



Explorer II AS

Second Quarter and First Half report 2022

Published 29 August 2022

Key figures¹⁾

<i>(EUR 1 000)</i>	2nd quarter 2022	2nd quarter 2021	% Change	01.01-30.06 2022	01.01-30.06 2021	% Change	Full year 2021
Operating revenue	12 466	12 466	0 %	24 795	24 863	0 %	50 068
Total revenue	12 466	12 466	0 %	24 795	24 863	0 %	50 068
EBITDA	12 374	12 402	0 %	24 792	24 903	0 %	50 117

¹⁾ The figures presented in this report are unaudited

Operational review

Explorer II AS is a shipping company located in Oslo within the Hurtigruten Group (Hurtigruten). Its purpose is to invest in, and lease out, under bareboat charter agreements, specialised cruise vessels for the operation in other Hurtigruten Group companies. As of 30 June 2022, Explorer II AS owned the two hybrid-powered expedition ships, MS Roald Amundsen and MS Fridtjof Nansen. MS Roald Amundsen was delivered from Green Yard Kleven yard in June 2019. In December 2019, its sister ship MS Fridtjof Nansen was delivered.

MS Roald Amundsen and MS Fridtjof Nansen have an ice-reinforced hull, a total length of 140 metres and are able to carry 530 guests. The hybrid technology engines reduce fuel consumption substantially and permit periods of emission-free sailing. The investment in new technology has been

partly funded by Enova, a Norwegian government enterprise responsible for the promotion of environmentally friendly production and consumption of energy, and as such lives up to Hurtigruten's vision of becoming the world's leading expedition travel company by offering authentic and accessible experiences to travellers who wish to explore and travel in a sustainable way. Both vessels are operated by Hurtigruten Expedition Cruises AS, a sister company within the Hurtigruten Group.

MS Roald Amundsen and MS Fridtjof Nansen are state of the art battery-hybrid powered expedition vessels. They have received excellent guest feedback on the overall onboard experience among others in the Hurtigruten fleet.

Financial review

Profit and loss

Operating revenue in the second quarter of 2022 amounted to EUR 12.5 million compared to EUR 12.5 million for the same period last year. Revenues for the year include bareboat charter for both MS Roald Amundsen and MS Fridtjof Nansen.

Net financial expenses in the second quarter of 2022 were EUR 3.1 million compared to EUR 3.0 million for the second quarter of 2021.

Net income in the second quarter of 2022 was EUR 6.6 million, compared to a net income of EUR 7.3 million in the same period last year.

Financial position and liquidity

Balance sheet

Non-current assets consist of the ships MS Fridtjof Nansen and MS Roald Amundsen. Carrying value as of 30 June 2022, was EUR 360.7 million (EUR 365.9 million on 31 December 2021). Given the previous situation in the cruise industry caused by the Covid-19 pandemic, the Company involved a third-party, independent ship broker, to perform an impairment review at year-end. The estimated ship values based on the third-party valuation report is higher than the carrying amount of the ships. No impairment was recognized in the financial statements as of 31 December 2021.

In the second quarter of 2019, the company drew on the ECA credit facility entered into in 2017 for financing the purchase of the two vessels, in the amount of EUR 260 million. At year-end 2019, the facility was fully drawn. In February 2020 the company replaced its existing ECA credit facility of EUR 260 million with a bond of EUR 300 million. The bond has a 5-year tenor with semi-annual interest

payments of 3.375% p.a. and was listed at Oslo Stock Exchange on 10 July 2020. The carrying value of the bond was EUR 297.2 million as of 30 June 2022.

The equity ratio was 34.5% on 30 June 2022, compared to 30.7% as of 31 December 2021.

Cash flow

Net cash flow from operating activities in the second quarter of 2022 was EUR 25.6 million (outflow of EUR 0.095 million in the same quarter last year). The change is mainly from working capital movements.

Net cash flow from investment activities was an outflow of EUR 0.01 in the second quarter of 2022 compared to an outflow of EUR 0.16 million in the Second quarter of 2021.

Net cash flow from financing activities for the second quarter of 2022 carried an inflow of EUR 29.2 million compared to an inflow of EUR 0.26 million in the second quarter of 2021.

Cash and cash equivalents in the cash flow statement was EUR 2.79 million on 30 June 2022. At year-end 2021, cash and cash equivalents in the statement of financial position was EUR 2.56 million.

