

Interim Report 2019



Royal Arctic Line A/S
(CVR. no. 16545538)

This document is an unofficial translation of the Danish original. In the event of any inconsistencies the Danish version shall apply.



Financial Highlights

Developments of the group over a three-year period can be described with the following high-lights and key figures for the first six months:

DKK million

	2019	2018	2017
Income statement			
Net revenue	364	347	314
Total revenue	407	390	346
Operating profit	(54)	(48)	(41)
Net financials	(4)	(5)	(1)
Profit for H1 before tax	(58)	(54)	(41)
Profit for H1	(40)	(37)	(28)
Dividend	0	0	0
Balance sheet			
Balance sheet total	1,148	1,061	1,150
Investments, fixed assets	60	75	126
Net working capital	(16)	(5)	113
Long-term debt	308	241	262
Equity	622	611	621
Cash flow statement			
Cash flow from operating activities	(7)	(21)	(73)
Cash flow from investment activities	(60)	(74)	85
Cash flow from financial activities	17	(10)	27
Increase/decrease in cash and cash equivalents	(50)	(106)	40
Cash at period end	129	135	235
Ratios *			
Profit margin (%)	(14.8 %)	(13.9 %)	(13.1 %)
Return on capital (%)	(4.7 %)	(4.6 %)	(3.6 %)
Return on equity (ROE)	(6.4 %)	(6.0 %)	(4.7 %)
Solvency ratio (%)	54.2 %	57.6 %	54.0 %
Return on invested capital (ROIC)	(6.5 %)	(6.2 %)	(6.2 %)
Gearing operating assets	1.3	1.3	1.1
Average number of full-time employees	714	725	714
Pre-tax profit per employee (DK'000)	(81)	(74)	(58)
Revenue per employee	0.51	0.48	0.44

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

Definition of ratios

Net working capital	=	Current assets - short-term debt
Profit margin (%)	=	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Revenue}}$
Return on capital employed (%)	=	$\frac{\text{Profit before financial items} \times 100}{\text{Total assets}}$
Return on equity (ROE)	=	$\frac{\text{Profit/loss for year} \times 100}{\text{Average equity}}$
Solvency ratio (%)	=	$\frac{\text{Profit/loss for year} \times 100}{\text{Total assets}}$
Return on invested capital (ROIC)	=	$\frac{\text{Profit/loss before financial items} \times 100}{\text{Average invested capital incl. goodwill}}$
Gearing operating assets	=	$\frac{\text{Invested capital incl. goodwill}}{\text{Equity at year-end}}$

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 for the first half year of 2019

Developments at Royal Arctic Line continued to be positive in 1H2019. The sailing schedule operated reliably, thanks in part to a spring without significant challenges related to weather.

Our journey towards open sailing systems is well under way. We received authorization to enter into the operational collaboration with Eimskip in the middle of April and we are approaching the completion of our preparations. The present appeal case will not delay this. We expect to start the new sailing system at the end of 2019.

Negotiations for the ship-building programme were completed in 1H and this marked the conclusion of the second phase in the replacement of the aging fleet, ensuring that the company will be able to provide services for the whole of Greenland in future.

Our new 2150 TEU ship, Tukuma Arctica and the new settlement ships form a strong framework for supporting maritime training for Greenlandic seafarers.

Our internal modernization process within HR, Finance and IT aimed at ensuring the best development opportunities for the employees, ensuring sound leadership of the company and providing the best service for our customers continues.

The company has had a good start to the year. Cargo quantities have also seen a nice increase. This creates the best conditions for our operations, both now and in the future.

Overall, Royal Arctic Line's expectations for the year remain unchanged compared to previous communications.

Interim Financial Report and Expectations for the Year

For the first half of 2019 the Royal Arctic Line group has presented a profit/loss (EBITDA) of DKK -18 million (incl. AUL) which is DKK 7 million worse compared to the same period in 2018 (2018: -11 million). Revenue increased by 5 % to DKK 364 million (2018: 347 million). The improvement is split equally between concession and non-concession revenue. Arctic Umiaq Line presented an increase in revenue compared to 2018. Part of the increase in revenue is counterbalanced by an increase of almost DKK 6 million in personnel costs.

HR costs are higher than in 2018, but are constant compared to the level at the end of 2018. It is expected that the increased burden of administration will continue until the end of 2019, where the company's strategic reorganization enters the next phase.

Amortisation, depreciation and impairments were at the same level as 2018.

