HURTIGRUTEN

Narvik, 29 May 2008

Hurtigruten Interim Report for Q1 2008

Highlights of the first quarter

- Commitment to winter season yielding results
  - 32 per cent increase in round-trip revenues
  - 34 per cent increase in onboard spending for Hurtigruten
- Negotiations under way on public procurement contract for Hurtigruten
- Difficult macro picture
- Bunkers costs a burden
- High financial expenses
- No revenue base for two ships in Antarctica
- Improvement programme well under way

Challenges despite revenue increase

Operations in the first quarter yielded a loss before tax of NOK 215 million for the continued business, compared with NOK 138 million in the same period of last year.

Activities were characterised by more passengers and higher revenues for Hurtigruten, but also by substantial increases in bunkers costs and interest charges.

The principle reasons why results for the first quarter were weaker than in the same period of 2007 are:

- NOK 27 million increase in net financial expenses
- NOK 31 million rise in bunkers costs for Hurtigruten and explorer cruise
- a sales gain of NOK 21 million in the first quarter of 2007
- costs of NOK 12 million in the first quarter of 2008 related to the improvement programme
- net charter revenues of NOK 9 million in the first quarter of 2007 which were not repeated this year.

Hurtigruten is in negotiation with the government over the public procurement contract for the Hurtigruten service, with coverage of the nitrogen oxide tax as an important issue, but the position remains to be clarified. The first quarter of 2008 showed results from the improvement programme, with more passengers and higher onboard spending. Important conditions at the macro level influenced the group, with lower growth in the cruise industry, a negative trend for foreign exchange in its most important markets and a substantial rise in bunkers costs.

Following the merger of OVDS and TFDS two years ago, a number of improvement measures were implemented. These yielded the anticipated results, but were insufficient to compensate for higher financial expenses and increased bunkers costs. More extensive measures have accordingly been instituted.

The improvement programme embraces the whole Hurtigruten group on land and at sea, in Norway and abroad. It comprises seven projects, of which five aim to boost revenue, one will improve safety and environmental protection, and one seeks to make staff and support functions more efficient.

The Hurtigruten group embraces the Hurtigruten, explorer cruise and public transport business areas. In addition comes other business.

Financial results

The Hurtigruten group had total operating revenues in the first quarter of NOK 806 million (2007: NOK 758 million). This increase primarily reflected a substantial commitment to the winter season in the Hurtigruten business area, with consequent growth in round trip sales and onboard spending. Operating revenues in the public transport business area also improved from the same period of last year. This increase related both to ferry and fast ferries and to the bus business. Because Troms county council has taken over invoicing of school revenues in the bus business, own revenues declined by NOK 13.5 million with a corresponding increase in contractual income as the counterpart entry.

Operating expenses before depreciation and amortisation for the group came to NOK 855 million in the first quarter (2007: NOK 768 million). Expenses were affected by a substantial rise in bunkers prices, which boosted expenses by NOK 31 million from the first quarter of 2007. NOK 22 million of this growth occurred in the Hurtigruten and explorer cruise business areas. For the ferry and fast ferry business, parts of the cost increase are offset by increased contract revenues. Net pay has been introduced for safety crews in the Hurtigruten business area, which reduced payroll costs. However, the effect was offset by higher activity in the quarter and pay rises. The ferry and fast ferry business has had high payroll costs over time related to a high level of activity, a tight labour market and considerable sickness absence. These conditions persisted in the first quarter. Expenses in the ferry and fast ferry business were also boosted by maintenance and repair costs related to one-off incidents in the quarter.

Other losses, gains and revenues yielded a net income of NOK 5 million for the quarter. This related primarily to the reversal during the period of impairment charges taken in 2007 on the public transport contract with Troms county council for operating fast and county highway ferries. The net gain of NOK 21 million in the first quarter of 2007 was related to the sale of m/v Narvik and the disposal of the bus freight business.

The consolidated loss before depreciation and amortisation (EBITDA) for the first quarter was NOK 44 million (2007: profit of NOK 11 million). This weakening of NOK 55 million is primarily attributable to increased bunkers costs and to sales gains in the first quarter of 2007 which were not repeated in 2008.