Outlook

At the date of this report, the operating conditions are back to normal, and Hurtigruten Group is experiencing an increasing booking momentum for the next 18 months which gives a strong and positive outlook for Hurtigruten Group.

As of 1 June 2022, all ships in Hurtigruten Expeditions and Hurtigruten Norway were back in operations with no capacity limitations.

We are continuing to see a change in booking patterns with guest booking closer to departure. For the 9-month period from July 2022 to March 2023 the bookings are, as of 26 August, at EUR 362 million which is 4.5% higher compared to the same 9-month period pre pandemic.

The first quarter of 2023 sees a strong development and as of 26 August, the bookings are at EUR 92 million, which is 22% higher compared to the same period three years ago (pre-Covid-19).

As of 26 August, the bookings for the 12-month period from July 2022 to June 2023 is at EUR 398 million, which is at the same level as pre pandemic. We are experiencing an increased booking momentum and the 14-day rolling average daily gross bookings are now above the level observed three years ago pre-pandemic.

The Board of Directors expects the financial performance of the Group to continue to improve towards above pre-pandemic levels over the next 12 months.

Hurtigruten Group is closely monitoring the liquidity situation as the financial performance continues to recover and we are currently investing in environmental upgrades for the Hurtigruten Norway fleet. The Board of Directors believes that the liquidity resources currently available and the plans that have been put in place are sufficient to ensure the long-term funding of Hurtigruten Group.

Risks and uncertainties

Explorer II AS and Hurtigruten Group are subject to a range of risks and uncertainties which may affect its business operations, financial condition and results of operation. An evaluation of Hurtigruten Group's main risks has been performed as part of the overall enterprise risk assessment. The risk description in Hurtigruten Group's Annual Report 2021 gives a fair description of principal risks and uncertainties that may affect Explorer II and Hurtigruten Group in the second half of 2022, and the company is not aware of any significant new risks or uncertainties or significant changes to those risks or uncertainties, except for those described below.

The global Covid-19 pandemic has had a material adverse impact on our business and results of operations. The global spread of Covid-19 and the unprecedented responses by governments and other authorities to control and contain the spread of this virus has caused significant disruptions to our operations, created new risks, and exacerbated existing risks to our business.

The Hurtigruten Group has been negatively impacted by the Covid-19 pandemic, including impacts that resulted from actions taken in response to the outbreak. Examples of these include, but are not limited to, travel bans, restrictions on the movement and gathering of people, social distancing measures, shelter-in-place/stay-at-home orders, and disruptions to businesses in our supply chain. We believe we are now at the end of the impact from Covid-19 on our business as restrictions are being lifted in most countries and booking numbers are increasing. However, the risk of new virus mutations and infection waves cannot completely be ruled out.

The Russian invasion of Ukraine in late February 2022 has brought increased geopolitical risks to global markets and business operations. The conflict has adversely affected global and regional economic conditions and triggered volatility in energy prices.

The likelihood of recession in the Euro area over the next 12 months is up from 20% in March to 45% in July, and 55% in Germany, according to a Bloomberg survey of economists. Still, Hurtigruten Group believes its customer base may be less adversely affected by a recession than other segments of the population.

Interest rate movements and the overall condition of the credit market play a role in Hurtigruten Group and Explorer II AS ability to refinance its debt obligations. Hurtigruten Group has acquired a significant portion of debt over the past few years. Loans approaching maturity in combination with volatile global markets are increasing the risk of Hurtigruten Group not being able to refinance its loans at favourable terms, or in the worst-case scenario not able to refinance at all.

Interim financial statements

Condensed statement of income

Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	2nd quarter 2022	2nd quarter 2021	01.01-30.06 2022	01.01-30.06 2021	Full year 2021
Operating revenue		12 466	12 466	24 795	24 863	50 068
Total revenues		12 466	12 466	24 795	24 863	50 068
Depreciation		(2 610)	(2 128)	(5 220)	(4 264)	(8 521)
Operating costs		(28)	(22)	(35)	(28)	(61)
Other gains/(losses)		(63)	(42)	32	68	110
Operating profit/(loss)		9 764	10 274	19 572	20 639	41 596
Operating profit/(loss) before depreciation, amortisation and impairment losses (EBITDA)		12 374	12 402	24 792	24 903	50 117
Financial income		-	-	-	-	-
Financial expenses		(3 040)	(2 985)	(6 094)	(5 906)	(11 941)
Net foreign exchange gains/(losses)		(79)	2	(107)	3	3
Net financial items	4	(3 119)	(2 983)	(6 200)	(5 903)	(11 938)
Profit/(loss) before income tax		6 646	7 291	13 371	14 736	29 658
Income taxes		-	-	-	-	-
Net income		6 646	7 291	13 371	14 736	29 658

