	**4,157**	**35,294**

1) Including bonus, car allowance and severance benefits for outgoing managers.
2) Tor Geir Engebretsen is external consultant, and fees stated is excluding VAT

The company's CEO receives an annual fixed salary of NOK 6 million. Other benefits include bonus, fixed car remuneration and ordinary phone expenses, Internet, newspaper and home computer allowance. The CEO has a time-limited agreement on a performance-related bonus linked to the operating result before depreciation, amortisation and impairments, in which performance is indexed against the adjusted budget operating result before depreciation, amortisation and impairments. This bonus agreement gives the right to one payment of maximum NOK 4 million. The CEO also has an agreement whereby the Board decides the bonus, factoring all the various activities and circumstances during the year. This bonus agreement gives the right to a maximum bonus payment of up to NOK 4 million.

The CEO is included in the company's ordinary defined contribution pension scheme for salaries up to 12G and the defined contribution scheme that provides a pension basis for salaries over 12G. The CEO's conditions of employment do not include any personal pension obligations.

The company's management are members of the company's defined contribution plan. In addition, a supplementary defined contribution pension plan has been established, which provides a pension for any salary in excess of 12 times the National Insurance basic amount (G). The scheme applies to the entire company and covers all employees with salaries over 12G, including members of the executive management and the CEO. The pension costs for the executive management have been included under pension costs above.

A performance-based bonus scheme was introduced for the company's management from 2013. The bonus payments are established applying pre-determined targets/parameters, some of which relate to the Group's overall performance and others to results within managers' individual spheres of responsibility. The maximum bonus for an individual manager is NOK 2 million. The bonus scheme covers certain members of Group management. The CEO has a separate performance-related bonus scheme as described above.

TOTAL COMPENSATION YEAR 2017

BOARD OF DIRECTORS

(in NOK 1,000)	Position	Salary	Pension cost	Other	Fees	Total remuneration
Trygve Hegnar	Chair	-	-	-	326	**326**
Petter Anker Stordalen	Director	-	-	-	137	**137**
Jonathan Barlow	Director	-	-	-	-	**-**
Matthew Lenczner	Director	-	-	-	-	**-**
Total					**462**	**462**

EXECUTIVE MANAGEMENT

(in NOK 1,000)	Position	Salary	Pension cost	Other [1]	Fees	Total remuneration
Daniel Skjeldam	Chief Executive Officer	6,074	915	7,106	-	**14,096**
Torleif Ernstsen	(From 1 February 2017)	2,256	288	504	-	**3,048**
Asta Lassesen	(CFO until 1 February 2017)	3,011	331	735	-	**4,077**
Thomas Westergaard	Operations	1,939	166	575	-	**2,680**
Anne-Marit Bjørnflaten	SVP Communications	1,571	94	344	-	**2,008**
Marit Finnanger	Organisational	1,944	161	546	-	**2,651**
Robert Grefstad	Chief Information Officer	2,025	182	744	-	**2,951**
Tor Geir Engebretsen[2]	Officer/SVP Maritime	-	-	-	3,796	**3,796**
Arild Kaale	(until 6 January 2017)	-	-	2,247	-	**2,247**
Total		**18,819**	**2,137**	**12,801**	**3,796**	**37,554**

1) Including bonus, car allowance and severance benefits for outgoing managers.

2) Tor Geir Engebretsen is external consultant, and fees stated is excluding VAT

NOTE 25B AUDITOR REMUNERATION

(in NOK 1,000)	**2018**	2017
Auditor's fees – statutory auditing	2,316	2,660
Assistance IFRSs, accounting and tax	659	657
Other certification services	189	195
Auditor's fees – other assistance	4,279	312
Total	**7,443**	3,823

All amounts stated exclude VAT.

Other assistance fees in 2018 are primarily fees for legal and tax assistance in relation with transferring the cruise-operating business from Hurtigruten AS to its 100 % owned subsidiary Hurtigruten Cruise AS and the entry into the Norwegian tax tonnage regime.

NOTE 26 OTHER OPERATING COSTS

(in NOK 1,000)	**2018**	2017
Other operating cruise costs	**1,239,347**	1,067,326
Sales and administrative costs	**518,037**	502,772
Total other operating costs	**1,757,384**	1,570,098

Operating cruise costs consists of costs such as bunker fuel, harbour costs and repair and maintenance.

