



ROYAL  ARCTIC



# Financial Highlights

Developments of the group over a two-year period can be described with the following high-lights and key figures for H1 2016:

DKK million

	2016	2015
<b>Income statement</b>		
Net revenue	327	306
Total revenue	360	339
Operating profit	21	(17)
Net financials	(3)	2
Profit for the year before tax	17	(15)
Profit for the year	11	(11)
Dividend	0	0
<b>Balance sheet</b>		
Balance sheet total	1,222	1,126
Investments, fixed assets	186	(238)
Net working capital	254	83
Long-term debt	236	364
Equity	562	480
<b>Cash flow statement</b>		
Cash flow from operating activities	(131)	12
Cash flow from investment activities	186	(236)
Cash flow from financial activities	4	216
Increase/decrease in cash and cash equivalents	59	(8)
Cash at year end	294	166
<b>Ratios *</b>		
Profit margin (%)	6.3 %	(5.6) %
Return on capital (%)	1.7 %	(1.5) %
Return on equity (ROE)	2.0 %	(2.2) %
Solvency ratio (%)	46.0 %	42.7 %
Return on invested capital (ROIC)	3.3 %	(2.0) %
Gearing operating assets	1.1	1.8
<b>Average number of full-time employees</b>	619	658
<b>Pre-tax profit per employee (DK'000)</b>	28	(23)
<b>Revenue per employee</b>	0.53	0.47

\* Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' "Recommendations and Financial Ratios 2010"

## Definition of ratios

Net working capital	=	Current assets – short-term debt
Profit margin	=	$\frac{\text{Profit/loss before financial income and expenses} \times 100}{\text{Revenue}}$
Return on capital employed	=	$\frac{\text{Profit/loss before financial income and expenses} \times 100}{\text{Total assets}}$
Return on equity (ROE)	=	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$
Solvency ratio	=	$\frac{\text{Equity at year-end} \times 100}{\text{Total assets}}$
Return on invested capital (ROIC)	=	$\frac{\text{Profit/loss before financial income and expenses} \times 100}{\text{Average invested capital including goodwill}}$
Operating asset gearing	=	$\frac{\text{Invested capital including goodwill}}{\text{Equity at year-end}}$

Net working capital is defined as inventories, receivables and other operating current assets net of trade payables and other short-term liabilities. Receivables and corporate taxes due as well as cash and cash equivalents are not included in the net working capital.

# Management Review, Interim Report 2016

Cargo volume for H1 2016 showed a positive trend, with a total increase of 21 % compared to the same period in 2015. Imports to Greenland went up by 24 % to 190,000 m<sup>3</sup> and export of fish products in particular increased by 22 % to 114,000 m<sup>3</sup>. Internally in Greenland, cargo volume rose by 7 % to 48,000 m<sup>3</sup>. Almost 17,000 m<sup>3</sup> of project cargo was carried to Greenland, an increase of 22 %.

The increase in cargo volume to Greenland and in project cargo is due to a high level of construction activity with large projects such as the new port in Nuuk, the new correctional facility in Nuuk and new housing. The increased volume can also be attributed to Arctic Winter Games, the LIVEX exercise and an increase in imports of consumer goods, including motor vehicles and boats. The positive development in the fishing industry is believed to have contributed to this increase.

Since the autumn of 2013, the shipping company has had a contract with the Polish shipyard Remontowa to build four settlement vessels and an ocean-going, Mary-class vessel. The vessels should originally have been delivered in the spring of 2015, but following renegotiations during the summer of 2015, delivery was moved to 4Q 2015 and 1Q 2016. These delivery dates have unfortunately not been kept and only one vessel was delivered in 1H 2016. The uncertainty concerning delivery made it necessary to evaluate alternative solutions for settlement services and as a consequence of this evaluation, it was decided to exploit the option to cancel two of the vessels. Negotiations with the shipyard are taking place regarding the last ship and regarding reimbursement of the instalments that have been paid on the cancelled ships. These are covered by refund guarantees.

The effect of restructuring at the end of 2015 has had a positive outcome for costs in 2016. The sale of Aalborg Stevedore Company A/S, Nordjysk Kombi Terminal A/S and Aalborg Toldoplæg A/S, the merger of Royal Arctic Byggeservice into Royal Arctic Line and the liquidation of Arctic Base Supply A/S after taking over Danbor's share have resulted in a simpler group structure and a reduction in the group's workforce. Royal Arctic Logistics A/S (RALOG) changed its name to Royal Arctic Line Danmark A/S and activities under RALOG in Greenland were moved to Royal Arctic Line in Greenland. Freight forwarding, logistics and removal services in Aalborg were discontinued. This focus enabled a reduction in administration and removed the need for a RALOG Group executive board and management team in Aalborg. The total result of this is evident in the group's personnel costs for the period which have been reduced by more than 5 %, despite increased activity and general increases in costs. The changes have also had a positive effect on the other administration costs. It should also be noted, that the changes have not affected earnings, since all the discontinued fields operated at a loss or only made marginal profits.