Condensed statement of comprehensive income

Unaudited

<i>(EUR 1 000)</i>	2nd quarter 2022	2nd quarter 2021	01.01-30.06 2022	01.01-30.06 2021	Full year 2021
Net income	6 646	7 291	13 371	14 736	29 658
Total comprehensive income for the period	6 646	7 291	13 371	14 736	29 658

Condensed statement of financial position

Unaudited

<i>(EUR 1 000)</i>	<i>Note</i>	30.6. 2022	30.6. 2021	31.12. 2021
Ships		360 669	370 148	365 899
Total non-current assets		360 669	370 148	365 899
Intragroup trade receivables	5	99 368	83 427	108 701
Other current receivables	5	8	15	-
Cash and cash equivalents	5	2 793	2 561	2 547
Total current assets		102 169	86 003	111 248
Total assets		462 838	456 151	477 147
EQUITY				
Share capital		3	3	3
Share premium		105 000	105 000	105 000
Paid -in capital		105 003	105 003	105 003
Retained earnings		54 636	26 342	41 265
Total equity		159 640	131 345	146 268
Interest-bearing liabilities	3,5	297 232	296 161	296 696
Interest-bearing liabilities to group companies	3,5	221	23 686	29 197
Total non-current liabilities		297 453	319 847	325 893
Accounts payables	5	-	-	-
Income tax payable		1	4	1
Intragroup trade payables	5	2 181	1 391	1 412
Other current liabilities		3 563	3 565	3 572
Total current liabilities		5 745	4 960	4 984
Total equity and liabilities		462 838	456 151	477 147

Condensed statement of changes in equity

Unaudited

<i>(EUR 1 000)</i>	01.01-30.06.2022			
	Attributable to shareholders of Explorer II AS			
	Share capital	Share premium	Retained earnings	Total
Equity at beginning of the period	3	105 000	41 266	146 269
Net income	-	-	13 371	13 371
Equity at the close of the period	3	105 000	54 637	159 640

<i>(EUR 1 000)</i>	01.01-31.12.2021			
	Attributable to shareholders of Explorer II AS			
	Share capital	Share premium	Retained earnings	Total
Equity at beginning of the period	3	105 000	11 607	116 610
Net income	-	-	29 659	29 659
Equity at the close of the period	3	105 000	41 266	146 268

Condensed statement of cash flows

Unaudited

<i>(EUR 1 000)</i>	2nd quarter Note	2nd quarter 2021	01.01- 30.06 2022	01.01- 30.06 2021	Full year 2021
Cash flow from operating activities					
Profit/(loss) before income tax	6 646	7 291	13 371	29 659	29 659
<i>Adjustments for:</i>					
Depreciation, amortisation and impairment losses	2 610	2 128	5 220	8 521	8 521
Interest expenses	4 6 094	2 985	6 094	11 941	11 941
Change in working capital	10 191	(12 672)	4 452	(51 044)	(51 044)
Other adjustments	74	173	75	13	13
Net cash flow from (used in) operating activities	25 615	(95)	29 212	(910)	(910)
Cash flow from investing activities					
Purchase of property, plant, equipment (PPE)	10	(157)	10	(71)	(71)
Change in restricted cash	-	-	-	-	-
Net cash flows from (used in) investing activities	10	(157)	10	(71)	(71)
Cash flow from financing activities					
Proceeds from borrowings	-	-	-	-	-
Repayment of borrowings to financial institutions	-	-	-	-	-
Net change of borrowings to group companies	-	-	-	-	-
Paid interest and fees	4 -	-	-	(10 127)	(10 127)
Net borrowings from other group companies	(29 202)	263	(28 975)	11 101	11 101
Net cash flow from (used in) financing activities	(29 202)	263	(28 975)	974	974
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	(3 577)	11	247	(8)	(8)
Cash and cash equivalents at the beginning of period	6 370	2 550	2 547	2 568	2 554
Cash and cash equivalents at end of period	2 793	2 561	2 792	2 561	2 547
Of which restricted cash	-	-	-	-	-

Notes to the condensed financial statements

Note 1 Accounting policies

The interim financial report for Explorer II AS is prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial report does not include all information which will appear in the annual financial report, which is prepared in accordance with all effective IFRS-standards and should therefore be read in connection with the annual report for Explorer II AS for 2021.