NOTE 27 OTHER (LOSSES)/GAINS – NET

Other (losses)/gains -net consists of the following items:

(In NOK 1,000)	**2018**	2017
Net gain (loss) on the sale of property, plant and equipment	**345**	266
Net unrealised foreign currency loss on balance sheet items	**7,834**	(9,860)
Net gains (loss) on forward currency exchange contracts	**10,262**	(20,366)
Net gains (loss) on forward bunker contracts	**74,193**	(20,626)
Total other (losses)/gains	**92,634**	(50,586)

Other losses/gains – net consists of gains and losses that results from revaluation of balance sheet items denominated in foreign currencies to functional currencies at balance sheet date, realised gains/losses on forward bunker fuel contracts, and realised and unrealised gains and losses on fair value adjustments on forward currency contracts.

NOTE 28 FINANCE INCOME AND EXPENSES

(in NOK 1,000)	**2018**	2017
Interest income on current bank deposits	**24,122**	(4,785)
Foreign exchange gains	**27,684**	93,558
Dividends	**149**	914
Other finance income	**7,844**	2,258
Finance income	**59,798**	91,946
Interest expenses		
– Borrowings	**(273,662)**	(400,827)
– Capitalised interest on prepayments	**16,006**	16,436
– Other interest expenses	**(26,010)**	(9,301)
Borrowing fees	**(237,212)**	(108,500)
Foreign exchange losses	**(159,743)**	(443,692)
Other finance expenses	**(1,858)**	(34)
Finances expenses	**(682,479)**	(945,918)
Finance expenses – net	**(622,681)**	(853,973)

NOTE 29 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are carried out in accordance with the arm's length principle. Related parties is defined as the key management personnel in the company, shareholders and associates. Associates in 2017 include Green Dog Svalbard AS in which the Group has a 50 per cent shareholding. Green Dog supplies dog-related services on Spitsbergen to Hurtigruten Svalbard AS.

The Group conducted the following transactions with related parties:

TRANSACTIONS WITH ASSOCIATES

(in NOK 1,000)	**2018**	2017
Operating revenues		
Sale of services to Green Dog Svalbard	**983**	567
Operating costs		
Purchase of services from Green Dog Svalbard AS	**9,701**	8,766
Net Financial Items		
Interest income from Green Dog Svalbard AS	**-**	8
Balances with Green Dog Svalbard AS at year-end		
Current receivables	**334**	392
Non-current receivables	**-**	-
Current liabilities	**(385)**	(42)
Net balances with Green Dog Svalbard AS as of 31 December	**(51)**	350

NON-CURRENT RECEIVABLES FROM OTHER GROUP COMPANIES AT YEAR-END

(in NOK 1,000)	**2018**	2017
Silk Topco AS	**13,530**	-
Coastal Holding AS	**437,725**	-
Coastal 1 AS	**135,741**	-
KVE Holding AS	**111,874**	-
Totals	**698,870**	-

TRANSACTIONS WITH SHAREHOLDERS

TRANSACTIONS WITH SILK HOLDING SARL

On 7 February 2017, the Group entered into a loan agreement for a rolling tenure credit facility with the majority shareholder Silk Holding S.a.r.l in the amount of EUR 12 million. The interest is compounded quarterly and payable upon loan redemption. On 14 September 2017, the Group repaid EUR 5,5 million, and net loan balance at 31 December 2017 is EUR 6,5 million. The rest of the liability to Silk Holdings S.A.R.L was repaid in August 2018.

TRANSACTION WITH TDR CAPITAL LLP

The majority shareholder Silk Holding S.A.R.L is 100% owned by an investment fund managed by TDR Capital LLP. Board members of Silk Topco AS, Matthew Lenczner and Jonathan Rosen, are partners in TDR Capital LLP. Silk Topco AS reimburses travel expenses and other third party expenses to TDR Capital related to their Hurtigruten investment, according to investment agreement between Silk Topco AS and its shareholders.