On 30th June 2016, the shipping company took over Air Greenland's share of the jointly-owned Arctic Umiq Line (AUL). The alternative, following the end of the government's deficit guarantee, would have been the closure of AUL. The shipping company will use its core competences and synergies within shipping to ensure passenger traffic with Sarfaq Iittuk based on the new service-contract-like fixed subsidy arrangement with the government and thereby assume more responsibility for continuing to enhance the efficiency of the service.

# Interim Financial Report

Royal Arctic Line's group result for first half of 2016 shows a profit before tax of approx. DKK 17 million and profits after tax and minority interests of approx. DKK 11 million. The same period in 2015 showed a loss of approx. DKK 15 million before tax and approx. DKK 11 million after tax.

In all, the group's turnover has increased from DKK 339 million in 2015 to approx. DKK 360 million in 2016 which, taken in isolation, is an increase of approx. DKK 21 million, primarily attributable to increased cargo volume. Included in the total increase in revenue are a drop in the CAF/BAF of approx. DKK 10 million and a reduction in non-concession revenue of around DKK 5 million. With adjustments for these reductions, the total increase in concession turnover was approx. DKK 36 million.

With regard to costs, the first half of 2016 was characterized by re-organization and consequent savings, but a fall in the price of bunkers contributed to lower costs, with a reduction of approx. DKK 13 million which for the most part has been passed on to our customers via the BAF/CAF charge.

Costs have fallen in total from approx. DKK 335 million in 2015 compared to approx DKK 323 million in 2016, a reduction of approx. DKK 12 million. Adjusted for other operating costs of approx. DKK 26 million, this constitutes a total reduction in costs of approx. DKK 38 million.

The reduction in costs can be attributed to several things.

Ship operating costs fell by approx. DKK 20 million, from approx. DKK 77 million in 2015 to approx. DKK 57 million in 2016. The major part of the reduction can be found, as mentioned above, in the fall in bunker costs of approx. DKK 13 million.

Sales and administration costs fell from approx. DKK 28 million in 2015 to approx. DKK 22 million in 2016, a reduction of almost DKK 6 million. The reduction is mainly due to consultants' fees, travel costs, bad debts etc.

Human resource costs have also been affected by restructuring and cut-backs, primarily in the subsidiary companies. In all, human resource costs have been reduced from approx. DKK 150 million in 2015 to approx. DKK 142 million in 2016.

Approx. DKK 26m have been entered under other operating costs. This amount consists of impairment of capitalized expenses regarding the two cancelled vessels which are part of the total building programme that the company implemented some years ago.

Net financing, including a write down of shares in Arctic Umiaq Line A/S to net asset value, constitutes an expenditure of approx. DKK 3.3 million against corresponding income in 2015 of DKK 1.9 million. The fall is primarily due a considerable sum concerning dividends, which was not the case in 2016 and to the abovementioned write down of shares.

The company continues to be financially solid and the evaluation of the cash flow for the period from operating activities includes increased funds tied up in receivables from outstanding refund guarantees.

## Expectations for 2016

Profits are expected to be on a level with 2015, with the chance of a slight improvement, despite the fact that other expenditure includes costs for new ships of DKK 25.7 million that cannot be amortized over 20 years. The greatest uncertainties for the expected result lie in variations in volume for both imports and exports, where volume is expected to be slightly below that of second half of 2015.

# Management Statement on the Interim Report

The Board of Directors and the Executive Board have today examined and adopted the unaudited interim report of Royal Arctic Line A/S for the period 1st January to 30th June 2016.

The interim report has been presented in accordance with the Danish Financial Statements Act.

We consider the applied accounting policies appropriate for the interim report to provide a true and fair view of the Group and the Parent Company's financial position and results as well as their cash flows.

No significant events have occurred after the balance sheet date which would materially influence the evaluation of this interim report.