The annual report for 2021 for the company can be obtained through a request to the company's main office. The accounting policies applied in the interim financial reporting are described in the note of accounting policies in the annual report for 2021.

In the preparation of the interim financial report, estimates and assumptions have been applied, which has affected assets, liabilities, revenues and costs. Actual figures can deviate from estimates applied.

Note 2 Financial risk management

There are potential risks and uncertainties that can affect the operations of the company. The company main source of income is from Hurtigruten Expeditions Cruise AS in 2022 and Hurtigruten Cruise AS in 2021 a daughter- and sister-companies within the Silk Topco Group, where currently the operations is affected by the Covid-19 pandemic. However, the funding position within Silk Topco Group is sound. The company's financing through the issued bond is at a fixed rate. Any market fluctuations will not affect the financing charge. Information concerning the most important risks and uncertainties is disclosed in the latest annual report.

Note 3 Interest-bearing liabilities

<i>(EUR 1 000)</i>	30.6. 2022	30.6. 2021	31.12. 2021
Non-current interest-bearing liabilities			
Bond	297 232	296 161	296 696
Interest-bearing liabilities to group companies	221	23 686	29 197
Total interest-bearing liabilities	297 453	319 846	325 893

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

Maturity profile in nominal value

The below maturity schedule reflects the borrowings at nominal values.

<i>(EUR 1 000)</i>	30.6. 2022	30.6. 2021	31.12. 2021
Less than one year	-	-	-
Year 2 and 3	300 000	-	45 000
Year 4 and 5	-	300 000	255 000
More than 5 years	221	23 686	29 197
Total	300 221	323 686	329 197
Unamortised transaction cost	(2 768)	(3 838)	(3 304)
Total carrying value in balance sheet	297 453	319 847	325 893

Note 4 Net financial items

<i>(EUR 1000)</i>	2nd quarter 2022	2nd quarter 2021	01.01-30.06 2022	01.01-30.06 2021	Full year 2021
Interest expense and amortized borrowing fees	(3 040)	(2 985)	(6 094)	(5 906)	(11 941)
Financial expenses	(3 040)	(2 985)	(6 094)	(5 906)	(11 941)
Net foreign exchange gains/(losses)	(79)	2	(107)	3	3
Net financial items	(3 119)	(2 983)	(6 200)	(5 903)	(11 938)

Note 5 Financial assets and liabilities at fair value

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

<i>(EUR 1000)</i>	30.6. 2022	30.6. 2021	31.12. 2021
<i>(EUR 1000)</i>	Amortised Cost (AC)	Amortised Cost (AC)	Amortised Cost (AC)
Assets as per balance sheet			
Current intragroup receivables and other receivables	99 376	83 442	108 701
Cash and cash equivalents	2 793	2 561	2 547
Total	102 169	86 003	111 248
Liabilities as per balance sheet			
Non-current interest-bearing liabilities	297 232	296 161	296 696
Non-current interest-bearing liabilities to Group companies	221	23 686	29 197
Current interest-bearing liabilities	-	-	-
Trade payables and other short term payables	2 181	1 391	1 412
Total	299 634	321 238	327 305

The carrying value for the financial assets and liabilities has been assessed and does not differ materially from fair value, except for the non-current interest-bearing liabilities (bond). Fair value of the bond on 30 June 2022 was EUR 226.89 million EUR 261.5 million at 31 December 2021).

Note 7 Events after the reporting period

No events of significance have occurred after the reporting period.

Responsibility Statement

We confirm that, to the best of our knowledge, the condensed interim financial statements for the first half of 2022, which have been prepared in accordance with IFRS as adopted by the European Union, and *IAS 34 Interim Financial Reporting*, give a true and fair view of the Company's assets, liabilities, financial position and results of operations. To the best of our knowledge, the interim report for the first half of 2022 includes a fair review of important events that have occurred during the period and their impact on the condensed financial statements, the principal risks and uncertainties for the remaining half of 2022, and major related party transactions.

Oslo, 29 August 2022

The Board of Directors of Explorer II AS



Torleif Ernstsen

Chairman



Kenneth Andersen

Board member