(in NOK 1,000)	**2018**	2017
Other operating costs		
Travel and other third party expenses reimbursement to TDR Capital	**(1,455)**	(5,444)
Net Financial Items		
Interest expense to Silk Holding S.A.R.L.	**(4,823)**	(14,550)
Balances with shareholders at year end		
Trade and other payables		(14,550)
Borrowings short-term		63,962

NOTE 30 EVENTS AFTER THE BALANCE SHEET DATE

INTRA-GROUP BUSINESS TRANSACTION IN CONNECTION WITH ENTRY INTO TAX TONNAGE

On 1 January 2019, Hurtigruten AS transferred all of its cruise-related business to the 100 % owned subsidiary Hurtigruten Cruise AS to facilitate entry into the Norwegian tax tonnage regime. The business which is non-cruise-related is still a part of Hurtigruten AS, which will continue to act as a package travel provider to its customers and from 2019 purchase all cruise-related operations from the subsidiary Hurtigruten Cruise AS. The transaction does not have any material effects for the consolidated financial statements of the Hurtigruten Group, except for tax. Since the transaction was performed at fair value for tax purposes, the transaction will generate a taxable profit in Hurtigruten AS. This profit will utilize the previously unrecognized tax loss carry forwards and as such, at 31 December 2018, the deferred tax asset related to the tax loss carry forwards has been recognized in the financial statements.

Hurtigruten Group AS

Parent Company Financial Statements

2018

STATEMENT OF PROFIT AND LOSS

(in NOK 1,000)	*Note*	**2018**	2017
Operating costs	*11*	**-9,561**	-4,391
Other (losses) / gains – net		**-191**	-51
Operating profit/(loss)		**-9,752**	-4,443
Finance income	*9*	**134,060**	434,116
Finance expenses	*9*	**-662,090**	-779,848
Finance expenses - net		**-528,030**	-345,732
Profit/(loss) before income tax		**-537,782**	-350,175
Income tax expense	*3*	**269,928**	0
Profit/(loss) for the year		**-267,854**	-350,175

STATEMENT OF COMPREHENSIVE INCOME

(in NOK 1,000)	*Note*	**2018**	2017
Profit/(loss) for the year		**-267,854**	-350,175
Other comprehensive income:		**-28,015**	0
Total comprehensive income for the year		**-295,869**	-350,175
Total comprehensive income for the year attributable to			
Owners of the parent		**-295,869**	-350,175
Total comprehensive income for the year		**-295,869**	-350,175

STATEMENT OF FINANCIAL POSITION

(in NOK 1,000)	*Note*	**2018**	2017
ASSETS			
Non-current assets			
Deferred income tax assets	*3*	**269,928**	-
Investments in subsidiaries	*4*	**6,274,359**	3,254,232
Non-current receivables, intragroup	*5, 6, 10*	**710,220**	2,296,109
Available for sale financial instruments	*6*	**24,327**	49,970
Derivative financial instruments	*6*	**57,351**	30,494
Total non-current assets		**7,336,185**	5,630,806
CURRENT ASSETS			
Trade and other current receivables	*6*	**25,866**	-
Intercompany current receivables	*6, 10*	**39,835**	104,085
Derivative financial instruments	*6*	**105,347**	16,051
Cash and cash equivalents	*6*	**3,896**	2,638
Total current assets		**174,944**	122,774
Total assets		**7,511,128**	5,753,579

(in NOK 1,000)	*Note*	**2018**	2017
EQUITY			
Equity attribute to owners of the parent			
Share capital	*7*	**90**	90
Share premium	*7*	**1,826,688**	1,826,688
Other equity not recognized in the income statement		**(28,015)**	-
Retained earnings		**(957,016)**	(689,162)
Total equity		**841,747**	1,137,616
LIABILITIES			
Non-current liabilities			
Borrowings	*5, 6*	**6,381,956**	-
Derivative financial instruments	*6*	**57,351**	46,545
Total non-current liabilities		**6,439,308**	46,545
Current liabilities			
Trade and other liabilities	*6*	**89,763**	184,006
Derivative financial instruments	*6*	**140,310**	-
Borrowings	*5, 6*	**-**	4,385,095
Current liabilities intercompany	*10*	**-**	318
Total current liabilities		**230,073**	4,569,419
Total equity and liabilities		**7,511,128**	5,753,579