Reykjavik, August 31st 2016

## Executive Board



Verner Hammeken  
CEO

## Board of Directors



Kuno Fencker  
Chairman



Erik Østergaard  
Vice-chairman



Tanja Nielsen



Mai-Lill Ibsen



Amma Knudsen



Jens Peter Berthelsen



Aningo Broberg



Finn Lindberg

# Company Details

## The Company

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Fax: +299 32 24 50  
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Website: www.ral.gl

## Registration number

A/S 209.527

## GER. number

16545538

## Registered

Nuuk, Greenland

## Share capital

DKK 120 million

## Ownership

Wholly owned by the Government of Greenland, Nuuk, Greenland

## Board of Directors

Kuno Fencker, Chairman  
Erik Østergaard, Vice Chairman  
Mai-Lill Ibsen  
Amma Knudsen  
Tanja Nielsen  
Jens Peter Berthelsen\*  
Aningo Broberg\*  
Finn Lindberg\*  
*\* Elected by employees in 2014 for a four-year term.*

## Executive Board

Verner Hammeken, Chief Executive Officer (CEO)

## Management Group

Bent Ole Baunbæk, Chief Financial Officer (CFO)  
Jens Boye, Department head, Ship Management  
Niels Clemensen, Head of Network & Strategic Projects  
Ann-Britta A. Hansen, Head of Communications & Marketing  
Dragan Kesic, Head of IT (CIO)  
Tommy Ege Kristensen, Head of Secretariat & Human Resources  
Taitsianguaq Olsen, Chief Operations Officer (COO)  
Lars Borris Pedersen, Head of Sales & Customer Services

## Auditors

Deloitte, Statsautoriseret Revisionspartnerselskab, Chartered Accountants

# Income Statement

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2016	2015	2016	2015
<b>Revenue</b>				
Income from concession cargo	249,770	221,836	249,770	223,484
Income from non-concession cargo	50,819	48,674	77,682	82,714
Net revenue	300,589	270,510	327,452	306,198
Other operating income	32,854	2,332	32,384	32,796
Total income	333,443	272,842	359,836	338,994
<b>Expenditures</b>				
Cargo-related expenditure	(10,696)	(12,304)	(15,889)	(20,568)
Gross profit	322,747	260,538	343,947	318,426
Ships	(57,740)	(66,304)	(57,599)	(77,413)
Terminals	(51,808)	(44,557)	(44,025)	(44,803)
Container operations	(21,500)	(23,197)	(13,224)	(13,111)
Sales and administration	(18,510)	(19,626)	(22,190)	(27,730)
Human resources	(105,045)	(100,893)	(142,142)	(150,019)
Amortization, depreciation and impairment losses on fixed assets	(15,958)	(18,749)	(18,322)	(22,425)
1 Other operating expenditure	(25,725)		(25,725)	
Total expenditure	(296,286)	(273,326)	(323,227)	(335,501)
Operating profit	26,461	(12,788)	20,720	(17,075)
Income from investments in affiliated companies	(4,506)	(3,293)		
Income from investments in associated companies	0	38		38
Earnings before financial income	21,955	(16,043)	20,720	(17,037)
<b>Financial items</b>				
Other financial income	1,035	2,805	1,043	2,826
Impairment of financial fixed assets	(4,000)		(4,000)	
Other financial expenditure	(318)	(878)	(359)	(908)
Profit for the year before tax	18,672	(14,116)	17,404	(15,119)
<b>Tax</b>				
Profit for the year	(7,371)	3,454	(6,103)	4,265
Profit for the year	11,301	(10,662)	11,301	(10,854)
Minority shareholders' share of profits in affiliated companies	0	0		192
<b>Profit for the year</b>	<b>11,301</b>	<b>(10,662)</b>	<b>11,301</b>	<b>(10,662)</b>

# Assets as at 30th June

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2016	2015	2016	2015
<b>Fixed Assets</b>				
<b>Material assets</b>				
Ships	86,151	97,711	86,151	97,711
Buildings	71,597	75,431	75,832	80,417
Transport equipment, harbour boats, machinery and fixtures	43,501	55,810	62,723	82,701
Assets under construction	388,762	566,290	388,762	566,369
Total material assets	590,011	795,242	613,468	827,198
<b>Financial assets</b>				
Income from investments in affiliated companies	41,601	47,029	0	0
Income from investments in associated companies	5,041	8,658	5,041	9,787
Receivables from associated companies	0	1,000	0	1,000
Other securities	4,456	4,535	4,456	4,536
Total financial assets	51,098	61,222	9,497	15,323
Total fixed assets	641,109	856,464	622,965	842,521
<b>Current assets</b>				
<b>Inventories and operating stock</b>				
Operating stock	18,611	18,435	19,155	21,396
Total inventories and operating stock	18,611	18,435	19,155	21,396
<b>Receivables</b>				
Trade receivables	65,232	65,372	75,229	77,846
Receivables from affiliated companies	0	1,202	0	0
Receivables from associated companies	1,572	1,628	1,576	1,634
2 Other receivables	207,697	2,230	201,489	5,220
Accruals and prepayments	7,445	9,098	7,467	11,274
Total receivables	281,946	79,530	285,761	95,974
<b>Cash</b>				
Cash and cash equivalents	278,527	135,237	293,625	165,960
Total current assets	579,084	233,202	598,541	283,330
<b>Total assets</b>	<b>1,220,193</b>	<b>1,089,666</b>	<b>1,221,506</b>	<b>1,125,851</b>