Depreciation and impairment charges for the quarter totalled NOK 111 million (2007: NOK 117 million). This reduction related to impairment of m/v Jupiter in the same period of 2007.

The consolidated loss before interest and tax (EBIT) was NOK 155 million for the first quarter (2007: NOK 106 million).

Net financial expenses for the quarter were NOK 60 million (2007: NOK 33 million). This increase reflects higher interest rates combined with increased borrowing as a result of the delivery of m/v Fram.

The consolidated pre-tax loss for the continued business was NOK 215 million for the quarter (2007: NOK 138 million).

Cash flow
Net cash flow from operational activities was up by NOK 26 million from the same period of 2007. Net cash flow from investing activities declined by NOK 183 million, primarily as a result of the sale of m/v Narvik in the first quarter of 2007 as well as increased spending on buses in the first quarter this year to start contracts secured through competitive tendering in Ofoten, Ballangen and Nord-Salten.

Net cash flow from financial activities increased by NOK 63 million owing to lower borrowing under the construction loan financing of the m/v Fram in the first quarter of last year, as well as higher repayment of debt during 2007 related in part to the refinancing of the TIRB group.

Balance sheet and liquidity
Consolidated fixed assets totalled NOK 6 239 million at 31 March (2007: NOK 5 935 million). This change reflects investment in the new m/v Fram vessel, reduced by the sale of ships and ordinary depreciation.

Current assets at 31 March totalled NOK 1 387 million (2007: NOK 1 373 million).
Working capital was reduced by 186 million from 31 March 2007, and came to NOK 1 million.

Liquid assets were NOK 677 million at 31 March (NOK 508 million excluding restricted assets), compared with NOK 634 million (NOK 433 million) a year earlier.

The group's total long-term liabilities at 31 March amounted to NOK 4 144 million (2007: NOK 4 079 million). This change reflects increased borrowing as a result of the delivery of m/v Fram, reduced by debt repayments.

Current liabilities came to NOK 1 386 million (2007: NOK 1 186 million). The change relates to the growth in the first year's instalment on long-term debt owing to higher borrowing and to a rise in trade creditors as a result of the increase in activity.

The group had an equity at 31 March of NOK 1 631 million (2007: NOK 1 570 million), and an equity ratio of 21.4 per cent (2007: 21.5 per cent). Hurtigruten has a NOK 150 million convertible bond loan which is regarded as equity in relation to the group's loan covenants. Including this, the equity ratio at 31 March was 23.3 per cent.

Prospects
Hurtigruten witnessed a significant increase in winter tourism during the first quarter, and growth in markets such as the USA, Switzerland and the Netherlands was good. However, some of Hurtigruten's most important markets are affected by financial unrest and this could also have consequences for the business. A trend is seen towards flatter growth for cruise travel. At the same time, a negative trend for foreign exchange in relation to the group's markets abroad could pose challenges.

The group's financial structure is burdensome, with a net interest-bearing debt which corresponds to one year's turnover. It has not proved possible to sell the capacity acquired in recent years. Capacity utilisation varies from 80 per cent in the summer months to 30 per cent for large parts of the year. Considerable efforts have accordingly been devoted in recent years to selling the winter season. This work is yielding results and will continue to be pursued with undiminished vigour. However, these efforts have proved insufficient. The Hurtigruten group has substantial financial costs, which represents a burden at a time of rising interest rates. Interest expenses for the group almost doubled from 2005 to 2007. The debt burden must be reduced, and disposing of parts of the business which are not part of its core has accordingly been assessed. Attention in that context is being given to initiating a sales process in the public transport business area, including ferry and fast ferries and the bus operation. At the same time, opportunities are being investigated for dimensioning capacity in the core Hurtigruten and explorer cruise business areas through the sale of a Hurtigruten ship from the 1990s generation.

One outcome of a very extensive improvement programme has been a strengthening of the sales organisation in terms of both expertise and capacity. A strong commitment is being made to getting more passengers on board while simultaneously expanding the offer to passengers both at sea and at the destinations on land. The improvement programme is starting to show results.

The board takes the view that some time will be required to achieve satisfactory profitability for Hurtigruten, and that the process will demand resources. Important factors such as bunker prices, interest rate levels and foreign exchange developments have recently made life for a Norwegian company in an international market even more challenging.