Oslo, 29 April 2019

Trygve Hegnar
Chairman

Petter Stordalen
Director

Jonathan Barlow Rosen
Director

Matthew John Lenczner
Director

STATEMENT OF CHANGES IN EQUITY

(in NOK 1,000)	Share capital including treasury shares	Share premium	Equity not recognized in the income statement	Retained earnings	Total Equity
Balance at 1 January 2017	90	1,826,688	-	(338,987)	**1,487,791**
Profit/(loss) for the year	-	-	-	(350,175)	**(350,175)**
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	-350,175	**-350,175**
Balance at 31 December 2017	90	1,826,688	-	(689,162)	**1,137,616**
Balance at 1 January 2018	90	1,826,688	-	(689,162)	**1,137,616**
Profit/(loss) for the year	-	-	-	(267,854)	**(267,854)**
					-
Other comprehensive income	-	-	-28,015	-	**(28,015)**
Total comprehensive income	-	-	-28,015	-267,854	**(295,869)**
Balance at 31 December 2018	90	1,826,688	-28,015	(957,016)	**841,747**

CASH FLOW STATEMENT

(in NOK 1,000)	*Note*	**2018**	2017
Cash flows from operating activities			
Profit/(loss) before income tax		**(537,782)**	(350,175)
Adjustments for:			
Depreciation, amortisations and impairment losses		**-**	51,073
Currency gains / losses		**133,044**	163,114
Interest expenses	*9*	**478,854**	324,650
Change in working capital:			
Trade and other receivables		**(687,959)**	(15,649)
Trade and other payables		**3,942**	6,616
Net cash flows from (used in) operating activities		**(609,901)**	179,629
Cash flows from investing activities			
Purchase of shares and investments in other companies	*6*	**(45)**	(49,970)
Net lendings to subsidiaries	*6*	**(710,220)**	8,068
Interest received		**-**	172,415
Net cash flows from (used in) investing activities		**(710,265)**	130,512
Cash flows from financing activities			
Drawdown, new borrowings	*5*	**2,035,586**	-
Repayment of debt	*5*	**(239,900)**	-
Interest paid		**(468,820)**	(309,775)
Net cash flows from (used in) financing activities		**1,326,866**	-309,775
Currency gains / losses on cash and cash-equivalents		**(5,442)**	-
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**1,258**	367
Cash and cash equivalents at 1 January		**2,638**	2,271
Cash and cash equivalents at 31 December		**3,896**	2,638

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Hurtigruten Group AS (previously known as Silk Bidco AS) is owned by Silk Midco AS and the ultimate parent company Silk Topco AS. Hurtigruten Group AS is the parent in the Hurtigruten Group. The purpose of Hurtigruten Group AS is being the Group's Treasury, including being the debtor in the Group's main financing, and holding the direct ownership of Hurtigruten Explorer AS and Hurtigruten AS, which operates the main activity of the group.

The information provided in the consolidated financial statements covers the company to a significant degree. Please refer to the consolidated financial statement of the Group for a description of the operative activities within the Group. The financial statements of Hurtigruten Group AS for the year ended December 31, 2018 were authorized for issue by the Board of Directors on April 29, 2019. The financial statement of the company has been prepared in accordance with simplified IFRS pursuant to the Norwegian Accounting Act § 3-9, and regulations regarding simplified application of IFRS issued by the Ministry of Finance on January 21, 2008. The company's significant accounting principles are consistent with the accounting principles of the Group, as described in Note 1 of the consolidated financial statement. Where the notes for the parent company are substantially different from the notes for the Group, these are shown below. Otherwise, refer to the notes in the Group's Consolidated Financial Statements (hereinafter referred to as the Consolidated Financial Statements). The option in the regulation for simplified IFRS which the company has utilized in recognition and measurement, and which differ from the consolidated financial statements are:

- Dividends and group contribution
  Dividend and group contributions are recognized in accordance with the Accounting Act and recognized in the reporting period to which they relate.
- Investments in subsidiaries and associates
  Shares in subsidiaries are valued at cost and tested for impairment. Any impairment losses and reversal of impairment losses are classified as net gains (loss and impairment) on investments in subsidiaries in the income statement. Loans provided to subsidiaries are measured at cost according to IAS 39.

NOTE 2 FINANCIAL RISK

As a result of ordinary operations expose the company to risk related to fluctuations in exchange and interest rates. The company is covered by the Groups hedging strategy. Further information can be found in the consolidated group accounts.

MARKET RISK

a) Currency risk

The Company has significant loan receivables and payables in foreign currencies and is thus exposed to currency risk.