The company had a negative cash flow from operating activities of DKK -7 million, which is an improvement of DKK 14 million compared to the same period last year. The improvement is due to a more efficient handling of the operating capital, where amounts owing from the

company's biggest customer were reduced from 49 %, at year end 2018, to 27 % of the total debt balance. The company's capital base is considered to be solid with a solvency ratio 54.2 (2018: 57.6).

In the first half of 2019 several of the present investments in new ships were, as expected, financed with equity. Consequently, the group's liquid assets are DKK 129 million, which is a fall of approx. DKK 50 million compared to the end of 2018. In the same period the long term debt increased with DKK 17 million.

There are no significant developments in the company's balance sheet compared to the year end 2018.

Overall, the company has presented a loss for the group of DKK 58 million which is the level expected for the period, with the exception of the provision of DKK 6.7 million due to uncertainty regarding the extra costs in connection with ship design at the Nodosa shipyard.

Royal Arctic Line is a company with heavy seasonal fluctuations where revenue in the second half of the year is typically more than 30 % higher than in the first six months.

Management

Nuuk, 7th August 2019

Management Statement on the Interim Report

The Board of Directors and the Executive Board have today examined and adopted the unaudited interim report for the period 1st January - 30th June 2019 for Royal Arctic Line A/S.

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 a 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.

Nuuk, 7th August 2019

Executive Board



Verner Hammeken
CEO



Aviâja Lyberth Lennert
Deputy CEO



Peter Christoffersen
CFO

Board of Directors



Ulrik Blidorf
Chairman



Erik Østergaard
Vice-chairman



Minannguaq Zeeb



Mai-Lill Ibsen



Stefan Dirk Buch



Jens Peter Berthelsen



Eydun Simonsen



Laust Lindskov
Vestergaard

Company Details

The Company

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Registration number

A/S 209.527

CVR. number

16545538

Registered

Nuuk, Greenland

Share capital

DKK 120 million

Ownership

Wholly owned by the Government of Greenland

Board of Directors

Ulrik Blidorf, Chairman
Erik Østergaard, Vice-chairman
Minannguaq Zeeb
Mai-Lill Ibsen
Stefan Dirk Buch
Eydun Simonsen*
Jens Peter Berthelsen*
Laust Lindskov Vestergaard*
** Elected by employees in 2018 for a 4 year term.*

Executive Board

Verner Hammeken, CEO
Aviâja Lyberth Lennert, Deputy CEO
Peter Christoffersen, CFO

Management Group

Anders Bay Larsen, Head of Department, Ship Operations
Anne Ohlin Ladegaard, Head of Department, IT
Ivalu Kleist, Assistant Director, Operations
Lars Borris Pedersen, Head of Department, Customer Services
Tommy Ege Kristensen, Head of Department, HR

Auditors

Deloitte, Chartered Accountants

Income Statement for the period 1st January - 30th June 2019

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
Revenue				
Income from concession cargo	283,668	274,428	283,647	274,428
Income from non-concession cargo	62,791	55,735	80,435	72,389
Net revenue	346,459	330,163	364,082	346,817
Other operating income	42,768	42,724	42,768	42,724
Total income	389,227	372,887	406,850	389,541
Expenditures				
Cargo-related expenditure	(12,868)	(10,182)	(14,354)	(11,220)
Gross profit	376,359	362,705	392,496	378,321
Ships	(94,625)	(94,645)	(102,769)	(100,051)
Terminals	(64,210)	(64,988)	(64,210)	(64,988)
Container operations	(14,993)	(14,412)	(14,993)	(14,412)
Sales and administration	(29,652)	(33,928)	(32,588)	(36,834)
Human resources	(170,815)	(165,753)	(178,942)	(173,409)
Amortisation, depreciation and impairment losses on fixed assets	(35,589)	(36,229)	(36,308)	(36,902)
Other operating costs	(16,700)	0	(16,700)	0
Total expenditure	(426,584)	(409,955)	(446,510)	(426,596)
Operating profit	(50,225)	(47,250)	(54,014)	(48,275)
Income from investments in affiliated companies	(2,594)	(1,033)	0	0
Income from investments in associated companies	73	0	73	0
Profit before financial items	(52,746)	(48,283)	(53,941)	(48,275)
Financial items				
Other financial income	97	45	97	46
Impairment of financial fixed assets	(4,154)	(5,523)	(4,168)	(5,532)
Profit before tax	(56,803)	(53,761)	(58,012)	(53,761)
Tax				
Tax on profit for the period	17,261	17,095	18,470	17,095
Profit for the period	(39,542)	(36,666)	(39,542)	(36,666)