# Equity and Liabilities as at 30th June

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2016	2015	2016	2015
<b>Equity</b>				
Share capital	120,000	120,000	120,000	120,000
Reserve for net revaluation, equity method				
- Affiliated companies	41,532	34,922	0	0
- Associated companies	726	3,910	726	5,096
Retained earnings	399,728	321,440	441,260	355,176
Total equity	561,986	480,272	561,986	480,272
<b>Minority interests</b>				
Minority share of equity	0	0	0	553
Total minority interests	0	0	0	553
<b>Provisions for liabilities</b>				
Deferred tax	78,237	79,272	78,510	80,021
Warranty commitments	310	385	310	540
Total provisions for liabilities	78,547	79,657	78,820	80,561
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Collateral debt in ships	233,526	361,175	233,526	361,175
Mortgage debt	1,134	1,134	1,134	1,134
Financial leasing	1,564	2,044	1,564	2,044
Total non-current liabilities	236,224	364,353	236,224	364,353
<b>Current liabilities</b>				
Next year's instalment on non-current liabilities	154,236	39,528	154,236	39,528
Trade payables	34,432	28,632	38,673	36,279
Payables to affiliated companies	20,782	5,278	0	0
Payables to associated companies	0	932	11	1,000
Income tax	37,966	19,375	37,974	20,414
Other payables	67,049	69,667	84,611	100,919
Prepayments	28,971	1,972	28,971	1,972
Current liabilities	343,436	165,384	344,476	200,112
Total liabilities	579,660	529,737	580,700	564,465
<b>Total equity and liabilities</b>	<b>1,220,193</b>	<b>1,089,666</b>	<b>1,221,506</b>	<b>1,125,851</b>

# Cash Flow Statement

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2016	2015	2016	2015
<b>Cash flow from operating activities</b>				
Operating profit	26,461	(12,788)	20,720	(17,075)
Amortization, depreciation and impairment losses	15,958	18,749	22,322	22,425
Dividends from group enterprises	0	2,200	0	680
Net interest	717	1,927	(3,316)	1,918
Income tax paid	0	0	0	(67)
Changes in working capital	(161,947)	(3,366)	(170,749)	3,649
<b>Cash flow from operating activities</b>	<b>(118,811)</b>	<b>6,722</b>	<b>(131,023)</b>	<b>11,530</b>
<b>Cash flow from investment activities</b>				
Investments	183,322	(237,681)	186,074	(237,904)
Fixed asset divestments	1,595	676	(1,363)	797
Loan capital, associates	1,000	1,000	1,000	1,000
<b>Cash flow from investment activities</b>	<b>185,918</b>	<b>(236,005)</b>	<b>185,711</b>	<b>(236,107)</b>
<b>Cash flow from financial activities</b>				
Borrowing during the year	5,441	221,881	5,441	221,881
Instalments for the year	(1,328)	(5,407)	(1,328)	(5,407)
Dividend paid	0	0	0	0
<b>Cash flow from financial activities</b>	<b>4,113</b>	<b>216,474</b>	<b>4,113</b>	<b>216,474</b>
Increase/decrease in cash and cash equivalents	71,220	(12,809)	58,801	(8,103)
Cash at merger	6,103	0	0	0
Cash and cash equivalents at beginning of year	201,204	148,046	234,824	174,063
<b>Cash and cash equivalents at year end</b>	<b>278,527</b>	<b>135,237</b>	<b>293,625</b>	<b>165,960</b>
<b>Composed as follows:</b>				
Cash and cash equivalents	278,527	135,237	293,625	165,960
<b>Total</b>	<b>278,527</b>	<b>135,237</b>	<b>293,625</b>	<b>165,960</b>



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Layout: Nuisi grafik  
Photos: Lars Svankjær