In 2015, Hurtigruten Group AS issued a bond with a face value of EUR 455 million, with a tenure of 7 years. This Senior Secured Bond Facility was terminated in February 2018. A Senior Facility Term Loan of EUR 575 million and EUR 85 million Senior Secured Revolving Credit Facility were established to replace the EUR 455 million

Bond Facility and repay the outstanding EUR 85 million Senior Secured Revolving Credit Facility. The new facility has a tenure of 7 years. A full utilization of the Term Loan until maturity is assumed and no repayment of any facility unless so required per documentation. In November 2018 the Senior Facility Term Loan of EUR 575 million was increased with EUR 80 million and as of 31 December 2018, the outstanding principal is EUR 655 million. The Company pays semi-annual interests on the Senior Facility Term Loan which represent a currency risk. The semi-annual payment of interest is partially hedged through the Group's net revenue in euro. See the Group financial statements, note 4 for more detail.

b) Price risk

The company has limited business activities, hence no significant price risk.

c) Interest rate risk

The company's borrowings and draws of the Group bank accounts are made at floating rates. Loans subject to a variable interest rate present a risk to the Group's overall cash flow, while fixed interest rates expose the Company to fair-value interest rate risk. The Company has no specific hedging strategy to reduce variable interest rate risk.

CREDIT AND LIQUIDITY RISK

The Company has no significant concentration of credit risk.

Liquidity risk management includes maintaining a sufficient level of liquid assets geared to operational and investment plans and ensuring the availability of sufficient funding from committed credit facilities. The Company takes part of the Group's group account that ensures that part of the Group's unrestricted liquidity is available to the parent company, and which also optimises availability and flexibility in liquidity management. The Finance function has overall responsibility for managing the Group's liquidity risk. Rolling liquidity forecasts are prepared so as to ensure that the Group has sufficient liquidity reserves to satisfy the Group's obligations and financial loan covenants. See the Group financial statements, note 4 for more detail.

NOTE 3 INCOME TAX

THE INCOME TAX EXPENSE FOR THE YEAR CAN BE BROKEN DOWN AS FOLLOWS

(in NOK 1,000)	**2018**	2017
Income tax payable, current year	-	-
Income tax payable, adjustments regarding previous years	-	-
Change in deferred tax, current year	**-282,197**	-
Change in deferred tax, adjustments regarding previous years	**12,269**	-
Total income tax expense	**-269,928**	-

RECONCILIATION OF EFFECTIVE TAX TO NOMINAL TAX RATE

(in NOK 1,000)	**2018**	2017
Profit/(loss) before tax from operations	**-537,782**	-350,175
Tax rate	**23 %**	24 %
Calculated tax expense at nominal tax rate	**-123,690**	84,042
Change in the income tax expense as a result of:		
– unrecognised deferred income tax assets	**-158,507**	-84,042
– change in tax rate	**12,269**	-
Income tax expense	**-269,928**	0
Weighted average tax rate	50 %	0 %

SPECIFICATION OF DEFERRED TAX ASSETS (+) / LIABILITIES (-)

2018

(in NOK 1 000)	Opening balance	Tax expense	Recognised in other compr. income	Closing balance
Non-current items				
Other non-current items	-	-29,520	-	-29,520
Totals	**-**	**-29,520**	**-**	**-29,520**
Current items				
Derivatives	-	7,692	-	7,692
Totals	**-**	**7,692**	**-**	**7,692**
Tax loss carry forwards	165,399	126,356	-	291,755
Valuation allowance	-165,399	165,399	-	-
Total def. tax asset / (liability)	**-**	**269,928**	**-**	**269,928**
Carr. value of def. tax asset	-			269,928
Carr. value of def. tax liabilities	-			-
Net	**-**			**269,928**

2017

(in NOK 1 000)	Opening balance	Tax expense	Recognised in other compr. income	Closing balance
Tax loss carry forwards	84,747	80,652		165,399
Valuation allowance	-84,747	-80,652		-165,399
Total def. tax asset / (liability)	**-**	**-**	**-**	**-**

The deferred income tax assets relating to tax loss carry-forwards are recognised in the statement of financial position to the extent that the Company can utilise the tax loss carry-forward against future taxable income.