Assets as at 30th June

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
Fixed assets				
Intangible fixed assets				
Software	19,497	28,627	19,497	28,627
Total intangible fixed assets	19,497	28,627	19,497	28,627
Material assets				
Ships	458,080	500,762	459,607	503,527
Buildings	59,405	64,062	59,405	64,062
Transport equipment, harbour boats, machinery and fixtures	64,440	74,543	64,440	74,543
Assets under construction	265,076	101,105	265,076	101,105
Total material assets	847,001	740,472	848,528	743,237
Financial assets				
Income from investments in affiliated companies	7,964	3,832	0	0
Income from investments in associated companies	4,377	4,402	4,377	4,402
Receivables from associated companies	0	0	0	0
Other securities	1,048	1,446	1,048	1,446
Total financial assets	13,389	9,680	5,425	5,848
Total fixed assets	879,887	778,779	873,450	777,712
Current assets				
Inventories and operating stock				
Operating stock	26,625	28,119	26,900	29,083
Total inventories and operating stock	26,625	28,119	26,900	29,083
Receivables				
Trade receivables	100,154	89,553	101,665	91,756
Receivables from affiliated companies	1,809	1,901	0	0
Receivables from associated companies	0	0	0	0
Deferred tax asset	0	0	0	0
Other receivables	5,963	15,945	5,975	15,945
Accruals and prepayments	11,536	10,626	11,969	11,216
Total receivables	119,462	118,025	119,609	118,917
Cash				
Cash and cash equivalents	108,897	121,468	128,515	134,888
Total current assets	254,984	267,612	275,024	282,888
Total assets	1,134,871	1,046,391	1,148,474	1,060,600

Equity and Liabilities as at 30th June

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
Equity				
Share capital	120,000	120,000	120,000	120,000
Reserve for net revaluation, equity method:				
- Affiliated companies	2,964	0	0	0
- Associated companies	807	905	807	905
Retained earnings	498,638	490,139	501,602	490,139
Total equity	622,409	611,044	622,409	611,044
Provisions for liabilities				
Deferred tax	30,263	25,408	29,199	24,729
Mortgage debt	3,375	6,239	3,375	6,239
Total provision for liabilities	33,638	31,647	32,574	30,968
Liabilities				
Non-current liabilities				
Collateral debt in ships	307,223	239,304	307,223	239,304
Mortgage debt	1,134	1,134	1,134	1,134
Financial leasing	0	442	0	442
Total non-current liabilities	308,357	240,880	308,357	240,880
Current liabilities				
Next year's instalment on non-current liabilities	20,852	20,964	20,852	20,964
Trade payables	39,702	32,073	41,079	33,256
Payables to affiliated companies	0	0	0	0
Payables to associated companies	0	0	0	0
Income tax	0	1,578	1,830	3,597
Other payables	87,076	87,895	98,536	91,135
Prepayments	22,837	20,310	22,837	28,756
Current liabilities	170,467	162,820	185,134	177,708
Total liabilities	478,824	403,700	493,491	418,588
Total equity and liabilities	1,134,871	1,046,391	1,148,474	1,060,600

Cash Flow Statement for the period january 1st - june 30th

DKK '000	Royal Arctic Line A/S		Royal Arctic Group	
	2019	2018	2019	2018
Cash flow from operating activities				
Operating profit	(50,225)	(47,250)	(54,014)	(48,275)
Amortization, depreciation and impairment losses	35,589	36,229	36,308	36,902
Net interest	(4,057)	(5,478)	(4,071)	(5,486)
Income tax paid	0	0	0	0
Changes in working capital	9,074	(7,550)	14,645	(4,245)
Cash flow from operating activities	(9,619)	(24,049)	(7,132)	(21,104)
Cash-flow from investment activities				
Investments	(60,301)	(74,669)	(60,477)	(74,940)
Fixed asset divestment	609	893	609	893
Financial assets	15	11	15	11
Cash from investment activities	(59,677)	(73,765)	(59,853)	(74,036)
Cash flow from financial activities				
Borrowing during the year	27,145	0	27,145	0
Instalments for the year	(10,456)	(10,471)	(10,456)	(10,471)
Dividend paid	0	0	0	0
Cash flow from financial activities	16,689	(10,471)	16,689	(10,471)
Increase/decrease in cash and cash equivalents	(52,607)	(108,285)	(50,296)	(105,611)
Cash at beginning of year	161,504	229,753	178,811	240,499
Cash and cash equivalents at end of period	108,897	121,468	128,515	134,888
Composed as follows:				
Cash and cash equivalents	108,897	121,468	128,515	134,888
Total	108,897	121,468	128,515	134,888

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