NOTE 4 INVESTMENTS IN SUBSIDIARIES

(NOK 1,000)	Registered office	Ownership/voting share	Carrying value
Hurtigruten AS	Tromsø, Norway	100.0 %	6,274,309
Hurtigruten Explorer AS	Tromsø, Norway	100.0 %	50
Net			**6,274,359**

NOTE 5 RECEIVABLES AND LIABILITIES

RECEIVABLES THAT MATURE IN MORE THAN ONE YEAR

(in NOK 1 000)	**2018**	2017
Non current receivables intragroup	**710,220**	2,296,109
Total receivables that mature in more than one year	**710,220**	2,296,109

MATURITY PROFILE OF NOMINAL BORROWING

(in NOK 1 000)	**2018**	2017
Current borrowings	-	4,385,095
Non-current borrowings	**6,381,956**	-
Capitalised interest amortisation	**134,180**	92,242
Total liabilities, nominal value	**6,516,137**	4,477,336

REPAYMENT PROFILE FOR INTEREST-BEARING LIABILITIES

(in NOK 1 000)	**2018**	**2017**
2018	-	4,477,336
2019	-	-
2020	-	-
2021	-	-
2022	-	-
2023	-	-
2024	**6,516,137**	-
Maturity of total liabilities	**6,516,137**	4,477,336

The Group's main source of financing is a Term Loan B with EURIBOR floating interest + margin. The facility has a face value of EUR 655 million. The loan was issued in February 2018 (EUR 575 million) as a refinancing of the existing Senior Secured Bond of EUR 455 million and the revolving Credit facility of EUR 85 million which both were terminated. The Term Loan was increased in November 2018 (EUR 80 million) to repay outstanding NOK bond and for general corporate purposes (incl. further investments in the fleet).

COLLATERALIZED ASSETS

Hurtigruten Group AS as well as its subsidiaries Hurtigruten AS, Hurtigruten Svalbard AS, Hurtigruten Sjø AS and Hurtigruten Pluss AS has pledged all assets, including shares in subsidiaries, as security for the above loans.

(in NOK 1 000)	**2018**	2017
Booked value of collateralized assets	**3,509,051**	4,645,367

NOTE 6A FINANCIAL INSTRUMENTS BY CATEGORY

The following principles has been used for subsequent measurement of financial assets and liabilities:

AS AT 31 DECEMBER 2018

(in NOK 1 000)	**Loans and receivables**	**Asset at fair value through profit and loss**	**Asset at fair value through OCI**	**Derivatives used for hedging**	**Total**
Assets as per balance sheet					
Non-current receivables intragroup	710,220	-	-	-	**710,220**
Available for sale financial instruments	-	-	24,327	-	**24,327**
Derivative financial instruments	-	-	-	162,699	**162,699**
Trade and other receivables, current	25,866	-	-	-	**25,866**
Intercompany current receivables	39,835	-	-	-	**39,835**
Cash and cash equivalents	3,896	-	-	-	**3,896**
Total	**779,816**	**-**	**24,327**	**162,699**	**966,842**

(in NOK 1 000)	**Liabilites at fair value through profit and loss**	**Trading derivatives**	**Derivatives used for hedging**	**Other financial liabilities at amortised cost**	**Total**
Liabilities as per balance sheet					
Derivative financial instruments	-	34,963	162,699	-	**197,662**
Borrowings	-	-	-	6,381,956	**6,381,956**
Trade and other liabilities	-	-	-	89,763	**89,763**
Total	**-**	**34,963**	**162,699**	**6,471,719**	**6,669,381**

Carrying amount of non-current receivables, payables and borrowings is assessed to not differ materially from fair value.

AS AT 31 DECEMBER 2017

(in NOK 1 000)	Loans and receivables	Asset at fair value through profit and loss	Asset at fair value through OCI	Derivatives used for hedging	Total
Assets as per balance sheet					
Non-current receivables intragroup	2,296,109	-	-	-	**2,296,109**
Available for sale financial instruments	-	-	49,970	-	**49,970**
Derivative financial instruments	-	-	-	46,545	**46,545**
Intercompany current receivables	104,085	-	-	-	**104,085**
Cash and cash equivalents	2,638	-	-	-	**2,638**
Total	**2,402,832**	**-**	**49,970**	46,545	**2,499,347**

(in NOK 1 000)	Liabilites at fair value through profit and loss	Trading derivatives	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet					
Derivative financial instruments	-	-	46,545	-	**46,545**
Borrowings	-	-	-	4,385,095	**4,385,095**
Trade and other liabilities	-	-	-	184,324	**184,324**
Total	**-**	**-**	**46,545**	4,569,419	**4,615,964**

Carrying amount of non-current receivables, payables and borrowings is assessed to not differ materially from fair value.

NOTE 6B CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

(in NOK 1 000)	**2018**	2017
Cash bank and short-term bank deposits		
Rating A (S&P)	**3,896**	2,638
Counterparties without external credit ratings	**-**	-
Total bank deposits	**3,896**	2,638
Cash on hand	**-**	-
Total cash and short-term bank deposits	**3,896**	2,638

NOTE 7 PAID-IN EQUITY

(in NOK 1 000)	**Number of shares**	**Share premium**	**Nominal value**	**Total**
Share capital	30	1,826,688	90	1,826,778

Shareholders	**Number of shares**	**Shareholding (%)**
Silk Midco AS	30	100.00

All shares carry the same rights in the company.

NOTE 8 REMUNERATION

AUDIT REMUNERATION

(in NOK 1,000)	**2018**	2017
Auditor's fees – statutory auditing	**98**	290
Other certification services	**-**	9
Auditor's fees – other assistance	**-**	159
Total other operating costs	**98**	457

The company has no employees and there is as such no obligation to establish an obligatory service pension plan according to the Norwegian service plan act.

NOTE 9 FINANCIAL INCOME AND EXPENSES

(in NOK 1 000)	**2018**	2017
Interest income intragroup	**81,917**	220,723
Other finance income	**39,183**	11,264
Interest income on current bank deposits	**10**	0
Foreign exchange gains	**12,950**	202,129
Total finance income	**134,060**	434,116

(in NOK 1 000)	**2018**	2017
Interest expenses	**-478,854**	-428,532
Foreign exchange losses	**-183,236**	-351,315
Total financial expenses	**-662,090**	-779,848
Finance expenses - net	**-528,030**	-345,732

NOTE 10 RELATED PARTIES

TRANSACTIONS WITH GROUP COMPANIES

(in NOK 1,000)	**2018**	2017
Purchase of services from Group companies		
Hurtigruten Pluss AS	**323**	318
Purchase of services from Group companies	**323**	318
Interest income from Group companies		
Hurtigruten AS	**19,962**	178,177
Total interest income from Group companies	**19,962**	178,177
Fee borrowings received from Group		
Hurtigruten AS	**61,955**	42,545
Total fee borrowings received from Group	**61,955**	42,545

INTRAGROUP BALANCES

(in NOK 1 000)	**2018**	2017
Non-current receivables due from Group companies		
Hurtigruten AS	**272,495**	2,296,109
Coastal Holding AS	**437,725**	-
Total non-current receivables due from Group companies	**710,220**	2,296,109
Trade and other current receivables from Group companies		
Hurtigruten AS	**(1,765)**	92,771
KVE Holding AS	**2,417**	-
Hurtigruten Sjø AS	**2,571**	-
Hurtigruten Explorer AS	**-**	50
Hurtigruten Eiendom AS	**772**	1,033
Hurtigruten Pluss AS	**35,839**	10,231
Trade and other current receivables from Group companies	**39,835**	104,085
Trade payables and other current payables to Group companies		
Hurtigruten Plus AS	**-**	318
Total trade payables and other current payables to Group companies	**-**	318

NOTE 11 OPERATING COSTS

(in NOK 1,000)	**2018**	2017
Insurance premiums	**-**	223
Legal services	**813**	929
Other services	**8,700**	3,108
Other general expenses	**48**	131
Total other operating costs	**9,561**	4,391

NOTE 12 EVENTS AFTER BALANCE SHEET DATE

There are no material events after balance sheet date related to Hurtigruten Group AS. For events after balance sheet date related to the Group, please see note 29 in the Consolidated Annual Financial Statements.

To the General Meeting of Hurtigruten Group AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hurtigruten Group AS, which comprise:

- The financial statements of the parent company Hurtigruten Group AS (the Company), which comprise the statement of financial position as at 31 December 2018, the statement of profit and loss, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Hurtigruten Group AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to https://revisorforeningen.no/revisjonsberetninger

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 29 April 2019
PricewaterhouseCoopers AS

Stig Lund
State Authorised Public Accountant